# HANDLED WITH CARE

WESTJET

2009 Annual Report

HANDLED WITH CARE isn't just something we say. It's something WestJetters live every day. From the way we treat our guests to the way we treat our bottom line, handled with care is how WestJet does business. It's why we were able to look at 2009 not as a crisis, but as an opportunity to show the world what we are capable of accomplishing.

Quinn, Air Supply Agent

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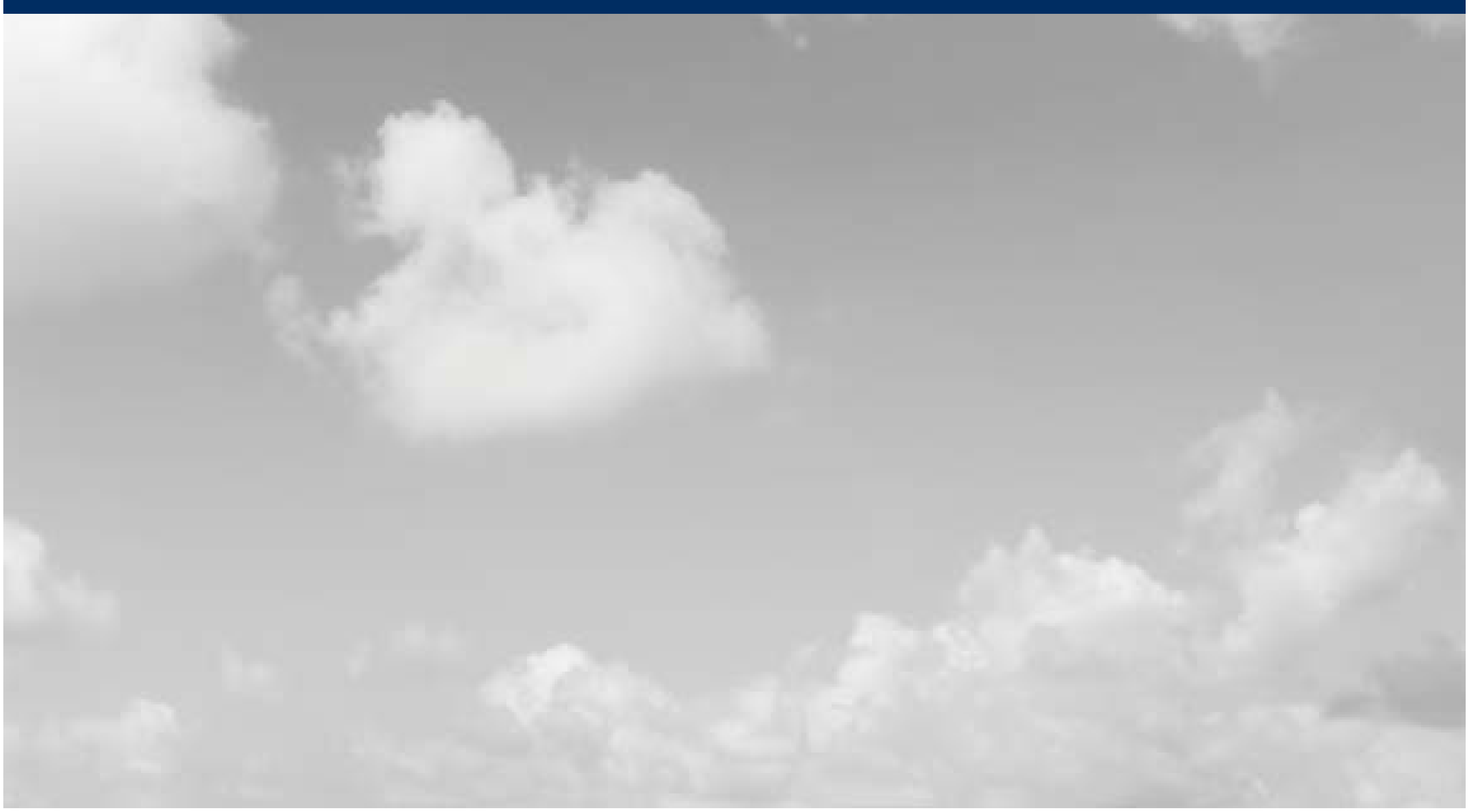
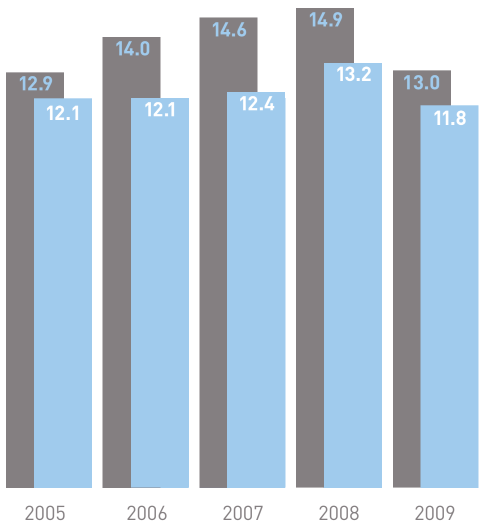
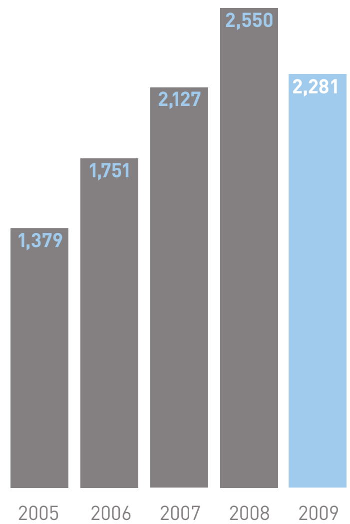
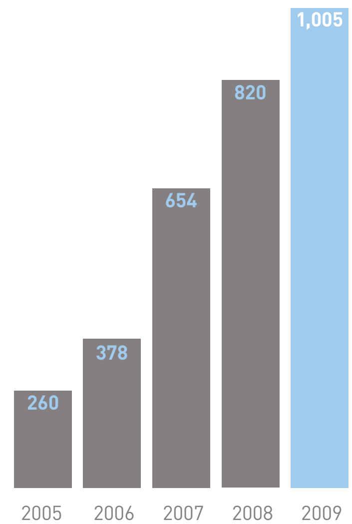


In 2009, WestJet was once again one of the most profitable airlines in North America. WestJetters care about their business – and the bottom line – and it shows in the airline's industry-leading results.

# FINANCIAL OVERVIEW




## RASM vs. CASM*

(cents)

RASM (revenue per available seat mile)

CASM (cost per available seat mile)

## Revenue

(millions of dollars)

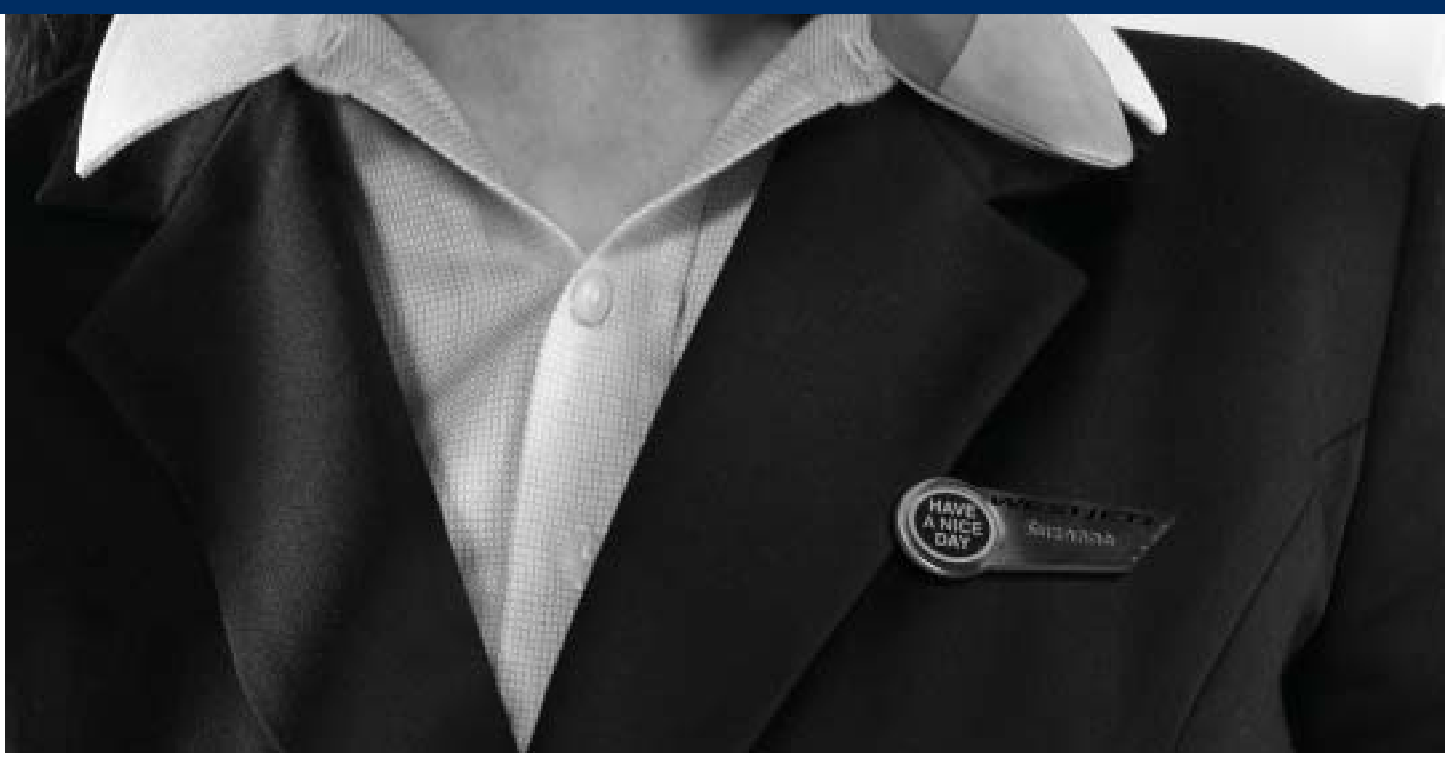
## Cash and cash equivalents

(millions of dollars)

| ($ in thousands, except per share data) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Consolidated financial information** | | | | | |
| Revenue | $ 2,281,120 | $ 2,549,506 | $ 2,127,156 | $ 1,751,269 | $ 1,378,794 |
| Earnings before income taxes* | $ 136,796 | $ 254,749 | $ 233,313 | $ 164,783 | $ 40,950 |
| Net earnings* | $ 98,178 | $ 178,506 | $ 189,048 | $ 116,631 | $ 20,171 |
| Earnings per share* | | | | | |
| Basic | $ 0.74 | $ 1.39 | $ 1.46 | $ 0.90 | $ 0.16 |
| Diluted | $ 0.74 | $ 1.37 | $ 1.44 | $ 0.90 | $ 0.16 |
| **Operational highlights** | | | | | |
| Available seat miles | 17,587,640,902 | 17,138,883,465 | 14,544,737,340 | 12,524,379,943 | 10,672,983,797 |
| Revenue passenger miles | 13,834,761,211 | 13,730,960,234 | 11,739,063,003 | 9,791,878,403 | 7,957,738,384 |
| Load factor | 78.7% | 80.1% | 80.7% | 78.2% | 74.6% |
| Yield (cents) | 16.49 | 18.57 | 18.12 | 17.88 | 17.33 |
| RASM (cents) | 12.97 | 14.88 | 14.62 | 13.98 | 12.92 |
| CASM (cents)* | 11.77 | 13.17 | 12.36 | 12.10 | 12.05 |
| CASM, excluding fuel and employee profit share (cents)* | 8.45 | 8.29 | 8.57 | 8.54 | 8.67 |

*2005 to 2008 numbers restated; 2007 excludes reservation system impairment of $31.9 million.

WEATHERING THE STORM. 2009 was a tough year to be an airline. The financial turmoil in the second half of 2008 set the stage for a difficult year to come, beginning with record oil prices and followed by financial markets crashing, bankruptcies, bailouts and a deep recession that reshaped the economic landscape. But while the economy showed weakness, WestJetters sure didn't.



Since that first flight took off in 1996, one thing has remained true – when you take care of your people, they'll take care of the guests and, in doing so, the business. Staying true to running a low-cost airline, WestJetters from every department banded together to handle guests and each other with care, posting another profitable year.

Suzanne, Flight Attendant; Lucy, Guest Service Ambassador

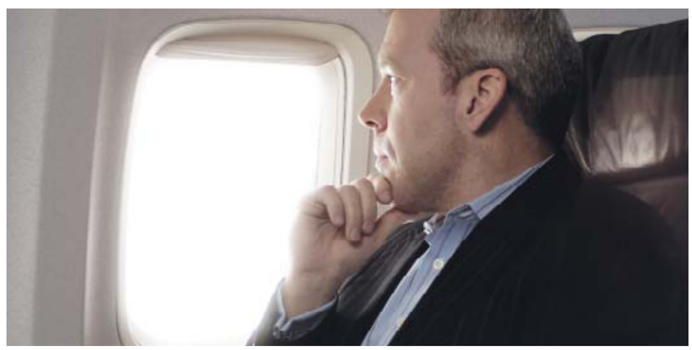
# PRESIDENT'S MESSAGE TO SHAREHOLDERS

Certain information in this president's message may contain forward-looking statements, including, but not limited to, those regarding cost-saving initiatives, code-sharing and expansion of WestJet Vacations Inc., 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).

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.

CARE might not feel like a concrete quality to invest in; however, we offer our 2009 results as proof of how effective a team of caring and talented WestJetters can be and how much they can accomplish, particularly in such a difficult environment. Two years ago, the economy went into a rapid downward spiral. Credit markets crashing, capital markets drying up, bankruptcies, bailouts and volatile oil prices paved the path to 2009 and an economic recession unlike any we have seen in decades.

Throughout 2009, reduced business spending, elevated unemployment rates and depressed consumer confidence meant that demand for air travel was under severe pressure and pricing quickly deteriorated. The added strain of continued volatile fuel prices, an H1N1 pandemic and, at the end of the year, enhanced security measures made 2009 one of the most challenging years ever for the airline industry.



In light of these obstacles, we are extremely pleased with how we weathered 2009. We produced revenues of $2.3 billion and net earnings of $98.2 million. In our 14-year history, we have been profitable 51 out of 53 quarters. Through the tremendous efforts of our dedicated and talented team of WestJetters, we continued to demonstrate the strength of our business. We were once again one of the most profitable airlines in North America. We believe that care is core to our success and that it has been instrumental in creating our industry-leading airline.

In 2009, we focused on building a strong balance sheet and managing capacity to better suit demand – all the while, keeping our eye on growth. We successfully balanced the slowing economy with our strategic business plans and our commitment to being high value and low cost. WestJetters handled 2009 with care, and over the next few pages I'd like to share some of the highlights of how they did it.

IDEA #649 – ELIMINATE A MANUAL, PAPER-BASED PROCESS FOR BAGGAGE TRACKING. Thanks to Airport Standards Advisor David, WestJet no longer uses a paper-based process to track the bags on its flights. This idea, which has been implemented, could save more than $50,000 a year. Besides eliminating printing costs, it could save even more by helping the airline move baggage more efficiently.

OUR FOLKS CARED ABOUT COSTS. We already run a lean airline, so finding additional cost savings was no easy task. In a tough economy, we needed to be tougher, and we were. Through our Ideas That Make Cents initiative, launched halfway through 2009, WestJetters so far have found significant savings and we'll be counting on them to find even more. After all, who better to find ways to stay lean than the WestJetters out there handling our guests with care every day.

IDEA #208 – REUSABLE WATER BOTTLES FOR FLIGHT CREWS.
Flight Attendant Joy saw an opportunity to reduce costs for both WestJet and the environment by getting flight attendants to swap their plastic water bottles for reusable ones. $90,000 a year in savings later, WestJet flight crews are quenching their thirst using reusable water bottles.

IDEA #305 – SAVING TO THE LAST DROP.
Aircraft Maintenance Engineer Derek had an idea that WestJet should implement a process to ensure it is using every last drop of oil (and other aircraft-related fluids required to service its fleet). By listening to him, WestJet will save around $31,000 a year.

WE INTRODUCED THE WESTJET CARE-ANTEE. We have always provided great value for our guests. In 2009, we gave that value a name. We called it the WestJet care-antee. From never overbooking our flights to no-charge call centre bookings to a free second checked bag, the care-antee was and is our promise to our guests that we'll continue to handle them with care every time they fly.

Ashley, Onboard Operations – Flight Attendant
Attila (John), Captain

"I must tell you that my recent flight was one of the best I have ever taken. From the moment I stepped on board, I was welcomed by friendly and smiling faces. Captain Randolph and First Officer Jack were informative and fun in their introductions and information regarding my flight. We were updated on arrival times, weather, etc. Flight attendants Jason, Anne Marie, Kathryn and Joseph were outstanding. All of them were cheerful, thoughtful, pleasant and friendly. Joseph and Anne Marie were exceptional – they were always willing to accommodate me with an extra blanket or more water. Outstanding work all of you. I can't wait to travel with you again."

GARY – STRATHMORE, ALTA.

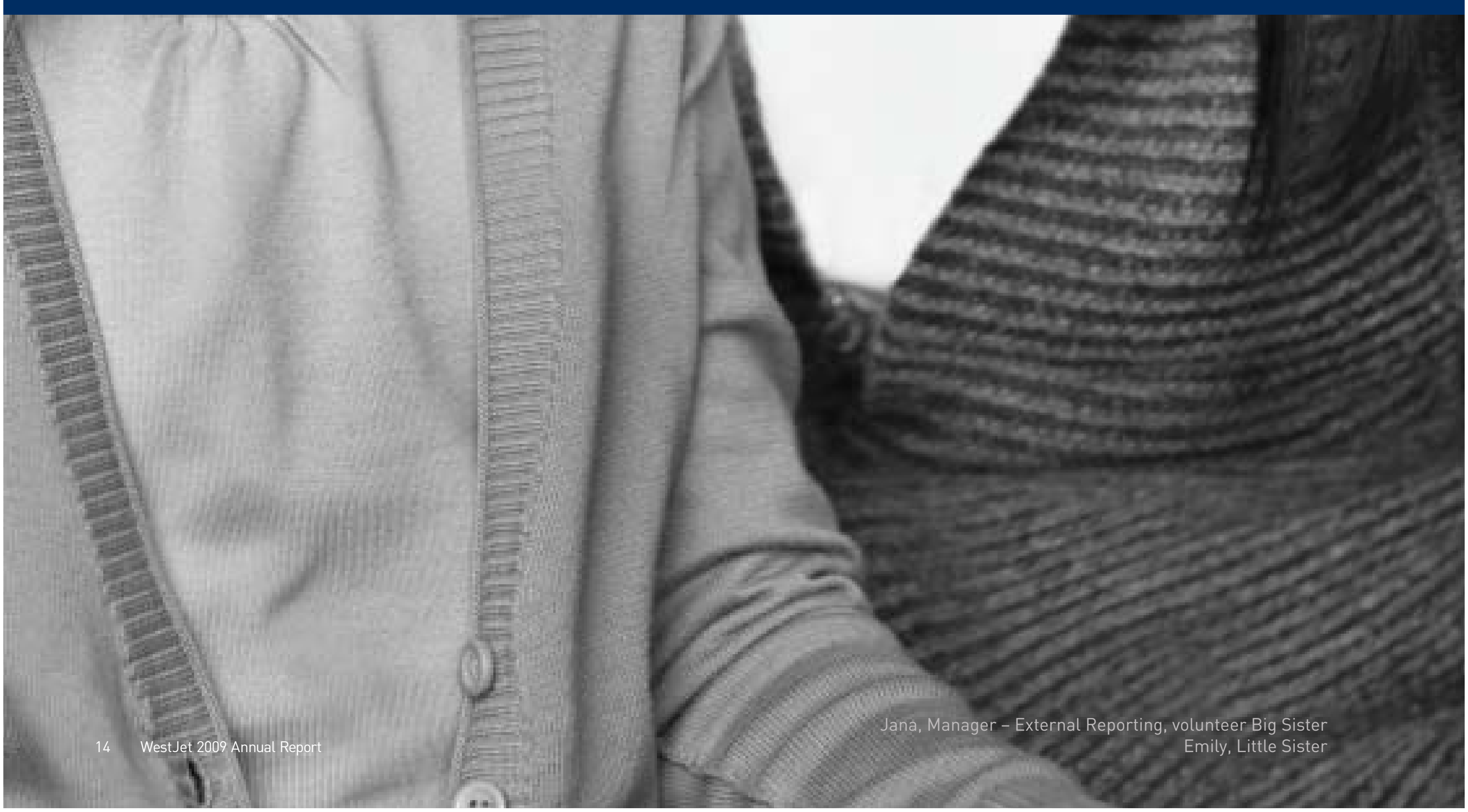
WE GREW OUR NETWORK. 2009 was another year of growth for us. We took delivery of 10 new Boeing Next-Generation 737s, for a total of 86. We revised our delivery schedule, providing additional flexibility and smoothing out aircraft deliveries through to 2016. We continued to strive to be one of the top North American airlines for on-time performance (the percentage of flights that arrive within 15 minutes of their scheduled time), completion rate (the percentage of flights completed vs. scheduled) and baggage ratio (the number of delayed or lost baggage claims made per 1,000 guests). While these numbers are important to us, they're even more important to our guests because they mean a great flight.

WESTJET VACATIONS continued to exceed our expectations. We credit its successful ongoing growth to the surging popularity of our vacation packages, our increased capacity to sun destinations and the implementation of our new Softvoyage reservation system, making it easier than ever for travel agents to book with us. As we continue to leverage WestJet's brand, capacity and guest experience, we'll continue to grow WestJet Vacations.

In 2009, WestJet launched a record 15 new destinations: Yellowknife, Northwest Territories; Sydney, Nova Scotia; San Diego and San Francisco, California; Miami, Florida; Atlantic City, New Jersey; Varadero, Holguin and Cayo Coco, Cuba; Ixtapa/Zihuatanejo and Cozumel, Mexico; St. Martin/St. Maarten, Netherlands Antilles; Providenciales, Turks and Caicos; Freeport, Bahamas; and Lihue (Kauai), Hawaii.

WE INVESTED IN OUR COMMUNITIES. When it comes to the communities we operate in, even though we are an airline, our feet are placed firmly on the ground. Through our Caring for Our Community program, WestJetters logged 17,000 hours of volunteer time during the year. In 2009 alone, we donated 7,000 flights. We have strong relationships with 10 charitable partners across the country through our WestJet Cares for Kids program. After all, it's not just our guests who deserve to be handled with care.

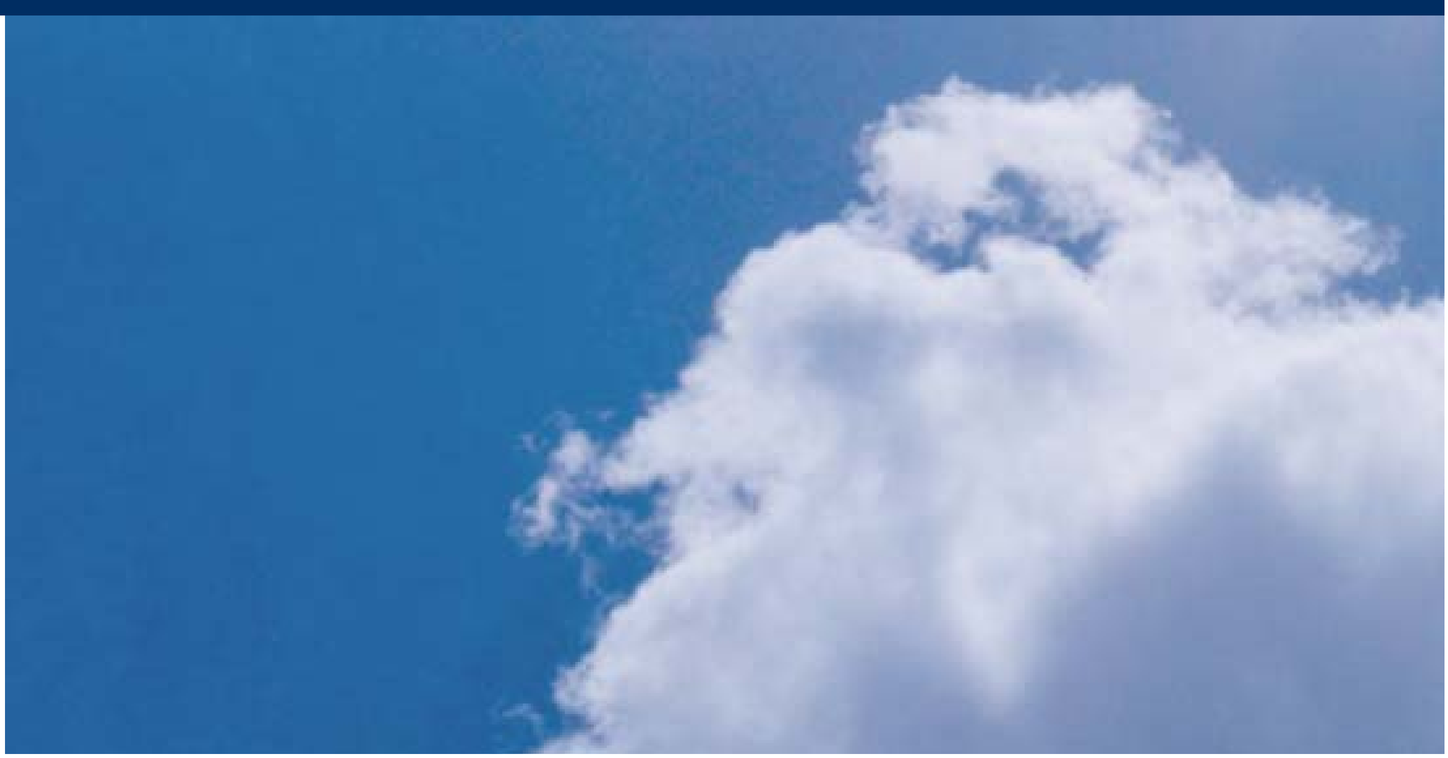
WestJet's Cares for Kids partners include Big Brothers Big Sisters of Canada, Boys and Girls Clubs of Canada, children's hospitals pediatric wards across the country, CNIB, Hope Air, KidSport Canada, Kids Help Phone, Make-A-Wish Canada, Missing Children Society of Canada, and Ronald McDonald House Charities of Canada.



Jana, Manager – External Reporting, volunteer Big Sister
Emily, Little Sister

WE CARED ABOUT BEING GREEN. We don't just care about our people and our guests, we care about the environment as well. In 2009, we moved into our Calgary Campus, built to Leadership in Energy and Environmental Design (LEED) gold standards. It uses 35 per cent less energy than buildings of comparable size. We continue to strive to be greener in the air as well, utilizing technologies like fuel-saving winglets and required navigational performance, allowing us to land with maximum accuracy and efficiency. But our biggest, greenest strides come from flying one of the youngest, most fuel-efficient fleets in North America.

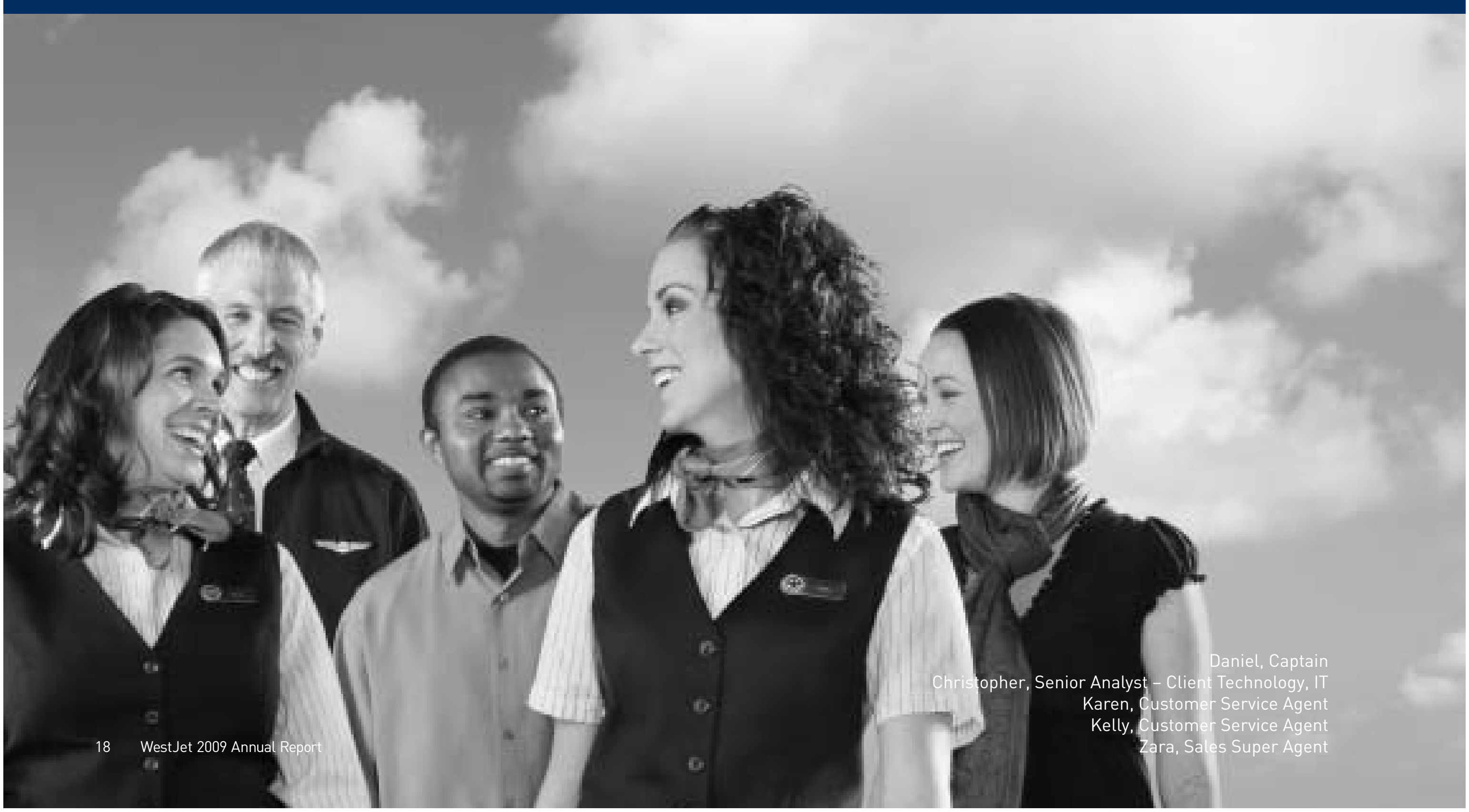
WE SET OURSELVES UP FOR FUTURE GROWTH. In 2009, we continued to strengthen our foundation and implement initiatives for future growth. Our new reservation system was perhaps the most important of those initiatives. While switching to our new SabreSonic system wasn't without its challenges, with some hard work and a lot of care, our WestJetters made it right. We are excited about the enhanced functionality of this new system, including opportunities for ancillary revenues, better revenue management control, increased guest functionality and more streamlined partnerships with other airlines.



Over the year, we worked to extend our philosophy of caring to our WestJet Credit Card and Frequent Guest Programs. Both programs are designed to reward our guests and make WestJet even more attractive for high-frequency travellers, which tend to be our highest yielding guests.

In 2009, we looked beyond North America and the Caribbean by initiating partnerships with Air France and KLM. They now operate inbound interline flights into four WestJet Canadian gateways, connecting to 11 WestJet destinations, with even more cities to come. This is only the beginning, as interline and code-share partnerships are a big part of how we plan to grow.

"I had the pleasure recently to speak with Regina in your call centre. She began our phone call with a friendly greeting and apologized for the lengthy wait times (because of your new reservation system). She went out of her way to assist me with my booking by looking at various dates, times and cities to provide me with the best fare and flight times. She said she was sorry when she needed to place me on hold and always came back to me with a cheerful voice, never tiring of my seemingly never-ending questions. I had always heard that WestJet provided quality service, but after experiencing it for myself, I am convinced that it is true. Thank you again, Regina, for your positive, friendly and ever-so-helpful attitude. You made the difference in my day." KRISTINA – LONDON, ONT.



Daniel, Captain
Christopher, Senior Analyst – Client Technology, IT
Karen, Customer Service Agent
Kelly, Customer Service Agent
Zara, Sales Super Agent

IN 2009, WE DEMONSTRATED OUR ABILITY TO SURVIVE EXTREME CHALLENGES. Our strong balance sheet and low-cost structure should continue to help us successfully navigate through 2010. Regardless of the challenges that may lie ahead, WestJetters are committed to the continued growth and success of our airline. It is their dedication that brought us through 2009 profitably, and we know they will make the best of 2010.

On March 15, 2010, I made the extremely difficult decision to announce my resignation as WestJet's President and CEO. After careful consideration, I decided that this was the best choice for me and my family.

I am immensely proud of all the great things we have achieved in the time that I have been here. I feel that I have completed all of the things that I have set out to accomplish, and I believe this is an appropriate time for me to allow others to carry the torch.

I can say with complete confidence that WestJet is in good hands with Gregg Saretsky taking over as President and CEO on April 1, 2010. Gregg is a 25-year airline industry veteran, and I couldn't think of a better leader to continue our planned growth and champion our award-winning culture. His vast airline experience is exactly what WestJet needs as we embark on the next chapter of our story. I leave WestJet's renowned culture stronger than ever, and our airline is well positioned to accomplish the vision we have put forth – to be one of the most successful international airlines in the world by 2016.

Coming out of a highly unpredictable period for the global economy, it is difficult to know what 2010 has in store. One thing remains certain – no one cares like WestJetters do. These smart, talented and enthusiastic people, led by our accomplished Executive team, have excelled through the challenges and they will continue to do so because they truly care.

On behalf of the Board of Directors and over 7,600 caring WestJetters, including the Executive team, thank you for your continued support of our airline.

Sean Durfy
President and Chief Executive Officer
March 15, 2010

## FLEET AND GUEST FEATURES

- We fly three models of Boeing Next–Generation aircraft: the 737-600, 737-700 and 737-800.
- We do not overbook our flights.
- Our modern aircraft feature leather seats, ample legroom, live seatback TV and pay-per-view movies.
- Guests can use web check-in, mobile check-in, self-serve check-in kiosks or counter check-in.
- Guests can relax in WestJet's lounges, owned and operated by third parties, in Toronto, Calgary, Winnipeg and Vancouver (www.westjetlounges.com).


# 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, Windsor, Winnipeg, Yellowknife

## UNITED STATES

Atlantic City, Fort Lauderdale, Fort Myers, Honolulu, Kauai, Kona, Las Vegas, Los Angeles, Maui, Miami, New York (via Newark), Orlando, Palm Springs, Phoenix, San Diego, San Francisco, Tampa

## INTERNATIONAL

Freeport, Bahamas; Nassau, Bahamas; Bridgetown, Barbados; Cayo Coco, Cuba; Holguin, Cuba; Varadero, Cuba; La Romana, Dominican Republic; Puerto Plata, Dominican Republic; Punta Cana, Dominican Republic; Samana, Dominican Republic; Montego Bay, Jamaica; Cabo San Lucas, Mexico; Cancun, Mexico; Cozumel, Mexico; Ixtapa/Zihuatanejo, Mexico; Mazatlan, Mexico; Puerto Vallarta, Mexico; St. Martin/St. Maarten, Netherlands Antilles; St. Lucia; Providencales, Turks and Caicos

# THE EXECUTIVE TEAM

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

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

**Sean Durfy**
Outgoing
President and CEO

**Gregg Saretsky**
Incoming
President and CEO

**Dr. Hugh Dunleavy**
Executive
Vice-President,
Strategy
and Planning

**Bob Cummings**
Executive
Vice-President,
Marketing
and Sales

"I have flown many times with WestJet and will continue to fly WestJet because frankly, it is the friendliest airline. I am constantly amazed at how many agents and crew members are smiling and laughing while they are working, and are always happy to help in any way. As our aircraft was leaving the gate from Calgary, I had to do a double take. There was the WestJet ground crew, waving goodbye to us with one hand, and holding banners with the other that read, 'Have a great flight' and 'Thank you for flying WestJet'. I have not experienced such exemplary customer service before. Well done, WestJet. You have a committed customer."

TRACEY – CALGARY, ALTA.

Jesse, Aircraft Maintenance Engineer
Blair, Specialist – Airport Services
Alex, TAC Crew Chief

# BOARD OF DIRECTORS

**Clive Beddoe**
Chair
WestJet Airlines Ltd.

**Hugh Bolton**
Non-Executive Chair
EPCOR Utilities Inc.

**Ron Brenneman**
Former CEO
Petro-Canada

**Sean Durfy**
President and CEO
WestJet Airlines Ltd.

**Brett Godfrey**
CEO
Virgin Blue Airlines

**Don Hougan**
Captain
PACT Chair
WestJet Airlines Ltd.

**Allan Jackson**
President and CEO
Arci Ltd.

**Barry Jackson**
Chair
TransCanada Corporation
and TransCanada Pipelines

**Wilmot Matthews**
President
Marjad Inc.

**Larry Pollock**
President and CEO
Canadian Western Bank
and Canadian Western Trust

**Arthur Scace**
Former Chair
Bank of Nova Scotia

# CORPORATE INFORMATION

**Stock exchange listing**
Shares in WestJet stock are
publicly traded on the
Toronto Stock Exchange
(www.tmx.com)
under the symbols WJA and WJA.A

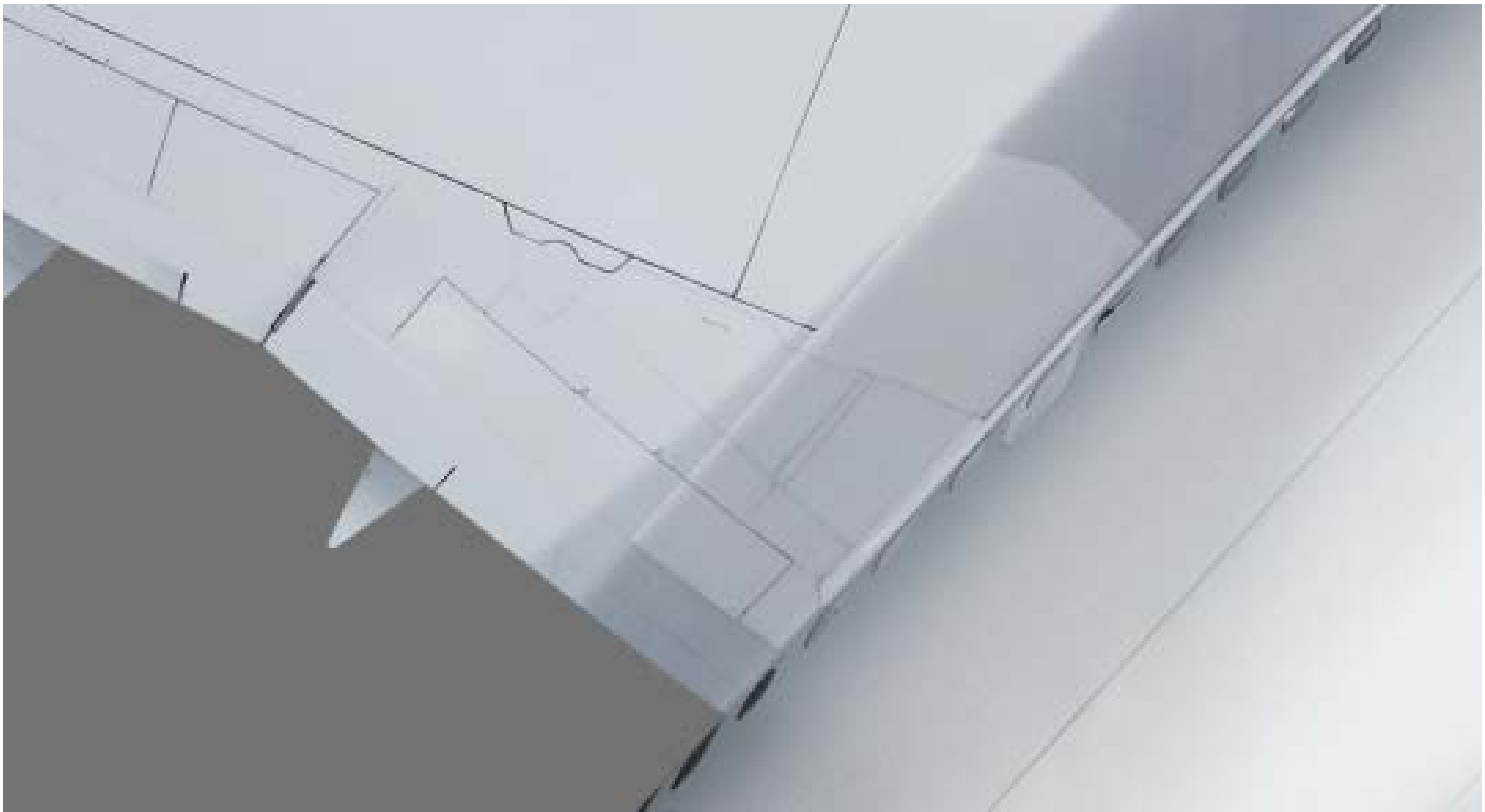
**Investor relations contact information**
Phone: (877) 493-7853
Email: investor_relations@westjet.com

**WestJet Campus**
22 Aerial Place NE
Calgary, Alberta, T2E 3J1
Phone: (403) 444-2600
Toll free: (888) 293-7853

**Annual general meeting (AGM)**
WestJet Airlines Ltd.'s AGM will
be held at 2 p.m. (MDT) on
Tuesday, May 4, 2010,
at WestJet's Campus
22 Aerial Place NE
Calgary, Alberta, T2E 3J1

**Transfer agent and registrar**
CIBC Mellon Trust Company
Toll free in North America: (800) 387-0825
www.cibcmellon.com

**Auditors**
KPMG LLP, Calgary, Alberta



**WESTJET.COM**

# 2009 FINANCIAL REPORT

WESTJET

2009 Annual Report

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS 2009

**Advisories**

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 16, 2010, should be read in conjunction with the cautionary statement regarding forward-looking information and statements below, as well as the consolidated financial statements and notes thereto as at and for the years ended December 31, 2009 and 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 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 and policies. References to "WestJet," "the Company," "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 and our website at www.westjet.com. An additional advisory with respect to the use of non-GAAP measures is set out on page 41 of this MD&A under the heading "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 expectation that seasonal non-stop service will commence to Kindley Field, Bermuda, and Samana, Dominican Republic, in May and June 2010, respectively, referred to under the heading "Overview" on page 6; our expectation that our new reservation system will ensure we can properly support our evolving business model and will enhance our ancillary revenue opportunities and airline partnerships, referred to under the headings "Fourth Quarter" on page 10 and "Outlook" on page 40; our belief that we are well on our way back to delivering the world-class guest experience our guests deserve and have come to expect, referred to under the heading "Fourth Quarter" on page 10; our expectation that the new WestJet Vacations Softvoyage reservation system will allow WestJet Vacations to successfully expand its sales and distribution channels and that WestJet Vacations will be a key contributor to the future success of our airline, referred to under the heading "Results of Operations – Revenue" on page 12; our hedging expectations and the intent to hedge anticipated jet fuel purchases, referred to under the heading "Results of Operations – Aircraft Fuel" on page 15; our sensitivity to changes in crude oil and fuel pricing, referred to under the heading "Results of Operations – Aircraft Fuel" on page 15; our expectation that aircraft maintenance costs will increase as our fleet ages, referred to under the heading "Results of Operations – Maintenance" on page 17; our sensitivity to the change in the value of the Canadian dollar versus the US dollar, referred to under the heading "Results of Operations – Foreign Exchange" on page 19; our expected effective tax rate for 2010, referred to under the heading "Results of Operations – Income Taxes" on page 20; our future aircraft deliveries, referred to under the heading "Capital Resources" on page 23; our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flows, referred to under the heading "Liquidity and Capital Resources – Contingencies" on page 24; our assessment of the impact of the transition to International Financial Reporting Standards (IFRS), referred to under the heading "Accounting – Future Accounting Policy Changes" on page 35; our belief that we will approach 2010 the same way we approached 2009, referred to under the heading "Outlook" on page 40; our plan that, as we head into 2010, we can leverage some of our new initiatives, referred to under the heading "Outlook" on page 40; our expectation that the first quarter of 2010 should benefit from our recent expansion in the transborder and international market, referred to under the heading "Outlook" on page 40; our expected first-quarter and full-year capacity increases for 2010, referred to under the heading "Outlook" on page 40; our expectation that we will not see the same substantial relief on costs in 2010 as we did in 2009, referred to under the heading "Outlook" on page 40; our expected fuel costs per litre, referred to under the heading "Outlook" on page 40; our expectation of the impact that settlements of fuel hedging contracts will have on our fuel costs per litre, referred to under the heading "Outlook" on page 40; our expectation of total capital expenditures for 2010, with the majority of the spending related to aircraft deposits and rotables, referred to under the heading "Outlook" on page 40; our belief that, as we move forward into 2010, it is unclear whether or not the initial indications of economic improvement are here to stay, referred to under the heading "Outlook" on page 40; our belief that we will continue to see pressure on yield in the first quarter, as first quarter RASM appears to be tracking to year-over-year declines of less than five per cent, referred to under the heading "Outlook" on page 40; our belief that 2009 demonstrated our ability to survive extreme challenges, referred to under the heading "Outlook" on page 40; our expectation that our strong balance sheet and low-cost structure will help us successfully navigate through 2010, referred to under the heading "Outlook" on page 40; our expectation that we are prepared if the recovery is long and drawn out, referred to under the heading "Outlook" on page 40; and our expectation that our WestJetters are committed to the continued growth and success of our airline, and our belief that they will make the best of 2010, referred to under the heading "Outlook" on page 40. 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 expectation that seasonal non-stop service will commence to Kindley Field, Bermuda, and Samana, Dominican Republic, in May and June 2010, respectively, was based on our current and forecasted commercial schedule;
- our expectation that our new reservation system will ensure we can properly support our evolving business model and will enhance our ancillary revenue opportunities and airline partnerships was based on the functionalities and technical requirements of the new system;
- our belief that we are well on our way back to delivering the world-class guest experience our guests deserve and have come to expect was based on our current experiences and certain key performance measures with respect to the new reservation system;
- our expectation that the new WestJet Vacations Softvoyage reservation system will allow WestJet Vacations to successfully expand its sales and distribution channels was based on the functionalities and technical requirements of the new system;
- our expectation that WestJet Vacations will be a key contributor to the future success of our airline was based on our current strategic plan and forecast;
- our hedging expectations and intent to hedge anticipated jet fuel purchases was based on our current approved hedging strategy;
- our sensitivity to changes in crude oil and fuel pricing was based on our fuel consumption for our existing schedule and historical fuel burn, as well as a Canadian-US dollar exchange rate similar to the current market rate;
- our expectation that aircraft maintenance costs will increase as our fleet ages was based on requirements specified in our maintenance program and the number of aircraft off warranty;
- our sensitivity to the change in the value of the Canadian dollar versus the US dollar was based on forecasted US-dollar spend for 2010, 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 expected effective tax rate for 2010 was based on forecasted financial information, tax rates based on current legislation and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- our expectation of future aircraft deliveries was based on an aircraft delivery schedule from Boeing;
- our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flows was based on a review of current legal proceedings by management and legal counsel;

- our assessment of the impact of transition to IFRS was based on standards adopted by the International Accounting Standards Board thus far and our initial assessment of Canadian GAAP and IFRS differences;
- our belief that we will approach 2010 the same way we approached 2009 was based on our current strategic plan;
- our plan that, as we head into 2010, we can leverage some of our new initiatives was based on the functionalities of the new systems and our current strategic plan;
- our expectation that the first quarter of 2010 should benefit from our recent expansion in the transborder and international market was based on our actual and forecasted bookings;
- our expected first-quarter and full-year capacity increases for 2010 were based on our actual and forecasted commercial schedules, as well as the five new aircraft delivered in the fourth quarter of 2009 and the further five aircraft to be delivered throughout 2010;
- our expectation that we will not see the same substantial relief on costs in 2010 as we did in 2009 was based on the stabilization of market jet fuel prices;
- our expected fuel costs per litre for the first quarter of 2010 and our expectation of the impact that settlements of fuel hedging contracts will have on our fuel costs per litre were based on realized jet fuel prices for January 2010 and forward curve prices for February and March 2010, as well as the exchange rate for the Canadian dollar in the first quarter similar to the current market rate;
- our expectation of total capital expenditures for 2010, with the majority of the spending related to aircraft deposits and rotables, was based on our current budget and forecasts;
- our belief that, as we move forward into 2010, it is unclear whether or not the initial indications of economic improvement are here to stay was based on actual and forecasted bookings and suggestions by commentators regarding market conditions;
- our belief that we will continue to see pressure on yield in the first quarter, as first quarter RASM appears to be tracking to year-over-year declines of less than five per cent was based on our actual and forecasted bookings;
- our belief that 2009 demonstrated our ability to survive extreme challenges was based on our financial results for 2009;
- our expectation that our strong balance sheet and low-cost structure will help us successfully navigate through this period of uncertainty was based on our current strategic plan and preliminary financial analysis;
- our expectation that we are prepared if the recovery is long and drawn out was based on our preliminary financial analysis and 2009 financial results; and
- our expectation that our WestJetters are committed to the continued growth and success of our airline, and our belief that they will make the best of 2010, was based on our past financial results and experience.

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, pandemics, 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 or, upon request, without charge from us. Additionally, risks and uncertainties are discussed in detail on page 25 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 previously 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:** A 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 (ASMs):** 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 (RPMs):** 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.

## OVERVIEW

2009 was an extremely challenging year for the airline industry. The economic recession, which took hold in the latter part of 2008 and continued in 2009, resulted in a severe drop in demand for air travel, and the industry was forced to slash both pricing and, in many cases, capacity. This resulted in one of the worst business environments the airline industry has experienced and, accordingly, contributed to our significant year-over-year RASM decline. Despite these challenges, our fourth-quarter financial results represent our 19th consecutive quarter of profitability. During 2009, we generated positive cash flows from operations, increased our cash balance and maintained one of the best balance sheets in the North American airline industry, all the while building future value through the expansion of WestJet Vacations and the implementation of our new reservation systems. Our continued commitment to growth was also demonstrated through the delivery of 10 new aircraft, our increase in capacity of 2.6 per cent and the introduction of a record 15 new destinations. With our earnings before tax (EBT) margin of 6.0 per cent, we once again produced one of the best EBT margins of any large North American airline.

### 2009 highlights

- Recognized total revenues of $2.3 billion, a decrease of 10.5 per cent from 2008.
- Recorded RASM of 12.97 cents, down 12.8 per cent from 2008.
- Increased capacity by 2.6 per cent over 2008.
- Reduced CASM to 11.77 cents from 13.17 cents in 2008, a decrease of 10.6 per cent.
- Realized CASM, excluding fuel and employee profit share, of 8.45 cents for 2009, up 1.9 per cent over 2008.
- Recorded an EBT margin of 6.0 per cent in 2009, down 4.0 points from 2008.
- Realized net earnings of $98.2 million, a decrease of 45.0 per cent from 2008.
- Realized diluted earnings per share of $0.74 for 2009, a decrease of 46.0 per cent compared to 2008.
- Adjusted for a non-recurring net future income tax reduction during 2009, we recorded a net earnings decrease of 47.8 per cent to $93.1 million in 2009 from $178.5 million in 2008, and a diluted earnings per share decrease of 48.2 per cent to $0.71 from $1.37 in 2008.
- Generated cash flows from operations of $318.7 million, a decrease from $460.6 million in 2008.

Our culture and people continued to shine in 2009 despite the pressures of a weakened economy and the implementation of a new reservation system. We were recently inducted into Canada's Most Admired Corporate Cultures Hall of Fame by Waterstone Human Capital after being named a winner in their annual survey in 2005, 2006, 2007 and 2008. Additionally, we were selected as one of Canada's Best Employers as part of Hewitt Associates 2010 Best Employers in Canada study. Our enviable corporate culture has allowed us to remain focused on our longer-term objectives during this period of economic uncertainty.

Due to a change in accounting policy during 2009, retrospective restatement of prior periods was required. This change has been denoted throughout this MD&A. Please refer to Accounting – Change in Accounting Policies on page 33 of this MD&A, as well as note 2, change in accounting policies, to the consolidated financial statements and notes for the years ended December 31, 2009 and 2008, for further disclosure.

Please refer to page 42 of this MD&A for a reconciliation of non-GAAP measures, including CASM, excluding fuel and employee profit share, net earnings and diluted earnings per share adjusted for the impact of the non-recurring net future income tax reduction in the fourth quarter of 2009, to the nearest measure under Canadian GAAP.

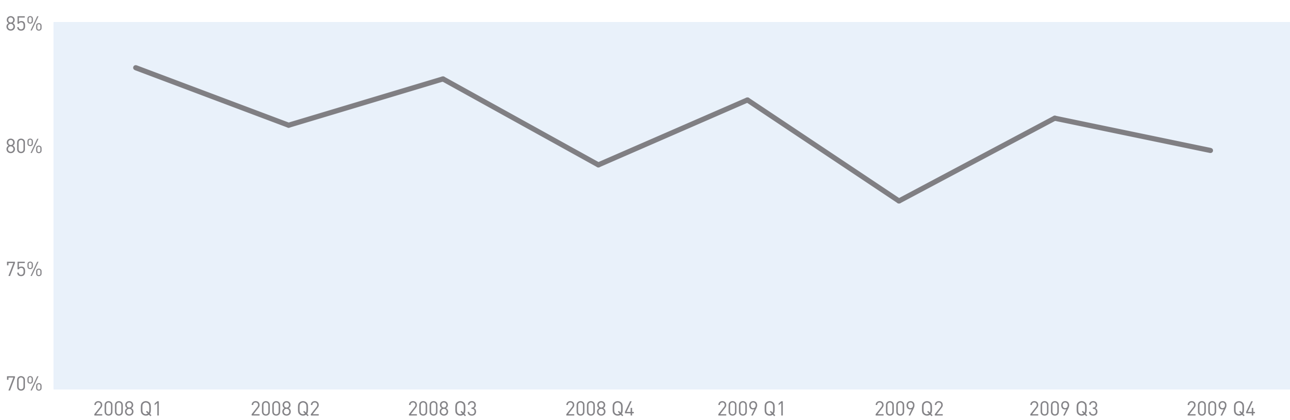
| Operational highlights | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| ASMs | 4,412,573,833 | 4,288,054,528 | 2.9% | 17,587,640,902 | 17,138,883,465 | 2.6% |
| RPMs | 3,460,905,058 | 3,328,856,003 | 4.0% | 13,834,761,211 | 13,730,960,234 | 0.8% |
| Load factor | 78.4% | 77.6% | 0.8 pts. | 78.7% | 80.1% | (1.4 pts.) |
| Yield (cents) | 16.47 | 18.50 | (11.0%) | 16.49 | 18.57 | (11.2%) |
| RASM (cents) | 12.92 | 14.36 | (10.0%) | 12.97 | 14.88 | (12.8%) |
| CASM (cents) | 12.10 | 12.98* | (6.8%) | 11.77 | 13.17* | (10.6%) |
| CASM, excluding fuel and employee profit share (cents) | 8.67 | 8.68* | (0.1%) | 8.45 | 8.29* | 1.9% |
| Fuel consumption (litres) | 216,871,585 | 210,090,434 | 3.2% | 859,115,698 | 839,699,921 | 2.3% |
| Fuel costs per litre (dollars) | 0.69 | 0.84 | (17.9%) | 0.66 | 0.96 | (31.3%) |
| Segment guests | 3,515,168 | 3,518,362 | (0.1%) | 14,038,827 | 14,283,630 | (1.7%) |
| Average stage length (miles) | 923 | 899 | 2.7% | 923 | 913 | 1.1% |
| Utilization (hours) | 11.4 | 12.1 | (5.8%) | 11.7 | 12.3 | (4.9%) |
| Number of full-time equivalent employees at period end | 6,291 | 6,187 | 1.7% | 6,291 | 6,187 | 1.7% |
| Fleet size at period end | 86 | 76 | 13.2% | 86 | 76 | 13.2% |

*Restated

Given the challenges the airline industry faced this year, we are pleased with our financial results. We reported net earnings of $98.2 million and diluted earnings per share of $0.74. Adjusted for a non-recurring net future income tax reduction in 2009, our net earnings were $93.1 million and diluted earnings per share were $0.71. Additionally, our earnings in the year were negatively impacted by non-operating items, including lower interest income and a loss on foreign exchange of $12.3 million, as compared to a $30.6 million gain in 2008. We also produced an operating margin of 9.2 per cent, compared to 11.5 per cent in the prior year.

Our load factor was down slightly by 1.4 points to 78.7 per cent in 2009, from 80.1 per cent in 2008. Despite the decline, our load factor for 2009 remained within our optimal operating range of 78 per cent to 82 per cent. Our quarterly load factors for the past eight quarters are depicted below.

**Quarterly load factor**




During the fourth quarter of 2009, we launched our largest-ever seasonal non-stop flight schedule, featuring a record eight new sun destinations and three additional U.S. destinations for our winter schedule. Beginning in the fall of 2009, WestJet and WestJet Vacations launched seasonal non-stop service to Varadero, Holguin and Cayo Coco, Cuba; Ixtapa and Cozumel, Mexico; St. Martin; Providenciales, Turks and Caicos; Freeport, Bahamas; Lihue (Kauai), Hawaii; Miami, Florida; and Atlantic City, New Jersey. In addition to these destinations, we also launched service to Yellowknife, Sydney, San Diego and San Francisco during the year. Recently, we announced seasonal non-stop service to Kindley Field, Bermuda and Samana, Dominican Republic, to commence in May and June 2010, respectively.

To help partially offset the decline we have seen in RASM, cost control remains a key priority. During the year, we identified sustainable savings, cost deferrals and cost avoidances in the form of utilization management, renegotiations with our key strategic suppliers and voluntary employee programs.

For the year ended December 31, 2009, our CASM improved by 10.6 per cent to 11.77 cents from 13.17 cents in 2008, mainly attributable to lower fuel costs year over year. Excluding fuel and employee profit share, our CASM increased to 8.45 cents from 8.29 cents in 2008, representing an increase of 1.9 per cent over 2008. These changes were due mainly to incremental aircraft leasing and maintenance costs, lower aircraft utilization and a weaker Canadian dollar.

We maintained one of the strongest balance sheets in the North American airline industry during 2009, as evidenced by our significant cash balance of $1,005.2 million as at December 31, 2009, an increase of 22.6 per cent from December 31, 2008. The increase in our cash position was a result of positive cash flow from operations and the completion of an equity offering of 15,398,500 voting shares during 2009, for net proceeds of $165.0 million. Our current ratio, defined as current assets over current liabilities, improved to 1.48 compared to 1.24 as at December 31, 2008, and our adjusted debt-to-equity ratio improved by 20.1 per cent to 1.43, from 1.79 as at December 31, 2008. Similarly, our adjusted net debt to earnings before interest, taxes, depreciation, aircraft rent and other items (EBITDAR) ratio improved by 3.9 per cent to 2.20 as compared to 2.29 as at December 31, 2008.

Please refer to page 42 of this MD&A for a reconciliation of the non-GAAP measures listed previously, including our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios, to the nearest measure under Canadian GAAP.

During 2009, we increased our fleet size by 10, ending the year with 86 aircraft. With an average age of 4.4 years, we continue to operate one of the youngest fleets of any large North American commercial airline.

## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

### Annual audited financial information

| ($ in thousands, except per share data) | 2009 | 2008<br>Restated | 2007<br>Restated |
|---|---|---|---|
| Total revenues | $ 2,281,120 | $ 2,549,506 | $ 2,127,156 |
| Net earnings | $ 98,178 | $ 178,506 | $ 189,048 |
| Basic earnings per share | $ 0.74 | $ 1.39 | $ 1.46 |
| Diluted earnings per share | $ 0.74 | $ 1.37 | $ 1.44 |
| Total assets | $ 3,493,702 | $ 3,268,702 | $ 2,969,899 |
| Total long-term liabilities[1] | $ 1,051,912 | $ 1,201,382 | $ 1,257,634 |
| Shareholders' equity | $ 1,388,928 | $ 1,075,990 | $ 939,427 |

(1) Includes long-term portion of long-term debt obligations under capital lease and fuel-derivative liabilities.

### Quarterly unaudited financial information

| | Three months ended | | | |
|---|---|---|---|---|
| ($ in thousands, except per share data) | Dec. 31, 2009 | Sept. 30, 2009 | Jun. 30, 2009 | Mar. 31, 2009 |
| Total revenues | $ 570,042 | $ 600,630 | $ 531,163 | $ 579,285 |
| Net earnings | $ 20,175 | $ 31,418 | $ 9,153 | $ 37,432 |
| Basic earnings per share | $ 0.14 | $ 0.24 | $ 0.07 | $ 0.29 |
| Diluted earnings per share | $ 0.14 | $ 0.24 | $ 0.07 | $ 0.29 |

| | Three months ended | | | |
|---|---|---|---|---|
| ($ in thousands, except per share data) | Dec. 31, 2008<br>Restated | Sept. 30, 2008<br>Restated | Jun. 30, 2008<br>Restated | Mar. 31, 2008<br>Restated |
| Total revenues | $ 615,783 | $ 718,375 | $ 616,000 | $ 599,348 |
| Net earnings | $ 42,026 | $ 57,876 | $ 26,840 | $ 51,764 |
| Basic earnings per share | $ 0.33 | $ 0.45 | $ 0.21 | $ 0.40 |
| Diluted earnings per share | $ 0.33 | $ 0.45 | $ 0.21 | $ 0.39 |

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.

In the quarter ended December 31, 2009, our reported net earnings of $20.2 million were positively impacted by a non-recurring net future income tax reduction in the amount of $5.1 million, or 3 cents per share. This was mainly due to the enactment of corporate income tax rate reductions, offset partially by revisions to the measurement of previously-recognized future tax assets.

## FOURTH QUARTER

The fourth quarter of 2009 was once again a profitable quarter for WestJet. During our 19th consecutive quarter of positive net earnings, we implemented a new reservation system and began service to 11 new destinations.

### Quarterly highlights

- Recognized total revenues of $570.0 million, a decrease of 7.4 per cent from the fourth quarter of 2008.
- Recorded RASM of 12.92 cents, down 10.0 per cent from the comparable period of 2008. This differs from our previously-disclosed guidance of an 11 to 13 per cent year-over-year decline due to better-than-expected December revenue.
- Increased capacity by 2.9 per cent over the three months ended December 31, 2008.
- Reduced CASM to 12.10 from 12.98 cents in the fourth quarter of 2008, a decrease of 6.8 per cent.
- Realized CASM, excluding fuel and employee profit share, of 8.67 cents, down by 0.1 per cent over the three months ended December 31, 2008.
- Recorded an EBT margin of 4.0 per cent, down 5.8 points from the fourth quarter of 2008.
- Realized net earnings of $20.2 million, a decrease of 51.9 per cent from the three months ended December 31, 2008.
- Realized diluted earnings per share of $0.14 for the fourth quarter of 2009, a decrease of 57.6 per cent compared to the same period of 2008.
- Adjusted for the non-recurring net future income tax reduction in the fourth quarter of 2009, we recorded a net earnings decrease of 64.0 per cent to $15.1 million, from $42.0 million in the fourth quarter of 2008, and a diluted earnings per share decrease of 66.7 per cent to $0.11 from $0.33 in the same period of 2008.
- Generated cash flows from operations of $64.6 million, a decrease from $67.6 million in the fourth quarter of 2008.

Please refer to page 42 of this MD&A for a reconciliation of non-GAAP measures, including CASM, excluding fuel and employee profit share, net earnings and diluted earnings per share adjusted for the impact of the non-recurring net future income tax reduction in the fourth quarter of 2009, to the nearest measure under Canadian GAAP.

### Reservation system

On October 17, 2009, WestJet and Sabre Airline Solutions (Sabre) implemented our new SabreSonic reservation system, representing a foundational step in achieving our future growth objectives. This system will ensure we can properly support our evolving business model, will enhance our ancillary revenue opportunities and will improve our ability to partner with other airlines, such as our expanded relationship with Air France and KLM. We experienced several operational challenges in relation to the new reservation system that impacted our award-winning guest service during the period. In particular, our call centre was negatively impacted as a result of the changeover, due to technical issues and a relatively lower level of familiarity with the new system. However, we have made considerable progress in our call centre service levels since our reservation system cutover in October. We believe we are well on our way back to delivering the world-class guest experience our guests deserve and have come to expect.

In the third quarter of 2009, we previously disclosed that we expected to launch two new programs: the Frequent Guest program and a co-branded credit card with RBC and MasterCard. As a result of longer-than-expected queues in the call centre, we announced our plans to delay the launch of these programs until March 2010.

**Revenue**

During the quarter ended December 31, 2009, total revenues decreased by 7.4 per cent to $570.0 million from $615.8 million in the same period of 2008, largely attributable to the continued weak economy. Our RASM decreased by 10.0 per cent for the fourth quarter of 2009 to 12.92 cents, compared to 14.36 cents in 2008. This change related primarily to a decline in yield of 11.0 per cent for the fourth quarter of 2009. The decrease in yield was attributable to an increase in the practice of fare discounting to stimulate air travel. Similarly, guest revenues from our scheduled flight operations declined by 5.9 per cent during the fourth quarter to $528.1 million, as compared to $561.5 million in the fourth quarter of 2008. This decline was mitigated somewhat by growth in WestJet Vacations air revenue, which is included in guest revenues. For the fourth quarter of 2009, charter and other revenues, which include charter, cargo, ancillary, WestJet Vacations non-air and other revenue, decreased by 22.7 per cent to $41.9 million. This decline was driven mainly by the termination of our charter agreement with Transat, effective May 10, 2009, in favour of flying our own scheduled service to existing and new sun destinations.

**Expenses**

For the fourth quarter of 2009, our CASM decreased by 6.8 per cent as compared to the same quarter of 2008, due largely to declines in aircraft fuel expense and marketing, general and administration expense, offset somewhat by an increase in sales and distribution expense. Our CASM, excluding fuel and employee profit share, remained relatively flat at 8.67 cents.

*Aircraft fuel*

For the fourth quarter of 2009, year-over-year jet fuel prices have stabilized from their previously elevated levels. As such, we did not see the same substantial relief on costs during the fourth quarter of 2009 as we did in the first nine months of the year. The average market price for jet fuel was US $84 per barrel in the fourth quarter of 2009, versus US $79 per barrel in the fourth quarter of 2008, representing an increase of 6.3 per cent. However, due to lower year-over-year refining costs and a stronger Canadian dollar in the fourth quarter of 2009, Canadian jet fuel prices declined during the quarter. We saw a corresponding decrease in our fuel costs per ASM of 18.6 per cent to 3.37 cents in the fourth quarter of 2009, as compared to 4.14 cents in the same period of 2008. Our fourth quarter fuel costs, excluding hedging, were $0.67 per litre, which differs from our previously disclosed estimate of a range between $0.69 and $0.71 per litre due to lower-than-forecasted US-dollar West Texas Intermediate (WTI) crude oil prices.

*Marketing, general and administration*

Marketing encompasses a wide variety of expenses, including advertising and promotions, onboard products, live satellite television licensing fees and catering. General and administration costs consist of our corporate office departments, professional fees, insurance costs and transaction costs related to aircraft acquisitions. During the fourth quarter of 2009, our marketing, general and administration charge per ASM decreased by 12.7 per cent to 1.24 cents, compared to 1.42 cents in the same period of 2008. This decrease was attributable mainly to higher costs during the fourth quarter of 2008, as a result of a $4.3 million payment incurred for the expiration of our previous reservation system, as well as lower costs due to the discontinuation of the sponsorship agreement with AIR MILES, which ended our sponsorship in the AIR MILES Reward Program at the end of 2008.

*Sales and distribution*

Commissions paid to travel agents and credit card fees comprise a significant portion of our sales and distribution expense. During the fourth quarter of 2009, our sales and distribution expense per ASM increased to 1.14 cents, up by 20.0 per cent from 0.95 cents in the same quarter of 2008. This variance was primarily attributable to higher travel agency commissions related to WestJet Vacations, due to increased sales as a result of additional destinations over the prior year, as well as WestJet Vacations sales growth through increased distribution channels as a result of the implementation of a new WestJet Vacations reservation system. Additionally, as at December 31, 2009, we determined that $2.4 million of our accounts receivable balance relating to our cargo operations was doubtful due to a dispute with our cargo service provider. As a result, we recorded a bad debt provision for this amount, reflected in the sales and distribution expense line item. The agreement with the cargo service provider has since been terminated, and, as of January 11, 2010, we have a new cargo service provider in place.

*Income taxes*

Our effective consolidated income tax rate for the three months ended December 31, 2009 was 12.4 per cent, as compared to 30.1 per cent for the same period in 2008. The significant decrease in our effective tax rate for the three-month period ended December 31, 2009, was primarily due to a corporate income tax rate reduction enacted by the Ontario provincial government, offset partially by revisions to the measurement of previously recognized future tax assets. Excluding this net $5.1 million favourable reduction of future income tax expense, our effective consolidated income tax rate for the quarter would have been 34.3 per cent, which is higher than expected due to the portion of non-deductible matching contributions under our Employee Share Purchase Plan (ESPP) realized in the fourth quarter.

## RESULTS OF OPERATIONS

### Revenue

| | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Guest revenues | $ 528,104 | $ 561,514 | (5.9%) | $ 2,067,860 | $ 2,301,301 | (10.1%) |
| Charter and other revenues | 41,938 | 54,269 | (22.7%) | 213,260 | 248,205 | (14.1%) |
| | $ 570,042 | $ 615,783 | (7.4%) | $ 2,281,120 | $ 2,549,506 | (10.5%) |
| RASM (cents) | 12.92 | 14.36 | (10.0%) | 12.97 | 14.88 | (12.8%) |

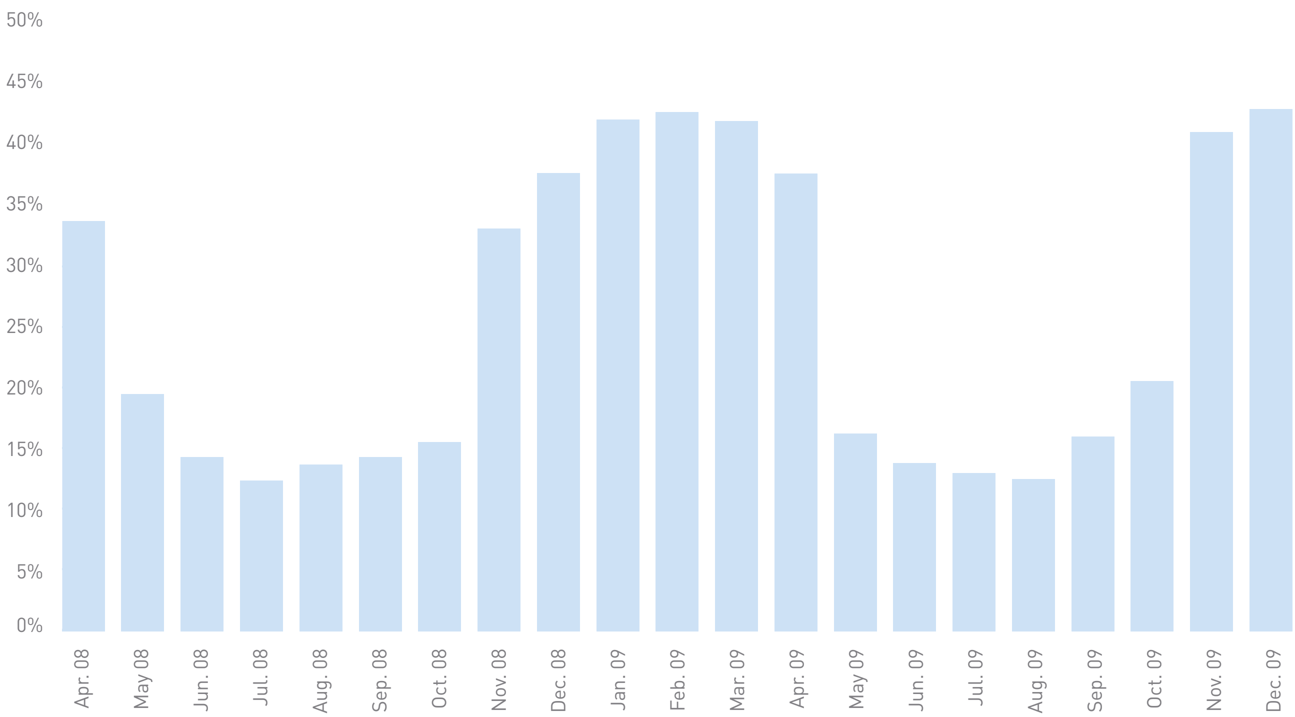
During 2009, total revenues decreased by 10.5 per cent to $2,281.1 million from $2,549.5 million in 2008, largely attributable to a decline in guest revenues from our scheduled flight operations. Guest revenues decreased in 2009 by 10.1 per cent to $2,067.9 million, as compared to $2,301.3 million in 2008, mainly due to the weak economy, and, to a lesser extent, the elimination of the fuel surcharge that was implemented in the second quarter of 2008. For 2009, we saw increased seat sales and fare discounts in order to stimulate demand amid the weak economic environment. This decrease was offset somewhat by growth in WestJet Vacations air revenue.

One of our key revenue measurements is RASM, as it takes into consideration load factor and yield. Our RASM decreased by 12.8 per cent to 12.97 cents for 2009, compared to 14.88 cents in 2008. This change was primarily due to a decline in yield of 11.2 per cent for 2009, as well as a slightly lower 2009 load factor.

The decrease in yield was attributable to aggressive pricing by the airline industry to stimulate air travel, and, to a lesser extent, the absence of the fuel surcharge in place during a portion of 2008.

During 2009, we reduced our aircraft utilization to optimize our schedule to better match the weakened demand environment. As such, average aircraft utilization decreased by 36 minutes to 11.7 operating hours per day, compared to 12.3 operating hours per day in 2008. The flexibility of our fleet-deployment strategy allows us to react to demand changes by adjusting our schedule for more profitable flying. During the year, we continued with tactical adjustments to our schedule in favour of transborder and international markets, as depicted in the following graph. Additionally, we eliminated certain red-eye flights and reduced frequency of flights into a number of less profitable markets during the year. Our lower aircraft utilization negatively impacts CASM and revenue.

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




For 2009, charter and other revenues decreased by 14.1 per cent to $213.3 million, from $248.2 million in 2008. This decline was driven mainly by the termination of our charter agreement with Transat, effective May 10, 2009. Due to our expanded destination base, these declines were partially offset by an increase in WestJet Vacations non-air revenue. On January 11, 2010, we announced the signing of a cargo sales and service relationship with EXP-AIR Cargo that offers an expanded range of products and services for cargo customers throughout Canada, the U.S., Mexico and the Caribbean.

WestJet Vacations had another great year in 2009, driven largely by the strength of our Las Vegas and Disney markets, as well as the 11 destinations added as part of our winter schedule. In only its third year of operations, WestJet Vacations has become a significant player in the Canadian tour operator industry. It is the number one Canadian provider of hotel rooms into Las Vegas and has been successful in the popular Mexico and Caribbean markets. The new WestJet Vacations reservation system, implemented during the third quarter of 2009, will allow WestJet Vacations to successfully expand its sales and distribution channels. WestJet Vacations has been instrumental to 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. For 2009, ancillary revenues were $91.7 million, representing a decrease of 4.2 per cent from 2008. Ancillary revenue per guest decreased by 3.5 per cent to $6.66 per guest in 2009, from $6.90 in 2008. These declines were attributable mainly to lower revenue due to the termination of our tri-branded BMO Mosaik AIR MILES MasterCard credit card partnership on July 31, 2008, as well as a decrease in certain fee revenues. Subsequent to the cutover to the SabreSonic reservation system in October, certain fees, such as change and cancellation, were temporarily waived in order to accommodate our guests during the adjustment to the new system.

### Expenses

| CASM (cents) | 2009 | 2008 Restated | 2007 Restated | 2006 Restated | 2005 Restated |
|---|---|---|---|---|---|
| Aircraft fuel | 3.24 | 4.69 | 3.46 | 3.40 | 3.32 |
| Airport operations | 2.00 | 2.00 | 2.06 | 2.02 | 2.02 |
| Flight operations and navigational charges | 1.70 | 1.64 | 1.77 | 1.83 | 1.71 |
| Marketing, general and administration | 1.19 | 1.23 | 1.22 | 1.17 | 1.23 |
| Sales and distribution | 0.98 | 1.00 | 1.03 | 0.98 | 0.92 |
| Depreciation and amortization | 0.80 | 0.80 | 0.87 | 0.89 | 1.00 |
| Inflight | 0.64 | 0.62 | 0.59 | 0.54 | 0.50 |
| Aircraft leasing | 0.59 | 0.50 | 0.52 | 0.57 | 0.62 |
| Maintenance | 0.55 | 0.50 | 0.51 | 0.54 | 0.67 |
| Employee profit share | 0.08 | 0.19 | 0.33 | 0.16 | 0.06 |
| | 11.77 | 13.17 | 12.36* | 12.10 | 12.05 |
| CASM, excluding fuel and employee profit share | 8.45 | 8.29 | 8.57* | 8.54 | 8.67 |

*Excludes reservation system impairment of $31.9 million in 2007.

| | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| CASM (cents) | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Aircraft fuel | 3.37 | 4.14 | (18.6%) | 3.24 | 4.69 | (30.9%) |
| Airport operations | 2.08 | 2.15 | (3.3%) | 2.00 | 2.00 | — |
| Flight operations and navigational charges | 1.66 | 1.64 | 1.2% | 1.70 | 1.64 | 3.7% |
| Marketing, general and administration | 1.24 | 1.42 | (12.7%) | 1.19 | 1.23 | (3.3%) |
| Sales and distribution | 1.14 | 0.95 | 20.0% | 0.98 | 1.00 | (2.0%) |
| Depreciation and amortization | 0.83 | 0.81 | 2.5% | 0.80 | 0.80 | — |
| Inflight | 0.61 | 0.62 | (1.6%) | 0.64 | 0.62 | 3.2% |
| Aircraft leasing | 0.57 | 0.53 | 7.5% | 0.59 | 0.50 | 18.0% |
| Maintenance | 0.54 | 0.56 | (3.6%) | 0.55 | 0.50 | 10.0% |
| Employee profit share | 0.06 | 0.16 | (62.5%) | 0.08 | 0.19 | (57.9%) |
| | 12.10 | 12.98* | (6.8%) | 11.77 | 13.17* | (10.6%) |
| CASM, excluding fuel and employee profit share | 8.67 | 8.68* | (0.1%) | 8.45 | 8.29* | 1.9% |

*Restated

During 2009, our CASM decreased by 10.6 per cent, due largely to the 30.9 per cent decline in aircraft fuel expense per ASM for the same period. Our CASM, excluding fuel and employee profit share, grew slightly to 8.45 cents, representing an increase of 1.9 per cent over 2008. These changes primarily related to incremental aircraft leasing and maintenance costs, lower aircraft utilization and a weaker Canadian dollar.

We remain diligent in our efforts to control expenses in order to maintain our low-cost advantage. As part of our ongoing focus to achieve sustainable cost savings, we constantly evaluate alternatives to improve the effectiveness and efficiency of our airline.

**Aircraft fuel**

During the year ended December 31, 2009, we experienced substantial relief from the elevated fuel prices that negatively impacted our CASM during the same period in 2008. The average market price for jet fuel was US $81 per barrel in 2009 versus US $134 per barrel in 2008, representing a decline of 39.6 per cent. We saw a corresponding decrease in our fuel costs per ASM of 30.9 per cent to 3.24 cents in 2009, as compared to 4.69 cents in 2008. These favourable changes resulted from reductions in both US-dollar WTI crude oil prices and refining costs. This was offset partially by the devaluation of the Canadian dollar versus the US dollar, incremental costs incurred to transport fuel into the Prairie provinces and the impact of realized losses on the settlement of fuel-derivative contracts. Although market prices have subsided from their previous levels, fuel remains our most significant cost, representing approximately 28 per cent of total operating costs for the year ended December 31, 2009, down from approximately 36 per cent for 2008.

Under our fuel price risk management policy, we are permitted to hedge a portion of our future anticipated jet fuel purchases for up to 36 months, as approved by our Board of Directors. The policy establishes maximum hedging limits based on time horizon; however, it does not include a minimum hedging requirement. Management continuously reviews and adjusts its strategy based on market conditions and competitors' positions. During the year ended December 31, 2009, we did not enter into any new fuel derivatives. Jet fuel is not traded on an organized North American futures exchange, and there are limited opportunities to hedge directly in jet fuel through the over-the-counter market. However, financial derivatives in other crude-oil-based commodities that are traded directly on organized exchanges, such as crude oil and heating oil, are also useful in decreasing the risk of volatile fuel prices.

As at December 31, 2009, we had a mixture of fixed swap agreements and costless collar structures in Canadian-dollar WTI crude oil derivative contracts to hedge approximately 14 per cent (December 31, 2008 – 14 per cent) of our anticipated jet fuel requirements for 2010. The following table outlines, as at December 31, 2009, the notional volumes per barrel (bbl.) and the weighted average strike price for fixed swap agreements, and the weighted average call and put prices for costless collar structures.

| Year | Instrument | Notional volumes (bbl.) | WTI average strike price (CAD$/bbl.) | WTI average call price (CAD$/bbl.) | WTI average put price (CAD$/bbl.) |
|---|---|---|---|---|---|
| 2010 | Swaps | 381,000 | 103.09 | — | — |
| | Costless collars | 483,000 | — | 111.21 | 77.94 |

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 the 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 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.

Our policy for our 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. We elect 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 our 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, we are unable to predict the amount of ineffectiveness for each period. This may result in increased volatility in our 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 operating income (expense). For the years ended December 31, 2009 and 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).

The following table displays our fuel costs per litre, including and excluding fuel hedging, for the year ended December 31, 2009. Please refer to page 41 of this MD&A for a discussion on the use of non-GAAP measures, including aircraft fuel expense, excluding hedging, which is reconciled to GAAP in the table below.

| | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| ($ in thousands, except per litre data) | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Aircraft fuel expense – GAAP | $ 148,853 | $ 177,422 | (16.1%) | $ 570,569 | $ 803,293 | (29.0%) |
| Realized loss on designated fuel derivatives – effective portion | (3,707) | — | N/A | (28,411) | — | N/A |
| Aircraft fuel expense, excluding hedging – Non-GAAP | $ 145,146 | $ 177,422 | (18.2%) | $ 542,158 | $ 803,293 | (32.5%) |
| Fuel consumption (thousands of litres) | 216,872 | 210,090 | 3.2% | 859,116 | 839,700 | 2.3% |
| Fuel costs per litre (dollars) – including fuel hedging | 0.69 | 0.84 | (17.9%) | 0.66 | 0.96 | (31.3%) |
| Fuel costs per litre (dollars) – excluding fuel hedging | 0.67 | 0.84 | (20.2%) | 0.63 | 0.96 | (34.4%) |

Our fuel costs per litre, including fuel hedging, decreased to $0.66 per litre during 2009, representing an improvement of 31.3 per cent, from $0.96 per litre in 2008. Excluding the effects of the realized loss on fuel derivatives designated in an effective hedging relationship, our fuel costs per litre were $0.63 for 2009, a decrease of 34.4 per cent from 2008.

The following table presents the financial impact and statement presentation of our fuel derivatives on the consolidated balance sheet as at December 31, 2009 and 2008.

| ($ in thousands) | Statement presentation | 2009 | 2008 |
|---|---|---|---|
| Receivable from counterparties for settled fuel contracts | Prepaid expenses, deposits and other | $ 96 | $ — |
| Fair value of fuel derivatives – current portion | Accounts payable and accrued liabilities | (7,521) | (37,811) |
| Fair value of fuel derivatives – long-term portion | Other liabilities | — | (14,487) |
| Payable to counterparties for settled fuel contracts | Accounts payable and accrued liabilities | (1,242) | — |
| Unrealized loss from fuel derivatives | AOCL – before tax impact | 6,713 | 44,711 |

The following table presents the financial impact and statement presentation of our fuel derivatives on the consolidated statement of earnings for the years ended December 31, 2009 and 2008.

| ($ in thousands) | Statement presentation | 2009 | 2008 |
|---|---|---|---|
| Realized loss on fuel derivatives – effective portion | Aircraft fuel | $ (28,411) | $ — |
| Gain (loss) on designated fuel derivatives – ineffective portion | Gain (loss) on derivatives | 5,617 | (7,587) |
| Fair market loss on fuel derivatives not designated | Gain (loss) on derivatives | — | (10,606) |

During the year ended December 31, 2009, we cash-settled fuel derivatives in favour of the counterparties of $29.6 million (2008 – $10.6 million).

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 fixed swap agreements is estimated by discounting the difference between the contractual strike price and the current forward price. The fair value of the costless collar structures is estimated by the use of a standard option valuation technique. As at December 31, 2009, for the period that we are hedged, the closing forward curve for crude oil ranged from approximately US $79 to US $84 (2008 – US $45 to US $67) with the average forward foreign exchange rate used in determining the fair value being 1.0536 US dollars to Canadian dollars (2008 – 1.2136).

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 before tax of $6.7 million.

For 2010, excluding the impact of fuel hedging, we estimate our sensitivity to changes in crude oil to be approximately $6 million annually to our fuel costs for every one US-dollar change per barrel of WTI crude oil. Additionally, we estimate our sensitivity to changes in fuel pricing to be approximately $9 million for every one-cent change per litre of fuel.

**Aircraft leasing**

Our most significant infrastructure cost is our aircraft. To support our growth initiatives, we investigate various alternatives for financing, with the intention of achieving optimal balance sheet flexibility while realizing the benefits of low-cost financing. Leasing is often an attractive alternative to debt-financed aircraft for reasons such as alleviation of obsolescence risk and the significantly reduced upfront cash outlay required for deposits on purchased aircraft. During the year ended December 31, 2009, we assumed delivery of seven leased 737-700 aircraft and three leased 737-800 aircraft. One of the leased 737-800s was subsequently purchased from the lessor during the year. As at December 31, 2009, we had a total of 33 leased aircraft. This represents approximately 38 per cent of our total fleet. At the end of 2008, we had a total of 24 aircraft under operating leases, representing approximately 32 per cent of our total registered fleet.

Our aircraft leasing costs per ASM increased by 18.0 per cent in 2009 to 0.59 cents, from 0.50 cents in 2008. The majority of this variance related to incremental leasing costs on the leased aircraft delivered since the end of 2008, as well as a full period of aircraft leasing costs for three leased aircraft delivered during 2008. Additionally, unfavourable foreign exchange movements contributed to approximately 30 per cent of the year-over-year increase. We also have an active foreign exchange hedging program to offset our US-dollar-denominated aircraft lease payments on a portion of our leased aircraft. Please refer to Results of Operations – Foreign Exchange on page 19 of this MD&A for further information.

**Maintenance**

Our maintenance costs per ASM were 0.55 cents in 2009, representing an increase of 10.0 per cent from 0.50 cents in 2008. For 2009, approximately 20 per cent of this increase was attributable to the weaker Canadian dollar, as approximately 40 per cent of our maintenance costs were denominated in US dollars. The remainder of this increase related to incremental scheduled maintenance visits as a result of our growing fleet, as well as the increased number of aircraft off warranty. As at December 31, 2009, 51 out of 86 aircraft, or 59.3 per cent, were off warranty, compared to 36 out of 76 aircraft, or 47.4 per cent, as at December 31, 2008. We anticipate our unit maintenance costs will continue to increase as our fleet ages.

**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.

| | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Salaries and benefits | $ 100,012 | $ 91,353 | 9.5% | $ 392,749 | $ 359,231 | 9.3% |
| Employee share purchase plan | 12,173 | 11,366 | 7.1% | 47,030 | 42,937 | 9.5% |
| Employee profit share | 2,297 | 6,648 | (65.4%) | 14,675 | 33,435 | (56.1%) |
| Stock option plan | 2,264 | 2,460 | (8.0%) | 12,045 | 12,597 | (4.4%) |
| Executive share unit plan | (185) | 172 | (207.6%) | 1,395 | 888 | 57.1% |
| | $ 116,561 | $ 111,999 | 4.1% | $ 467,894 | $ 449,088 | 4.2% |

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2009, salaries and benefits increased by 9.3 per cent to $392.7 million from $359.2 million in 2008. This increase was due primarily to higher pilot salaries and benefits resulting from the new pilot agreement effective July 1, 2009; a cash payout relating to an executive's departure from the Company; incremental salary costs associated with the challenges posed by the reservation system implementation, as previously discussed; and annual market and merit increases. Salaries and benefits expense for each department is included in the respective department's operating expense line item.

*Employee share purchase plan (ESPP)*

Our ESPP encourages employees to become owners of WestJet shares. Under the terms of the ESPP, WestJetters may acquire voting shares of WestJet at the current fair market value, and these acquisitions will be matched by us up to a maximum of 20 per cent of their gross pay. As at December 31, 2009, 84 per cent of our eligible active employees participated in the ESPP, contributing an average of 15 per cent. During the year ended December 31, 2009, we matched contributions for every dollar contributed by our employees. Under the terms of the ESPP, we have the option to acquire voting shares on behalf of employees through open market purchases or to issue shares from treasury at the current market price, which is determined based on the volume-weighted average trading price of the common shares for the five trading days preceding the issuance. For the year ended December 31, 2009, we elected to issue shares from treasury for a portion of our matching contribution. A total of 977,459 shares were issued from treasury at a total market value of $11.1 million for which no cash was exchanged. The remaining shares were acquired through the open market. For 2009, our matching expense was $47.0 million, a 9.5 per cent increase from 2008, driven primarily by an increase in salary expense, as well as a greater number of participating WestJetters in the ESPP versus a year ago.

*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 more profitable. Conversely, the amount distributed to employees is reduced and adjusted in less profitable periods. Our profit share expense for the year ended December 31, 2009, was $14.7 million, a 56.1 per cent decrease from $33.4 million in 2008. This decline was directly attributable to lower earnings eligible for profit share, due primarily to the decrease in revenues versus the prior year. As a result of our continued profitability, we were pleased that our WestJetters earned a bonus payout of almost four per cent in 2009. This brings our total profit share payout since 1996 to approximately $178 million.

*Stock option plan*

Pilots, senior executives and certain non-executive employees participate in the stock option plan. As new options are granted, the fair value of these options, as determined by the Black-Scholes option pricing model on the date of grant, is expensed over the vesting period, with an offsetting entry to contributed surplus. Stock-based compensation expense related to stock options for the year ended December 31, 2009, was $12.0 million, representing a decrease of 4.4 per cent over 2008. This decrease in stock option expense related primarily to the vesting of options granted under the 2006 pilot agreement, in which a significant number of stock options were granted. This was offset somewhat by the effect of a new retirement policy, effective July 3, 2009, which resulted in a greater number of employees being eligible for retirement than under our previous policy. Under our accounting policy for stock-based compensation, for any employees eligible to retire during the vesting period of the award, 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. As a result of the new retirement policy, a one-time catch-up adjustment was recognized during 2009 in relation to retirement-eligible employees. Stock-based compensation expense related to pilots' options is included in flight operations and navigational charges, while the expense related to senior executives' and certain non-executive employees' options is included in marketing, general and administration expense.

*Executive share unit (ESU) plan*

We have an equity-based ESU plan, whereby restricted share units (RSU) and performance share units (PSU) may be issued to our senior executive officers. As at December 31, 2009, up to a maximum of 509,841 of our voting shares may be issued under the ESU plan. Each RSU and PSU entitles the senior executive to receive payment upon vesting in the form of voting shares. We determine compensation expense for the RSUs and PSUs based on the fair market value of our voting shares at the time of grant, which is equal to the weighted average trading price of our voting shares for the five trading days immediately preceding the grant date. The RSUs time vest at the end of a three-year period, with compensation expense being recognized in net earnings over the vesting period. PSUs time vest at the end of a three-year term and incorporate performance criteria based on achieving compounded average diluted earnings per share growth rate targets established at the time of grant. For PSUs, compensation expense is recognized in net earnings over the vesting period based on the number of units expected to vest. For the year ended December 31, 2009, $1.4 million in compensation expense was recognized in relation to the ESU plan, an increase from $0.9 million in compensation expense recognized in 2008. These increases were mainly due to the effect of the new retirement policy, resulting in the accelerated recognition of expense related to RSUs and PSUs for retirement-eligible employees, acceleration of expense due to an executive leaving the Company and additional share unit grants under this plan. Stock-based compensation expense related to the ESU plan is included in marketing, general and administration expense.

**Foreign exchange**

Foreign 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 exchange rates on our US-dollar-denominated net monetary assets and certain operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. During the year ended December 31, 2009, the average US-dollar exchange rate was 1.1425 (2008 – 1.0651), with the period-end exchange rate at 1.0510 (2008 – 1.2180).

The gain or loss on foreign exchange included in our consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary assets. As at December 31, 2009, US-dollar-denominated net monetary assets totalled approximately US $19.9 million (2008 – US $99.5 million) and consist mainly of US-dollar cash and cash equivalents and security deposits on various leased and financed aircraft, US-dollar accounts payable and accrued liabilities and our US-dollar long-term debt facility signed in the fourth quarter of 2009. 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 loss of $12.3 million in 2009, as compared to a foreign exchange gain of $30.6 million in 2008, on the revaluation of our US-dollar-denominated net monetary assets.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. As at December 31, 2009, we entered into foreign exchange forward contracts for US $7.3 million per month for the period of February 2010 to October 2010, for a total of US $65.4 million at a weighted average contract rate of 1.0671 per US dollar to offset a portion of our US-dollar-denominated aircraft lease payments. Upon proper qualification, we designated the 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. As at December 31, 2009, no portion of the forward contracts is considered ineffective.

As at December 31, 2009, the estimated fair market value of the foreign exchange forward contracts recorded in prepaid expenses, deposits and other and accounts payable and accrued liabilities is a net loss of $1.0 million. For the year ended December 31, 2009, we realized a gain before tax on the forward contracts of $5.6 million (2008 – $4.6 million), included in net earnings as a deduction to aircraft leasing expense. The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft leasing expense is a loss before tax of $1.0 million. The fair value of the foreign exchange forward contracts 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, 2009, we entered into a foreign exchange option arrangement for US $7.3 million at a range of 1.0800 to 1.1500 per US dollar to offset our US-dollar-denominated aircraft lease payments on a portion of our leased aircraft for the month of January 2010. 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 December 31, 2009, the estimated fair market value of the option arrangement recorded in accounts payable and accrued liabilities was a loss of $0.2 million (2008 – gain of $0.9 million). For the year ended December 31, 2009, we recorded a loss of $3.8 million (2008 – gain of $0.9 million), included in non-operating income (expense) on foreign exchange option arrangements.

The fair value of the foreign exchange option arrangement was determined through a standard option valuation technique used by the counterparty based on market inputs, including foreign exchange rates, interest rates and volatilities.

For 2010, 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 $9 million impact on our annual operating costs (approximately $6 million for fuel and $3 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 2009 was 28.2 per cent, as compared to 29.9 per cent in 2008. The decrease in our year-to-date effective tax rate was driven primarily by the corporate income rate reduction enacted by the Ontario provincial government in the fourth quarter, as well as income tax rate reductions enacted by British Columbia and New Brunswick. These reductions were partially offset by larger-than-expected differences created by unfavourable revisions to the measurement of previously-recognized future tax assets, the election to issue shares from treasury for our ESPP matching contribution and revised expectations of when certain temporary differences are anticipated to reverse. In total, these specific items resulted in a $4.2 million favourable reduction of future income tax expense, and if excluded, our effective year-to-date consolidated income tax rate for 2009 would have been 31.3 per cent, which is consistent with our expected effective tax rate of 30 to 31 per cent at the beginning of the year. For 2010, our expected effective tax rate is 29 to 31 per cent.

**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 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 | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| On-time performance | 63.8% | 68.9% | (5.1 pts.) | 78.6% | 77.0% | 1.6 pts. |
| Completion rate | 99.1% | 98.1% | 1.0 pts. | 98.9% | 98.7% | 0.2 pts. |
| Bag ratio | 4.36 | 4.68 | 6.8% | 3.57 | 4.12 | 13.3% |

On-time performance, indicating the percentage of flights that arrived within 15 minutes of their scheduled time, is a key factor in measuring our guest experience. During 2009, our on-time performance improved by 1.6 points, due to more favourable weather conditions, as compared to 2008. Our decline in on-time performance in the fourth quarter of 2009 was due to a number of factors, including winter weather, increased security measures and the initial cutover to our new SabreSonic reservation system.

Our completion rate remained relatively flat for 2009 at 98.9 per cent versus 98.7 per cent in 2008. This indicator represents the percentage of flights completed from flights originally scheduled.

We also saw a significant improvement in our bag ratio for 2009, as compared to the prior year.

## LIQUIDITY AND CAPITAL RESOURCES

The airline industry is highly sensitive to unpredictable circumstances, and as such, maintaining a strong financial position is imperative to an airline's success. During 2009, the global recession negatively impacted the airline industry, as evidenced by the rapid weakening of demand and reduced discretionary spending. However, we have maintained one of the most favourable balance sheets in the airline industry and produced our 19th consecutive quarter of profitability.

We completed 2009 with a significant cash and cash equivalents balance of $1,005.2 million, compared to $820.2 million as at December 31, 2008. This increase primarily resulted from the completion of an underwritten equity offering for net proceeds of $165.0 million during the third quarter of 2009. Additionally, we signed and drew upon a 4.315 per cent fixed-rate, five-year term loan, secured by one 800-series aircraft, for a total of US $32.0 million during the fourth quarter of 2009. Part of our cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2009, was $286.4 million, as compared to $251.4 million at December 31, 2008. 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, 2009, we had cash on hand of 3.51 (2008 – 3.26) times the advance ticket sales balance. Additionally, the increase in our working capital ratio to 1.48, from 1.24 as at December 31, 2008, further demonstrates our financial stability and strong financial position. 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. As at December 31, 2009, we have not been required to post collateral with respect to any of our outstanding derivative contracts.

We monitor capital on a number of measures, including adjusted debt-to-equity and adjusted net debt to EBITDAR ratios. Our adjusted debt-to-equity ratio improved by 20.1 per cent to 1.43 as at December 31, 2009, which included $779.7 million in off-balance-sheet aircraft operating leases. This compared favourably to our adjusted debt-to-equity ratio of 1.79 at December 31, 2008, attributable to the significant increase in shareholders' equity from the issuance of 15,398,500 voting shares under our equity offering. As at December 31, 2009, our adjusted net debt to EBITDAR ratio improved by 3.9 per cent to

2.20, compared to 2.29 as at December 31, 2008, due primarily to the increase in our cash and cash equivalents from the net proceeds of the equity offering. Both of these ratios remain strong, relative to the airline industry, and met our internal targets for December 31, 2009 and 2008, of an adjusted debt-to-equity measure and an adjusted net debt to EBITDAR ratio of no more than 3.00.

*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 2009, cash from operations decreased to $318.7 million compared to $460.6 million in 2008, representing a decline of 30.8 per cent. This year-over-year decrease related primarily to lower earnings from operations due to the economic recession.

*Financing cash flow*

During 2009, our financing cash inflows of $34.7 million consisted primarily of the net proceeds from the equity offering of $165.0 million and the proceeds from the US $32.0 million term loan, offset somewhat by $165.8 million in long-term debt repayments, largely relating to our aircraft. In 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 2008.

We have yet to pursue financing agreements for our remaining aircraft commitments, as our next purchased aircraft delivery is not expected until January 2011.

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). The loan guarantees from the U.S. government represent approximately 85 per cent of the purchase price of these aircraft. The cumulative number of aircraft financed with loan guarantees is 52, with an outstanding debt balance of $1.2 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 exposure on these US-dollar aircraft purchases.

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

We have entered into nine arrangements whereby we participate in fuel facility corporations, along with other airlines, to contract for fuel services at major Canadian airports. The fuel facility corporations operate on a cost recovery basis. The purpose of these corporations is to own and finance the system that distributes fuel to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including debt service requirements, of the fuel facility corporations are shared pro rata among the contracting airlines. The nine fuel facility corporations are considered variable interest entities and have not been consolidated within our accounts. In the remote event that all other contracting airlines withdraw from the arrangements and we remained as sole member, we would be responsible for the costs of the fuel facility corporations, including debt service requirements. As at November 30, 2009, the nine fuel facility corporations have combined total assets of approximately $341.5 million and debt of approximately $307.8 million.

*Investing cash flow*

Cash used in investing activities for 2009 totalled $166.7 million, compared to $199.7 million in 2008. During 2009, our investing activities consisted of $118.7 million in aircraft additions, largely resulting from the purchase of one leased aircraft during the year and deposits paid to Boeing on future owned aircraft deliveries. Additionally, we incurred $48.2 million in other property and equipment and intangible asset additions. In 2008, our investing activities included $114.5 million in aircraft additions, mainly related to expenditures for three new purchased aircraft, as well as other property and equipment and intangible asset additions, largely attributable to capital spending on our Calgary Campus facility, which is now completed.

*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 | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|---|---|---|---|---|---|---|---|
| Long-term debt repayments | $ 1,219,777 | $ 171,223 | $ 183,924 | $ 169,992 | $ 169,750 | $ 170,019 | $ 354,869 |
| Capital lease obligations(1) | 6,822 | 943 | 282 | 245 | 245 | 245 | 4,862 |
| Operating leases and commitments(2) | 1,613,350 | 189,892 | 205,904 | 209,340 | 210,489 | 202,875 | 594,850 |
| Purchase obligations(3) | 1,749,300 | 29,724 | 114,834 | 269,490 | 285,479 | 303,612 | 746,161 |
| Total contractual obligations | $ 4,589,249 | $ 391,782 | $ 504,944 | $ 649,067 | $ 665,963 | $ 676,751 | $1,700,742 |

(1) Includes weighted average imputed interest at 5.28 per cent totaling $2,720.

(2) Relates to operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming. The obligations of these operating leases, where applicable, in US dollars are: 2010 - $159,106; 2011 - $182,562; 2012 - $187,896; 2013 - $191,963; 2014 - $187,498; and thereafter $520,002.

(3) Relates to purchases of aircraft, as well as amounts to be paid for live satellite television systems on purchased and leased aircraft. These purchase obligations in US dollars are: 2010 - $28,282; 2011 - $109,265; 2012 - $256,420; 2013 - $271,633; 2014 - $288,887; and thereafter $709,972.

We currently have 33 aircraft under operating leases. We have entered into agreements with independent third parties to lease six additional 737-700 aircraft and five 737-800 aircraft for terms ranging between eight and 10 years, to be delivered throughout 2010 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 adjusted net debt to EBITDAR ratios.

We 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. During 2009, we amended our agreement with LiveTV to install, maintain and operate live satellite television for all of our aircraft for a term of 10 years. The minimum commitment amounts associated with these agreements have been included in the operating leases and commitments caption in the table above.

In 2008, we signed an agreement with Sabre to provide us with a licence to access and use its reservation system, SabreSonic, for a term of eight years. The minimum contract amounts associated with the reservation system have been included in the operating leases and commitments caption in the table above.

**Capital resources**

During 2009, we took delivery of 10 leased aircraft: seven 737-700s and three 737-800s, increasing our total registered fleet to 86 aircraft as at December 31, 2009. However, we subsequently purchased one of the leased 737-800 aircraft from the lessor with cash. During the year, we announced changes to our fleet plan, as summarized in the revised delivery schedule on the following page. These changes provide for a smoother aircraft delivery schedule and a more flexible fleet plan. Under our previous schedule, we would have grown our fleet to 121 aircraft by 2013. The combination of deferred delivery dates on 16 of our existing aircraft orders, the purchase of an additional 14 aircraft and 23 leases expiring between 2013 and 2016, each with the option to renew, gives us the flexibility to end 2016 with a fleet size between 112 and 135. As at December 31, 2009, we had existing commitments to take delivery of an additional 49 aircraft, for a total committed fleet of 135 by 2016 if all 23 lease renewal options are exercised.

| | Series | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 600s | | | 700s | | | 800s | | | Total fleet | | |
| | Leased | Owned | Total | Leased | Owned | Total | Leased | Owned | Total | Leased | Owned | Total |
| Fleet at December 31, 2008 | — | 13 | **13** | 18 | 38 | **56** | 6 | 1 | **7** | 24 | 52 | **76** |
| Fleet at December 31, 2009 | — | 13 | **13** | 25 | 38 | **63** | 8 | 2 | **10** | 33 | 53 | **86** |
| Commitments: | | | | | | | | | | | | |
| 2010 | — | — | **—** | 2 | — | **2** | 3 | — | **3** | 5 | — | **5** |
| 2011 | — | — | **—** | 4 | 2* | **6** | 1 | — | **1** | 5 | 2 | **7** |
| 2012 | — | — | **—** | — | 6* | **6** | 1 | — | **1** | 1 | 6 | **7** |
| 2013 | — | — | **—** | — | 6* | **6** | — | — | **—** | — | 6 | **6** |
| 2014 | — | — | **—** | — | 6* | **6** | — | — | **—** | — | 6 | **6** |
| 2015 | — | — | **—** | — | 10* | **10** | — | — | **—** | — | 10 | **10** |
| 2016 | — | — | **—** | — | 8* | **8** | — | — | **—** | — | 8 | **8** |
| Total commitments | — | — | **—** | 6 | 38 | **44** | 5 | — | **5** | 11 | 38 | **49** |
| Committed fleet as of 2016 | — | 13 | **13** | 31 | 76 | **107** | 13 | 2 | **15** | 44 | 91 | **135** |

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

Commencing in the third quarter of 2009, we have available 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 and is secured by our Campus facility. The line of credit bears interest at prime plus 0.50 per cent per annum, or a bankers acceptance rate at 2.0 per cent annual stamping fee, and is available for general corporate expenditures 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. As at December 31, 2009, 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.

### Share capital

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

| | Number of shares | |
|---|---|---|
| | February 12, 2010 | December 31, 2009 |
| Issued and outstanding: | | |
| Common voting shares | 138,479,680 | 138,763,891 |
| Variable voting shares | 6,086,864 | 5,595,492 |
| **Total common shares issued and outstanding** | **144,566,544** | **144,359,383** |
| Common shares potentially issuable: | | |
| Stock options | 9,761,463 | 11,521,844 |
| RSUs | 143,461 | 143,461 |
| PSUs | 191,276 | 191,276 |
| **Total common shares potentially issuable** | **10,096,200** | **11,856,581** |
| **Total outstanding and potentially issuable common shares** | **154,662,744** | **156,215,964** |

**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, 2009, total long-term debt includes an amount of $6.4 million (2008 – $7.3 million) due to the financial institution. Included in cash and cash equivalents, as at December 31, 2009, are short-term investments of $143.3 million (2008 – $96.5 million) owing from the financial institution. In 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 on 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.

**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 could cause substantial repair or replacement costs to the damaged aircraft, a disruption in service, significant claims relating to injured guests and others, and a negative impact on our reputation for safety, all of which may adversely affect our ability to attract and retain guests. We have an Emergency Response Plan (ERP) in the event of an incident occurring.

An air carrier's liability is limited by applicable conventions, including the Montreal and Warsaw Conventions. Any changes to these or other conventions or treaties could increase our potential liabilities to guests.

We carry insurance with comparable coverage 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, which could have a material adverse effect on our results of operations. 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. Any such changes could increase our potential exposure.

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

Fuel price volatility continues to represent a significant risk, as the cost of fuel has been at historically elevated levels throughout the past few years, and is largely unpredictable. 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. A small change in the price of fuel can significantly affect profitability. Our ability to react to fuel price volatility may be delayed and affected by factors outside our control.

Although fuel prices were lower overall during 2009 as compared to 2008, prices remained higher than long-term historical averages. Our fuel costs constitute our largest single expense category, representing approximately 28 per cent of operating costs in 2009 and approximately 36 per cent in 2008. Therefore, the price of fuel has impacted, and could continue to impact, the timing and nature of our growth initiatives.

In the event of a fuel supply shortage or significantly higher fuel prices, a curtailment of scheduled service could result. 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.

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

The airline industry is particularly sensitive to changes in economic conditions, which affect guest travel patterns and related revenues. For example, the recent unfavourable worldwide economic conditions have reduced spending for both leisure and business travel. As such, a weak economy could reduce our bookings, and a reduction in discretionary spending could also decrease amounts our guests are willing to pay. Unfavourable economic conditions can also impact the ability of airlines to raise fares to help offset increased fuel, labour and other costs. 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.**

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 a small number of Canadian airlines in our domestic market, and one Canadian airline plus 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. Conventional airline profits are sensitive to the general level of economic activity, taxes, interest rates, demographic changes, price levels, 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 failure of critical systems on which we rely could harm our business.**

We depend on automated systems to operate our business and support our initiatives, including our computerized airline reservation systems, telecommunication systems, aircraft maintenance system and website. Our website and reservation systems 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, reallocation of personnel, failure to meet critical deadlines and increased expenses, and could generally harm our business.

During 2009, we replaced or enhanced several key technology systems. On October 17, 2009, we implemented a new reservation system that is hosted by Sabre. Because Sabre hosts the reservation system on our behalf, we will be dependent on Sabre for processing information critical to our business. In conjunction with the migration to our new system, a new revenue accounting system was also implemented during 2009. Additionally, we implemented a new reservation system on September 13, 2009, Softvoyage, for our WestJet Vacations business. The revenue accounting and Softvoyage systems are also hosted solutions. As such, we are reliant on third party performance for timely and effective completion of many of our technology initiatives.

Integration of complex systems and technology presents significant challenges in terms of costs, human resources and development of effective internal controls. In the ordinary course of business, our systems will require modifications and refinements to address our growth and business requirements. We could be adversely affected if we are unable to modify our systems as necessary.

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 and/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 policy that could have a material adverse effect 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.

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 data 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, as we experienced in 2009, could have a material adverse effect on guest demand and the number of guests we carry. A reduction in guest numbers could have a negative impact on our revenues and results of operations.

**We are dependent on single aircraft and engine suppliers. Any interruption in the provision of goods and services from these suppliers, or other significant third party suppliers, as well as mechanical or regulatory issues associated with their equipment 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.

We are dependent on Boeing as our sole supplier for aircraft and many of our aircraft parts. If we were unable to acquire additional aircraft from Boeing, or Boeing were unable or unwilling to provide adequate support for its products, our operations would be materially adversely affected. 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 to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs, and, additionally, aircraft 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. In addition, we would be materially adversely affected in the event of a mechanical or regulatory issue associated with the Boeing Next-Generation 737 aircraft type, including negative perceptions from the travelling community.

We are also dependent on General Electric as a sole supplier for aircraft engines and would, therefore, be materially adversely affected in the event of a mechanical or regulatory issue associated with our engines.

**Inability to retain key personnel could harm our business.**

Our success will depend, in part, on the retention of members of our management and key personnel. If any of these individuals become unable to continue in their 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 exchange and interest rate fluctuations.**

We are exposed to foreign 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. 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 38 737 aircraft. Historically 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. 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 38 aircraft, as our next purchased aircraft delivery is not expected until January 2011. There is no guarantee we will be able to secure similar financing arrangements for the remaining 38 purchased aircraft to be delivered in 2011 to 2016.

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.

**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. In late 2009, certain incidents again heightened the concern regarding terrorist attacks. The heightened concern over potential terrorist attacks could cause a further decrease in guest traffic and yields, and increase security measures and related costs for the airline industry generally. Additional terrorist attacks would likely have a further significant negative impact on our business and the airline industry. 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 caused by 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 localized epidemic or a global pandemic may adversely affect our business.**

A widespread outbreak of H1N1, or other widespread illness, could affect our ability to continue full operations and could materially adversely affect demand for air travel. We cannot predict the likelihood of such a public health emergency or the effect that it may have on our business or the market price of our securities. However, any significant reduction in guest traffic on our network could have a material adverse effect on our business, results from operations and financial condition.

**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.

All commercial service airports in Canada are regulated by the federal government. 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 on 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, 2009, was 4.4 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, 2009, 51 owned aircraft have come off warranty, with an additional 12 coming off warranty in 2010.

**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. 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, a portion of amounts owing under the defaulted agreement may require reclassification on our balance sheet. In this event, we would require sufficient cash to meet the repayment obligation per the agreement 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

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, deposits, accounts payable and accrued liabilities, long-term debt and capital lease obligations.

We are exposed to market, credit and liquidity risks associated with our financial assets and liabilities. We, 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 designate our fuel derivatives as cash flow hedges for accounting purposes. For a discussion of the nature and extent of our use of fuel derivatives for the years ended December 31, 2009 and 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 15 of this MD&A.

*Foreign exchange risk*

Foreign 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 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. To manage our exposure, we periodically use financial derivative instruments, including US-dollar foreign exchange forward contracts and option arrangements. Upon proper qualification, we designate our foreign exchange forward contracts as cash flow hedges for accounting purposes. For a discussion of the nature and extent of our use of US-dollar foreign exchange 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 19 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 short-term investments included in our cash and cash equivalents balance. We are also exposed to interest rate fluctuations on our deposits that relate to purchased aircraft and airport operations, which, as at December 31, 2009, totalled $27.3 million (2008 – $24.3 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, 2009, totalled $8.6 million (2008 – $11.2 million) or 0.7 per cent (2008 – 0.8 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, 2009, our credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, accounts receivable, 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 one year, with the majority less than 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, 2009, we had a total principal amount invested of $813.2 million (2008 – $692.2 million) in Canadian-dollar short-term investments with terms ranging between five and 365 days, and a total of US $nil (2008 – US $23.8 million) invested in US-dollar short-term investments. We perform an ongoing review to evaluate our risk associated with cash and cash equivalent counterparties. As at December 31, 2009, we do 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, 2009, $10.4 million (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, 2009, $0.6 million (2008 – $0.7 million) of the balance receivable is covered by letters of credit. As at December 31, 2009, we determined that $2.4 million of our accounts receivable relating to our cargo operations was doubtful, as amounts receivable are in dispute with the counterparty. Accordingly, we have recorded a bad debt provision for the amount.

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 closely considering the size, credit rating and diversification of the counterparty. As at December 31, 2009, fuel derivatives of $0.1 million and foreign exchange derivatives of $0.2 million outstanding with one of our counterparties were in an asset position. We do not expect this counterparty to fail to meet its obligations.

We are not exposed to counterparty credit risk on our deposits that relate to purchased aircraft, as the funds are held in a security trust separate from the assets of the financial institution. While we are exposed to counterparty credit risk on our deposit relating to airport operations, we consider this risk as remote due to the nature of the deposit and the credit risk rating of the counterparty.

*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.

The table below presents a maturity analysis of our undiscounted contractual cash flows for our non-derivative and derivative financial liabilities as at December 31, 2009. The analysis, based on foreign exchange and interest rates in effect at the balance sheet date, includes both principal and interest cash flows for long-term debt and obligations under capital leases.

| ($ in thousands) | Carrying Amount | Within 1 year | 1 – 3 years | 4 – 5 years | Over 5 years |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities[1] | $ (221,208) | $ (221,208) | $ — | $ — | $ — |
| Foreign exchange derivatives | (1,430) | (1,430) | — | — | — |
| Fuel derivatives | (8,763) | (8,763) | — | — | — |
| Long-term debt | (1,466,636) | (232,461) | (447,906) | (397,540) | (388,729) |
| Obligations under capital leases | (6,822) | (943) | (527) | (490) | (4,862) |
| Total | $ (1,704,859) | $ (464,805) | $ (448,433) | $ (398,030) | $ (393,591) |

(1) Excludes fuel-derivative liabilities of $8,763 and foreign exchange derivative liabilities of $1,430.

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, 2009, was $286.4 million (2008 – $251.4 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, 2009, we had cash on hand of 3.51 (2008 – 3.26) times the advance ticket sales balance. We aim to maintain a current ratio of at least 1.00. As at December 31, 2009, our current ratio was 1.48 (2008 – 1.24). As at December 31, 2009, we have not been required to post collateral with respect to any of our outstanding derivative contracts.

*Fair value of financial instruments*

Fair value represents a point-in-time estimate. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities included in the balance sheet approximate their fair values due to the short-term nature of the instruments. The fair value of deposits, which relate to purchased aircraft and airport operations, approximates their carrying amounts as they are at a floating market rate of interest. At December 31, 2009, the fair value of our fixed-rate long-term debt was approximately $1,323.1 million (2008 – $1,515.5 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, 2009, rates used in determining the fair value ranged from 2.28 per cent to 3.27 per cent (2008 – 2.08 per cent to 2.58 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 15 and 19, 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 management to make estimates and assumptions regarding significant items 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.

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

*Depreciation and amortization, asset retirement obligations and impairment assessments of long-lived assets*

We make estimates about the expected useful lives, depreciation and amortization methods, projected residual values, asset retirement obligations, and the potential for impairment of our property and equipment and intangible assets.

In estimating the lives and expected residual values of our property and equipment and intangible assets, we rely on third party industry market valuations, recommendations from Boeing and actual experience with the asset. 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 provide for asset retirement obligations to return leased aircraft to certain standard conditions as specified within our lease agreements.

We evaluate our estimates and potential impairment on all property and equipment and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable.

*Non-refundable guest credits*

We 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, except for 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.

*Valuation of 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 forward contracts 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. 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 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 fixed swap agreements is estimated by discounting the difference between the contractual strike price and the current forward price. The fair value of the costless collar structures 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.

**Change in accounting policies**

*Goodwill and intangible assets*

Effective January 1, 2009, we adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets. 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. Upon adoption of Section 3064, we reclassified the net book value of purchased software that was previously recognized in property and equipment to intangible assets as shown on our consolidated balance sheet. Prior-period balances were reclassified. There was no impact to current or prior-period net earnings for this change. Software is carried at cost less accumulated depreciation and is amortized on a straight-line basis over its useful life of five years. Please refer to the consolidated financial statements and notes for the years ended December 31, 2009 and 2008, for further disclosure.

During 2009, we changed our accounting policy regarding the treatment of certain sales and distribution, and marketing costs. We now expense these costs as incurred. Previously these costs were deferred in prepaid expenses, deposits and other on the consolidated balance sheet and expensed in the period the related revenue was recognized. The change in accounting policy has been accounted for retrospectively with restatement of the prior year. The effect of this change to our consolidated balance sheet as at December 31, 2008, and to the consolidated statement of earnings for the year ended December 31, 2008, is as follows:

| ($ in thousands) | December 31, 2008 Reported | Adjustment | Restated |
|---|---|---|---|
| Prepaid expenses, deposits and other | $ 67,693 | $ (14,410) | $ 53,283 |
| Future income tax asset | 4,196 | 4,263 | 8,459 |
| Retained earnings | 611,171 | (10,147) | 601,024 |

| ($ in thousands) | 2008 |
|---|---|
| Net earnings, reported | $ 178,135 |
| Adjustments: | |
| Increase in sales and distribution | (88) |
| Decrease in future income tax expense | 459 |
| Net earnings, restated | $ 178,506 |
| Basic earnings per share, reported | $ 1.38 |
| Diluted earnings per share, reported | $ 1.37 |
| Basic earnings per share, restated | $ 1.39 |
| Diluted earnings per share, restated | $ 1.37 |

*Business combinations*

In January 2009, the CICA Accounting Standards Board (AcSB) issued Section 1582, Business Combinations. Section 1582 replaces Section 1581, Business Combinations, and harmonizes the Canadian standards with IFRS. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. 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. We elected to adopt Section 1582 prospectively, effective January 1, 2009. Adoption of this section did not impact our results of operations or financial position.

*Consolidated statements and non-controlling interests*

In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements and harmonize the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. We elected to adopt Section 1601 and Section 1602 prospectively, effective January 1, 2009. Adoption of these sections did not impact our results of operations or financial position.

*Financial instruments*

In May 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Please refer to the consolidated financial statements and notes for the years ended December 31, 2009 and 2008, for further disclosure.

### Future accounting policy changes

*IFRS*

On February 13, 2008, the 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 conversion project team to complete the conversion. Additionally, we have engaged our external auditors to review accounting policy determinations as they are assessed by the project team. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit Committee of the Board of Directors.

We have an IFRS transition plan that includes a timetable for assessing the impact on systems, internal controls over financial reporting (ICFR) and business activities. 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.

The second phase, Solution Development, is substantially complete. It involved an in-depth analysis and evaluation of the financial impacts of various alternatives provided for under IFRS; identification of effects on operational and business processes, analysis of disclosure requirements, an analysis of the optional exemptions and mandatory exceptions of First-Time Adoption of International Financial Reporting Standards (IFRS 1) for full retrospective application upon transition to IFRS; and development of solutions to address the issues identified.

Phase three, Implementation and Execution, has commenced. It involves the design and execution to changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; training programs across the Finance Department and other affected areas of the business; and addressing opening IFRS balances for January 1, 2010. This phase also involves the collection of financial information necessary to prepare comparative IFRS financial statements and reconciliations for 2011 for approval by the Audit Committee and embedding IFRS day-to-day business processes.

Please see the table on page 36 for certain elements of our IFRS transition plan and an assessment of progress towards achieving these milestones. Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating these key milestones 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 communicated here.

| Key activity | Key milestones | Status |
|---|---|---|
| | **Financial statement preparation** | |
| • Identify differences in Canadian GAAP/ IFRS accounting policies<br>• Select ongoing IFRS policies<br>• Select IFRS 1 choices<br>• Develop financial statement format<br>• Quantify effects of change in initial IFRS disclosure and 2010 comparative financial statements | Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur in early 2010.<br>Development of draft financial statement format to occur during the first half of 2010. | Completed the IFRS Diagnostic phase during 2008, which involved a high-level review of the major differences between Canadian GAAP and IFRS.<br>The Solution Development phase is substantially complete, and we have commenced the Implementation and Execution phase as previously discussed. |
| | **Training** | |
| Define and introduce appropriate level of IFRS expertise for each of the following:<br>• Finance Department<br>• Audit Committee | Training for the Finance Department to occur throughout 2010.<br>Regular Audit Committee updates are provided once per quarter. | Project team expert resources and our external advisor have been identified to provide insights and training. Training for project team members is occurring throughout the project, and a detailed training plan is being created for the Finance Department and other departments as needed. |
| | **Information technology (IT) infrastructure** | |
| Confirm that business processes and systems are IFRS compliant, including:<br>• Program upgrades (including any interfaces) and changes<br>• Gathering data for disclosures | Confirm that systems can address 2010 dual reporting requirements in the fourth quarter of 2009.<br>Confirm that business processes and systems are IFRS compliant throughout the project. | Proof of concept for dual reporting during 2010 has been completed, with testing and implementation occurring throughout 2010. Based on the work to date, there does not appear to be any significant IT issues that cannot be addressed by our current systems.<br>Currently reviewing options to address business process changes. Workshops have commenced to discuss key business process and IT changes. |
| | **Control environment** | |
| • For all accounting policy changes identified, assess control design and effectiveness implications<br>• Implement appropriate changes | All key IFRS control design and effectiveness implications are being assessed as part of the key IFRS differences and accounting policy choices through to the end of 2010. | Analysis of control requirements is underway in conjunction with review of accounting issues and policies. Internal Audit has been involved in the project plan to integrate any ICFR requirements. |
| | **External communications** | |
| Assess the effects of key IFRS-related accounting policy and financial statement changes on external communications, in particular:<br>• Confirm 2011 investor communications are IFRS compliant regarding guidance and financial impact<br>• Monitor external communications package<br>• Confirm investor relations process can respond to IFRS-related queries | Analyze and publish the effect of IFRS on the financial statements throughout the project. | IFRS disclosure will be updated throughout the project.<br>Investor Relations is represented on the IFRS Steering Committee. An investor relations communications strategy is currently being formulated. |

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. 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.

We are still determining the full effects of adopting IFRS. Our preliminary assessment of the impact of adopting IFRS based on the current standards has identified the following areas as having the most significant potential impact to our consolidated financial statements. This should not be regarded as a complete list of changes that will result from the transition to IFRS, but rather, is intended to highlight the areas we believe to be the most significant. As we move through the Implementation and Execution phase, we will confirm additional changes. These assessments are based on available information and our expectations as of the date of this MD&A and thus, are subject to change based on new facts and circumstances. Additionally, an analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available. At this stage, we have not completed quantification of the impact expected on our consolidated financial statements for these differences.

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement of full retrospective application of IFRS. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet.

(a) Property and equipment: IFRS and Canadian GAAP contain the same basic principles; however, there are certain differences in application. Under our current policy, maintenance and repairs, including major overhauls, are charged to maintenance expense as they are incurred. Under International Accounting Standard (IAS) 16, Property, Plant and Equipment, the costs of activities that restore the service potential of airframes, engines and landing gear will be considered components of the aircraft and will be added to the carrying amount of the asset and amortized over the period until the next overhaul. Further, IFRS requires that each item of property and equipment with a significant cost in relation to the total cost be depreciated separately. This change of identifying the built-in overhaul in the original purchase price of the aircraft and spare engines and accelerating the depreciation of the major overhaul component over the period to the next overhaul is expected to reduce the carrying value of property and equipment and opening retained earnings on transition.

    IFRS 1 contains an elective exemption in which an entity may elect fair market value as the new cost basis for property and equipment at the date of transition. We do not expect to adopt this exemption and will continue to measure property and equipment at historical cost.

(b) Provisions, contingent liabilities and contingent assets: IAS 37, Provisions, Contingent Liabilities and Contingent Assets requires a provision to be recognized when: (1) there is a present obligation as a result of a past transaction or event; (2) it is probable that an outflow of resources will be required to settle the obligation; and (3) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under Canadian GAAP is higher than under IFRS. Therefore, it is possible that some contingent liabilities not recognized under Canadian GAAP may meet the recognition criteria under IFRS.

    Maintenance costs for lease return conditions are not currently booked as a provision under Canadian GAAP. Under IFRS, it is expected that a provision will be made during the lease term for the obligation to return the aircraft at or better than specified maintenance levels. We anticipate that this will reduce opening retained earnings upon transition and increase total liabilities.

(c) Leases: Under IAS 17, Leases, the quantitative measures used to determine the classification of a lease, as in Canadian GAAP, do not exist. Rather, classification depends solely on the substance of the transaction. From an initial review of our leasing agreements, it does not appear that we will be required to reclassify any operating leases to finance leases on adoption of IAS 17.

respect to other lessee accounting issues, it is likely that the remaining unrecognized profit from sale and operating leaseback transactions that occurred in 2005, currently being recognized over the lease term, will be credited to retained earnings and recognized immediately as a reduction to a liability.

(d) Financial instruments – recognition and measurement: In general, there are many similarities between IFRS and Canadian GAAP for the recognition and measurement of financial instruments. A convergence project is underway with the Financial Accounting Standards Board (FASB) to replace IAS 39, Financial Instruments: Recognition and Measurement. This project is divided into three phases: (1) Classification and measurement; (2) Amortized cost and impairment; and (3) Hedging. As each phase is completed, the IASB will delete the relevant portions of IAS 39 and create an IFRS that will eventually replace IAS 39.

A key difference between the two standards is the treatment of transaction costs on instruments not classified and measured at fair value. Transaction costs are defined in IAS 39 as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Under Canadian GAAP, we elected to expense these costs as incurred. Under IFRS, these costs are to be added to the initial measurement and recognition of the instrument. From an initial review of our instruments, it is estimated that the impact on transition date would be an increase to retained earnings, with the offset to long-term debt. This amount would then be recognized as a deduction to net earnings over the remaining terms of the long-term debt using the effective interest method.

(e) Income taxes: IAS 12, Income Taxes, prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside the statement of earnings.

The most significant impact of IAS 12 on WestJet will be derived directly from the accounting policy decisions made under other standards.

(f) Share-based payments: Under IFRS 2, Share-Based Payment, awards will continue to be measured at fair value, with compensation expense under our plans recognized over the service period. For our equity-settled plans, we will continue to recognize a corresponding increase in equity, and for our cash-settled plans, we will recognize a corresponding increase in the liability. Unlike Canadian GAAP, the service period under IFRS may commence prior to the date of grant and end on the vesting date. This represents a difference in timing and ultimately does not impact the overall expense. It is estimated that the impact on transition would be a decrease to retained earnings, with the offset to an equity reserve.

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

**Disclosure controls and procedures**

Disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the 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 DC&P was conducted, as at December 31, 2009, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2009, 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 provide reasonable assurance 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 controls 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 as at December 31, 2009, the design and operating effectiveness of our ICFR was effective to provide reasonable assurance regarding the reliability of financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP.

**Changes in internal controls over financial reporting**

During the quarter ended December 31, 2009, WestJet and Sabre Airline Solutions implemented our new SabreSonic reservation system as previously discussed. In conjunction with the migration to our new reservation system, a new revenue accounting system was also implemented.

The change in reservation and revenue accounting systems and related processes has resulted in a change that materially affects our ICFR.

Management has designed and implemented controls to ensure that all reservation and revenue accounting transactions have received the relevant designation requirements; a reasonable methodology has been established to determine the effectiveness of the reservation and revenue accounting systems; all related transactions 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 described previously, there have not been any other changes in our ICFR, during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our ICFR.

## OUTLOOK

Throughout 2009, businesses were forced to deal with the continuous challenges of a deep and damaging recession. Facing a severe drop in demand, the airline industry was forced to slash both pricing and capacity. The additional pressures stemming from H1N1, rising fuel prices and enhanced security measures imposed by the U.S. made the year extremely difficult. Our ability to succeed in the face of all these obstacles speaks to the strength of our business and our people.

We will approach 2010 the same way we approached 2009 – prepared for a challenging year and ready to work hard to control costs and maintain profitability while building value. 2009 was a foundational year that centred on enhancing our capabilities for future growth. Focusing on our cost structure, strengthening our balance sheet, expanding WestJet Vacations, implementing two new reservation systems and laying the groundwork for our airline partnerships and frequent guest and credit card programs were all key initiatives. As we head into 2010, we plan to leverage some of these initiatives, beginning with the expected launch of our frequent guest and credit card programs in the first quarter of 2010.

We believe that the enhanced capabilities of our new reservation system will allow us to implement additional seamless strategic partnerships with other airlines. Our implementation plans for code-sharing with Southwest Airlines may extend beyond the late 2010 date previously announced; however, exact timing is not currently defined. We also expect our new reservation system to increase our opportunities for ancillary revenues and allow us to better serve the business traveller market.

Our financial results for the first quarter of 2010 should benefit from our recent expansion in the transborder and international market. Between the months of December 2009 and January 2010 we launched 52 new city pairs – the majority of which belong to our transborder and international schedule. This is a significant accomplishment for an airline of our size and is supported by the strength we have seen in our southern markets. The demand for WestJet Vacations continues to exceed our expectations and forward bookings continue to be strong.

We expect our first-quarter capacity to increase approximately seven per cent from the first quarter of 2009, and full-year capacity is expected to increase between nine and 10 per cent over 2009, dependent on fleet utilization. These capacity increases come from the five new aircraft delivered in the fourth quarter of 2009 and a further five aircraft to be delivered throughout 2010.

Due to the stabilization of jet fuel prices, we do not expect to see the same substantial relief on costs in 2010 as we did in 2009. We expect fuel costs for the first quarter of 2010, excluding hedging, to range between $0.67 and $0.69 per litre. For the first quarter of 2010, we have hedged approximately 22 per cent of our anticipated fuel requirements. The fixed swap agreements represent approximately 25 per cent of the total volume hedged for the first quarter and are at an average of CAD $105 per barrel. The costless collar structures represent the remaining 75 per cent and have a weighted average call price of CAD $111 per barrel and a weighted average put price of CAD $78 per barrel. The settlements of these hedging contracts are anticipated to add between $0.01 and $0.02 per litre to our cost of fuel.

For 2010, we anticipate total capital expenditures of $65 to $75 million, with the majority of the spending related to aircraft deposits and rotables.

As we move forward into 2010, it is unclear whether or not the initial indications of economic improvement are here to stay. We believe that we will continue to see pressure on yield in the first quarter, with first quarter RASM tracking to an anticipated year-over-year decline of less than five per cent on strong loads.

We further believe that 2009 demonstrated our ability to survive extreme challenges. Our strong balance sheet and low-cost structure should help us successfully navigate through 2010, much as we did in 2009. The recent improvements in economic trends are encouraging; however, if the recovery is long and drawn out, we are prepared. Regardless of the challenges that may lie ahead, we have every confidence that our WestJetters are committed to the continued growth and success of our airline. It is their dedication that brought us through 2009 profitably, and we know they will make the best of 2010.

## 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.

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 EBITDAR, 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 EBITDAR, 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.

**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.

**Aircraft fuel expense, excluding hedging:** As presented in the non-GAAP measures to GAAP reconciliation on page 16 of this MD&A under the heading Results of Operations – Aircraft Fuel, we believe it is useful to reflect aircraft fuel expense excluding hedging, which excludes the effective portion of realized losses on fuel derivatives and ineffectiveness. Since fuel expense is highly volatile, we believe presenting the cost of fuel, both including and excluding the effects of hedging, is useful to a reader. This reconciliation table has not been repeated in this section.

### Reconciliation of non-GAAP measures to GAAP

| ($ in thousands, except ratio amounts) | 2009 | 2008 Restated | Change |
|---|---|---|---|
| **Adjusted debt-to-equity:** | | | |
| Long-term debt (i) | $ 1,219,777 | $ 1,351,903 | $ (132,126) |
| Obligations under capital leases (ii) | 4,102 | 1,108 | 2,994 |
| Off-balance-sheet aircraft leases (iii) | 779,655 | 645,375 | 134,280 |
| Adjusted debt | $ 2,003,534 | $ 1,998,386 | $ 5,148 |
| Total shareholders' equity | 1,388,928 | 1,075,990 | 312,938 |
| Add: AOCL | 14,852 | 38,112 | (23,260) |
| Adjusted equity | $ 1,403,780 | $ 1,114,102 | $ 289,678 |
| Adjusted debt-to-equity | 1.43 | 1.79 | (20.1%) |
| **Adjusted net debt to EBITDAR:** (iv) | | | |
| Net earnings | $ 98,178 | $ 178,506 | $ (80,328) |
| Add: | | | |
| Net interest (v) | 62,105 | 50,593 | 11,512 |
| Taxes | 38,618 | 76,243 | (37,625) |
| Depreciation and amortization | 141,303 | 136,485 | 4,818 |
| Aircraft leasing | 103,954 | 86,050 | 17,904 |
| Other (vi) | 10,478 | (13,256) | 23,734 |
| EBITDAR | $ 454,636 | $ 514,621 | $ (59,985) |
| Adjusted debt (as above) | 2,003,534 | 1,998,386 | 5,148 |
| Less: cash and cash equivalents | (1,005,181) | (820,214) | (184,967) |
| Adjusted net debt | $ 998,353 | $ 1,178,172 | $ (179,819) |
| Adjusted net debt to EBITDAR | 2.20 | 2.29 | (3.9%) |

(i) As at December 31, 2009, long-term debt includes the current portion of long-term debt of $171,223 (2008 – $165,721) and long-term debt of $1,048,554 (2008 – $1,186,182).

(ii) As at December 31, 2009, obligations under capital leases includes the current portion of obligations under capital leases of $744 (2008 – $395) and obligations under capital leases of $3,358 (2008 – $713).

(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, 2009, the trailing twelve months of aircraft leasing costs totalled $103,954 (2008 – $86,050).

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

(v) As at December 31, 2009, net interest includes the trailing twelve months of interest income of $5,601 (2008 – $25,485) and the trailing twelve months of interest expense of $67,706 (2008 – $76,078).

(vi) As at December 31, 2009, other includes the trailing twelve months foreign exchange loss of $12,306 (2008 – gain of $30,587) and the trailing twelve months non-operating gain on derivatives of $1,828 (2008 – loss of $17,331).

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| ($ in thousands, except per share and per unit data) | 2009 | 2008 Restated | 2009 | 2008 Restated |
| **Net earnings** | | | | |
| GAAP | $ 20,175 | $ 42,026 | $ 98,178 | $ 178,506 |
| Adjusted for: | | | | |
| Non-recurring net future income tax reduction | (5,051) | - | (5,051) | - |
| Non-GAAP | $ 15,124 | $ 42,026 | $ 93,127 | $ 178,506 |
| **Diluted earnings per share** | | | | |
| GAAP | $ 0.14 | $ 0.33 | $ 0.74 | $ 1.37 |
| Adjusted for: | | | | |
| Non-recurring net future income tax reduction | (0.03) | - | (0.03) | - |
| Non-GAAP | $ 0.11 | $ 0.33 | $ 0.71 | $ 1.37 |
| **CASM, excluding fuel and employee profit share** | | | | |
| Operating expenses - GAAP | $ 533,938 | $ 556,393 | $ 2,070,564 | $ 2,256,719 |
| Adjusted for: | | | | |
| Aircraft fuel expense | (148,853) | (177,422) | (570,569) | (803,293) |
| Employee profit share expense | (2,297) | (6,648) | (14,675) | (33,435) |
| Operating expenses, excluding above items - Non-GAAP | $ 382,788 | $ 372,323 | $ 1,485,320 | $ 1,419,991 |
| ASMs (in thousands) | 4,412,574 | 4,288,055 | 17,587,641 | 17,138,883 |
| CASM, excluding above items - Non-GAAP (cents) | 8.67 | 8.68 | 8.45 | 8.29 |

# CONSOLIDATED FINANCIAL STATEMENTS AND NOTES FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

# 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.

Sean Durfy
President and
Chief Executive Officer

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

Calgary, Canada
February 16, 2010

# AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of WestJet Airlines Ltd. as at December 31, 2009 and 2008, 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 16, 2010

# CONSOLIDATED STATEMENT OF EARNINGS

For the years ended December 31

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

| | 2009 | 2008<br>Restated – see note 2 |
|---|---|---|
| Revenues: | | |
| Guest revenues | $ 2,067,860 | $ 2,301,301 |
| Charter and other revenues | 213,260 | 248,205 |
| | 2,281,120 | 2,549,506 |
| Expenses: | | |
| Aircraft fuel | 570,569 | 803,293 |
| Airport operations | 352,333 | 342,922 |
| Flight operations and navigational charges | 298,762 | 280,920 |
| Marketing, general and administration | 208,316 | 211,979 |
| Sales and distribution | 172,326 | 170,693 |
| Depreciation and amortization | 141,303 | 136,485 |
| Inflight | 112,054 | 105,849 |
| Aircraft leasing | 103,954 | 86,050 |
| Maintenance | 96,272 | 85,093 |
| Employee profit share | 14,675 | 33,435 |
| | 2,070,564 | 2,256,719 |
| Earnings from operations | 210,556 | 292,787 |
| Non-operating income (expense): | | |
| Interest income | 5,601 | 25,485 |
| Interest expense | (67,706) | (76,078) |
| Gain (loss) on foreign exchange | (12,306) | 30,587 |
| Loss on disposal of property and equipment | (1,177) | (701) |
| Gain (loss) on derivatives (note 13(b)) | 1,828 | (17,331) |
| | (73,760) | (38,038) |
| Earnings before income taxes | 136,796 | 254,749 |
| Income tax expense: (note 9) | | |
| Current | 2,690 | 2,549 |
| Future | 35,928 | 73,694 |
| | 38,618 | 76,243 |
| **Net earnings** | $ 98,178 | $ 178,506 |
| Earnings per share: (note 10(c)) | | |
| Basic | $ 0.74 | $ 1.39 |
| Diluted | $ 0.74 | $ 1.37 |

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)

| | 2009 | 2008<br>Restated – see note 2 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 4) | $ 1,005,181 | $ 820,214 |
| Accounts receivable | 27,654 | 16,837 |
| Future income tax (note 9) | 2,560 | 8,459 |
| Prepaid expenses, deposits and other (note 14(a)) | 56,239 | 53,283 |
| Inventory | 26,048 | 17,054 |
| | 1,117,682 | 915,847 |
| Property and equipment (note 5) | 2,307,566 | 2,269,790 |
| Intangible assets (note 6) | 14,087 | 12,060 |
| Other assets (note 14(a)) | 54,367 | 71,005 |
| | $ 3,493,702 | $ 3,268,702 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 231,401 | $ 249,354 |
| Advance ticket sales | 286,361 | 251,354 |
| Non-refundable guest credits | 64,506 | 73,020 |
| Current portion of long-term debt (note 7) | 171,223 | 165,721 |
| Current portion of obligations under capital leases (note 8) | 744 | 395 |
| | 754,235 | 739,844 |
| Long-term debt (note 7) | 1,048,554 | 1,186,182 |
| Obligations under capital leases (note 8) | 3,358 | 713 |
| Other liabilities (note 14(a)) | 19,628 | 24,233 |
| Future income tax (note 9) | 278,999 | 241,740 |
| | 2,104,774 | 2,192,712 |
| Shareholders' equity: | | |
| Share capital (note 10(b)) | 633,075 | 452,885 |
| Contributed surplus | 71,503 | 60,193 |
| Accumulated other comprehensive loss (note 14(c)) | (14,852) | (38,112) |
| Retained earnings | 699,202 | 601,024 |
| | 1,388,928 | 1,075,990 |
| Commitments and contingencies (note 12) | | |
| | $ 3,493,702 | $ 3,268,702 |

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)

| | 2009 | 2008<br>Restated – see note 2 |
|---|---|---|
| Share capital: (note 10(b)) | | |
| Balance, beginning of year | $ 452,885 | $ 448,568 |
| Issuance of shares pursuant to stock option plans | — | 227 |
| Stock-based compensation expense on stock options exercised | 1,561 | 11,181 |
| Stock-based compensation expense on executive share units exercised | 569 | — |
| Issued on public offering | 172,463 | — |
| Issuance of shares pursuant to employee share purchase plan | 11,071 | — |
| Share issue costs | (7,468) | — |
| Tax effect of share issue costs | 1,994 | — |
| Shares repurchased | — | (7,091) |
| | 633,075 | 452,885 |
| Contributed surplus: | | |
| Balance, beginning of year | 60,193 | 57,889 |
| Stock-based compensation expense (note 10(e)(g)) | 13,440 | 13,485 |
| Stock-based compensation expense on stock options exercised (note 10(b)) | (1,561) | (11,181) |
| Stock-based compensation expense on executive share units exercised (note 10(b)) | (569) | — |
| | 71,503 | 60,193 |
| Accumulated other comprehensive loss: (note 14(c)) | | |
| Balance, beginning of year | (38,112) | (11,914) |
| Other comprehensive income (loss) | 23,260 | (26,198) |
| | (14,852) | (38,112) |
| Retained earnings: | | |
| Balance, beginning of year | 611,171 | 455,365 |
| Change in accounting policy (note 2) | (10,147) | (10,518) |
| Shares repurchased | — | (22,329) |
| Net earnings | 98,178 | 178,506 |
| | 699,202 | 601,024 |
| Total accumulated other comprehensive loss and retained earnings | 684,350 | 562,912 |
| Total shareholders' equity | $ 1,388,928 | $ 1,075,990 |

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)

| | 2009 | 2008 Restated – see note 2 |
|---|---|---|
| Net earnings | $ 98,178 | $ 178,506 |
| Other comprehensive income (loss), net of tax: | | |
| Amortization of hedge settlements to aircraft leasing | 1,400 | 1,400 |
| Net unrealized gain (loss) on foreign exchange derivatives under cash flow hedge accounting (i) | (911) | 7,224 |
| Reclassification of net realized gain on foreign exchange derivatives to net earnings (ii) | (3,977) | (3,197) |
| Net unrealized gain (loss) on fuel derivatives under cash flow hedge accounting (iii) | 6,709 | (31,625) |
| Reclassification of net realized loss on fuel derivatives to net earnings (iv) | 20,039 | — |
| | 23,260 | (26,198) |
| Total comprehensive income | $ 121,438 | $ 152,308 |

(i) Net of income taxes of $447 (2008 – $(3,097)).
(ii) Net of income taxes of $1,576 (2008 – $1,357).
(iii) Net of income taxes of $(2,878) (2008 – $13,086).
(iv) Net of income taxes of $(8,372) (2008 – $nil).

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)

| | 2009 | 2008<br>Restated – see note 2 |
|---|---|---|
| **Operating activities:** | | |
| Net earnings | $ 98,178 | $ 178,506 |
| Items not involving cash: | | |
| Depreciation and amortization | 141,303 | 136,485 |
| Amortization of other liabilities | (7,595) | (937) |
| Amortization of hedge settlements | 1,400 | 1,400 |
| Unrealized (gain) loss on derivative instruments | (2,406) | 6,725 |
| Issuance of shares pursuant to employee share purchase plan | 11,071 | — |
| Loss on disposal of property and equipment | 1,504 | 1,809 |
| Stock-based compensation expense | 13,440 | 13,485 |
| Income tax credit receivable | (1,952) | — |
| Future income tax expense | 35,928 | 73,694 |
| Unrealized foreign exchange loss (gain) | 8,440 | (34,823) |
| Change in non-cash working capital (note 14(b)) | 19,350 | 84,242 |
| | 318,661 | 460,586 |
| **Financing activities:** | | |
| Increase in long-term debt | 33,855 | 101,782 |
| Repayment of long-term debt | (165,757) | (179,397) |
| Decrease in obligations under capital leases | (406) | (375) |
| Issuance of shares | 172,463 | 227 |
| Share issue costs | (7,468) | — |
| Shares repurchased | — | (29,420) |
| Decrease (increase) in other assets | 3,427 | (4,135) |
| Change in non-cash working capital | (1,463) | (4,111) |
| | 34,651 | (115,429) |
| **Investing activities:** | | |
| Aircraft additions | (118,686) | (114,470) |
| Aircraft disposals | 27 | 84 |
| Other property and equipment and intangible additions | (48,155) | (90,663) |
| Other property and equipment and intangible disposals | 134 | 172 |
| Change in non-cash working capital | — | 5,147 |
| | (166,680) | (199,730) |
| Cash flow from operating, financing and investing activities | 186,632 | 145,427 |
| Effect of foreign exchange on cash and cash equivalents | (1,665) | 21,229 |
| Net change in cash and cash equivalents | 184,967 | 166,656 |
| Cash and cash equivalents, beginning of year | 820,214 | 653,558 |
| **Cash and cash equivalents, end of year** | $ 1,005,181 | $ 820,214 |
| Cash interest paid | $ 67,973 | $ 76,604 |
| Cash taxes paid | $ 3,369 | $ 2,305 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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

**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, asset retirement obligations, allowance for doubtful accounts, future income taxes, stock-based compensation expense, impairment assessments of property and equipment and intangible assets, and the valuation of derivative financial instruments that affect the amounts reported in the consolidated financial statements and the notes thereto. 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 as advance ticket sales and recognized in earnings 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 non-refundable guest credits recognized at the time of expiry.

**(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, except for 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.

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

**(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, deposits, accounts receivable, accounts payable and accrued liabilities, long-term debt, capital lease obligations 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 |
| 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 |
| Capital lease obligations | 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, 2009, 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, 2009, 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.

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, 2009, 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.

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

**(f) Financial instruments** (continued)

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 are clearly and closely related embedded derivatives 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.

**(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.

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 one year or less.

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

**(j) Inventory**

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) 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 |
| Buildings | Straight-line | 40 years |
| Leasehold improvements | Straight-line | Term of lease |
| Assets under capital leases | Straight-line | Term of lease |

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

**(l) Intangible assets**

Included in intangible assets are costs related to software. Software is carried at cost less accumulated depreciation and is depreciated on a straight-line basis over its useful life of five years. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Should the fair value exceed the carrying amount of the asset, the Corporation would recognize an impairment loss and reduce the carrying amount to fair value.

**(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.

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

**(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.

**(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.

**(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 voting 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.

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

**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.

**2. Change in accounting policies**

**(i) Goodwill and intangible assets**

Effective January 1, 2009, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets. 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. Upon adoption of Section 3064, the Corporation reclassified the net book value of purchased software that was previously recognized in property and equipment to intangible assets as shown on the Corporation's consolidated balance sheet. Prior period balances were reclassified. There was no impact to current or prior year net earnings for this change.

During 2009, the Corporation changed its accounting policy regarding the treatment of certain sales and distribution, and marketing costs. The Corporation now expenses these costs as incurred. Previously these costs were deferred in prepaid expenses, deposits and other on the consolidated balance sheet and expensed in the period the related revenue was recognized. This change in accounting policy has been accounted for retrospectively with restatement of the prior year. The effect of this change to the Corporation's consolidated balance sheet as at December 31, 2008, and to the Corporation's consolidated statement of earnings for the year ended December 31, 2008, is as follows:

| | December 31, 2008 | | |
|---|---|---|---|
| | Reported | Adjustment | Restated |
| Prepaid expenses, deposits and other | $ 67,693 | $ (14,410) | $ 53,283 |
| Future income tax asset | 4,196 | 4,263 | 8,459 |
| Retained earnings | 611,171 | (10,147) | 601,024 |

| | 2008 |
|---|---|
| Net earnings, reported | $ 178,135 |
| Adjustments: | |
| Increase in sales and distribution | (88) |
| Decrease in future income tax expense | 459 |
| Net earnings, restated | $ 178,506 |
| Basic earnings per share, reported | $ 1.38 |
| Diluted earnings per share, reported | $ 1.37 |
| Basic earnings per share, restated | $ 1.39 |
| Diluted earnings per share, restated | $ 1.37 |

**2. Change in accounting policies** (continued)

**(ii) Business combinations**

In January 2009, the CICA Accounting Standards Board (AcSB) issued Section 1582, Business Combinations. Section 1582 replaces Section 1581, Business Combinations, and harmonizes the Canadian standards with International Financial Reporting Standards (IFRS). Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This section is effective January 1, 2011, and applies prospectively to business combinations for which the acquisition date is on or after the first reporting period of the Corporation, beginning on or after January 1, 2011. Early adoption is permitted. The Corporation elected to adopt Section 1582 prospectively, effective January 1, 2009. Adoption of this section did not impact the Corporation's results of operations or financial position.

**(iii) Consolidated financial statements and non-controlling interests**

In January 2009, the AcSB issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements, and harmonize the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are effective on or after the beginning of the first reporting period beginning on or after January 1, 2011. Early adoption is permitted. The Corporation elected to adopt Section 1601 and Section 1602 prospectively, effective January 1, 2009. Adoption of these sections did not impact the Corporation's results of operations or financial position.

**(iv) Financial instruments**

In May 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. See note 13, financial instruments and risk management for further disclosure.

**(v) International financial reporting standards (IFRS)**

On February 13, 2008, the 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 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. The Corporation continues to monitor standards developments 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 its adoption of IFRS.

**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 the 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, issue new shares and adjust current and projected debt levels.

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

3. **Capital management** (continued)

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.

| | 2009 | 2008 Restated | Change |
|---|---|---|---|
| **Adjusted debt-to-equity:** | | | |
| Long-term debt (i) | $ 1,219,777 | $ 1,351,903 | $ (132,126) |
| Obligations under capital leases (ii) | 4,102 | 1,108 | 2,994 |
| Off-balance-sheet aircraft leases (iii) | 779,655 | 645,375 | 134,280 |
| Adjusted debt | $ 2,003,534 | $ 1,998,386 | $ 5,148 |
| Total shareholders' equity | 1,388,928 | 1,075,990 | 312,938 |
| Add: AOCL | 14,852 | 38,112 | (23,260) |
| Adjusted equity | $ 1,403,780 | $ 1,114,102 | $ 289,678 |
| Adjusted debt-to-equity | 1.43 | 1.79 | (20.1%) |
| **Adjusted net debt to EBITDAR:** (iv) | | | |
| Net earnings | $ 98,178 | $ 178,506 | $ (80,328) |
| Add: | | | |
| Net interest (v) | 62,105 | 50,593 | 11,512 |
| Taxes | 38,618 | 76,243 | (37,625) |
| Depreciation and amortization | 141,303 | 136,485 | 4,818 |
| Aircraft leasing | 103,954 | 86,050 | 17,904 |
| Other (vi) | 10,478 | (13,256) | 23,734 |
| EBITDAR | $ 454,636 | $ 514,621 | $ (59,985) |
| Adjusted debt (as above) | 2,003,534 | 1,998,386 | 5,148 |
| Less: cash and cash equivalents | (1,005,181) | (820,214) | (184,967) |
| Adjusted net debt | $ 998,353 | $ 1,178,172 | $ (179,819) |
| Adjusted net debt to EBITDAR | 2.20 | 2.29 | (3.9%) |

(i) As at December 31, 2009, long-term debt includes the current portion of long-term debt of $171,223 (2008 – $165,721) and long-term debt of $1,048,554 (2008 – $1,186,182).

(ii) As at December 31, 2009, obligations under capital leases includes the current portion of obligations under capital leases of $744 (2008 – $395) and obligations under capital leases of $3,358 (2008 – $713).

(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, 2009, the trailing twelve months of aircraft leasing costs totalled $103,954 (2008 – $86,050).

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

(v) As at December 31, 2009, net interest includes the trailing twelve months of interest income of $5,601 (2008 – $25,485) and the trailing twelve months of interest expense of $67,706 (2008 – $76,078).

(vi) As at December 31, 2009, other includes the trailing twelve months foreign exchange loss of $12,306 (2008 – gain of $30,587) and the trailing twelve months non-operating gain on derivatives of $1,828 (2008 – loss of $17,331).

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

**3. Capital management** (continued)

As at December 31, 2009 and 2008, the Corporation's internal 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, 2009, the Corporation's adjusted debt-to-equity ratio improved by 20.1% when compared to 2008, attributable to the significant increase in shareholders' equity from the issuance of 15,398,500 voting shares for total net proceeds of $164,995 under the Corporation's equity offering, which closed on September 30, 2009. As at December 31, 2009, the Corporation's adjusted net debt to EBITDAR improved by 3.9% when compared to 2008, mainly attributable to the increase in cash and cash equivalents from the net proceeds of the equity offering.

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, 2009, 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).

There were no changes in the Corporation's approach to capital management during the year ended December 31, 2009.

**4. Cash and cash equivalents**

As at December 31, 2009, cash and cash equivalents includes bank balances of $191,966 (2008 – $98,998) and short-term investments of $813,215 (2008 – $721,216). Included in these balances, as at December 31, 2009, the Corporation has US-dollar cash and cash equivalents totalling US $32,858 (2008 – US $56,920).

As at December 31, 2009, cash and cash equivalents includes total restricted cash of $10,192 (2008 – $10,748). Included in this amount is $4,564 (2008 – $6,062), representing cash held in trust by WestJet Vacations Inc., a wholly owned subsidiary of the Corporation, in accordance with regulatory requirements governing advance ticket sales for certain travel-related activities; $4,491 (2008 – $4,222) for security on the Corporation's facilities for letters of guarantee; and, in accordance with U.S. regulatory requirements, US $1,082 (2008 – US $381) in restricted cash, representing cash not yet remitted for passenger facility charges.

**5. Property and equipment**

| 2009 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Aircraft | $ 2,456,988 | $ 513,521 | $ 1,943,467 |
| Ground property and equipment | 120,031 | 52,804 | 67,227 |
| Spare engines and parts | 100,567 | 24,360 | 76,207 |
| Buildings | 136,228 | 9,843 | 126,385 |
| Leasehold improvements | 9,910 | 2,877 | 7,033 |
| Assets under capital leases | 5,882 | 2,210 | 3,672 |
| | 2,829,606 | 605,615 | 2,223,991 |
| Deposits on aircraft | 83,489 | — | 83,489 |
| Assets under development | 86 | — | 86 |
| | $ 2,913,181 | $ 605,615 | $ 2,307,566 |

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

5. **Property and equipment** (continued)

| **2008** Restated | **Cost** | **Accumulated depreciation** | **Net book value** |
|---|---|---|---|
| Aircraft | $ 2,394,098 | $ 402,095 | $ 1,992,003 |
| Ground property and equipment | 116,990 | 53,873 | 63,117 |
| 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 leases | 2,482 | 1,690 | 792 |
| | 2,652,345 | 487,277 | 2,165,068 |
| Deposits on aircraft | 23,982 | — | 23,982 |
| Assets under development | 80,740 | — | 80,740 |
| | $ 2,757,067 | $ 487,277 | $ 2,269,790 |

For the year ended December 31, 2009, the Corporation capitalized $nil (2008 – $2,132) of interest related to aircraft financing.

Included in aircraft costs are estimated asset retirement obligations for aircraft under operating leases totalling $4,710 (2008 – $3,493) and associated accumulated amortization of $1,314 (2008 – $846). These amounts are being amortized on a straight-line basis over the term of each lease. During the year ended December 31, 2009, the Corporation recognized depreciation expense of $468 (2008 – $407) in relation to the estimated asset retirement obligations.

During the year ended December 31, 2009, the Corporation began amortization of its Campus facility. As at December 31, 2009, a total cost of $96,081 related to the Campus facility has been capitalized and included in buildings (2008 – $80,725 included in assets under development).

6. **Intangible assets**

| | **Cost** | **Accumulated depreciation** | **Net book value** |
|---|---|---|---|
| **2009** | | | |
| Software | $ 40,392 | $ 26,305 | $ 14,087 |
| **2008** | | | |
| Software | $ 41,835 | $ 29,775 | $ 12,060 |

All of the Corporation's software is acquired separately. Included in the totals for software is $4,085 (2008 – $1,591) for acquired software that is being developed and is not yet being amortized. For the year ended December 31, 2009, the Corporation recognized $5,601 (2008 – $4,675) of depreciation expense related to software.

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

## 7. Long-term debt

| | | 2009 | 2008 |
|---|---|---|---|
| Term loans – purchased aircraft | (i) | $ 1,168,381 | $ 1,331,083 |
| Term loan – purchased aircraft | (ii) | 33,631 | — |
| Term loan – flight simulator | (iii) | 6,392 | 7,265 |
| Term loans – live satellite television equipment | (iv) | 493 | 1,740 |
| Term loan – Calgary Hangar facility | (v) | 9,202 | 9,648 |
| Term loan – Calgary Hangar facility | (vi) | 1,678 | 2,167 |
| | | 1,219,777 | 1,351,903 |
| Current portion | | 171,223 | 165,721 |
| | | $ 1,048,554 | $ 1,186,182 |

(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 of US $32,000 repayable in quarterly instalments of US $1,788, including fixed interest at a rate of 4.315%, maturing in 2014. This facility is secured by one 800-series aircraft.

(iii) Term loan repayable in monthly instalments of $91, including floating interest at the bank's prime rate plus 0.88%, with an effective interest rate of 3.13% as at December 31, 2009, maturing in 2011, secured by one flight simulator.

(iv) Three individual term loans, amortized on a straight-line basis over a five-year term, repayable in quarterly principal instalments of $41, including floating interest at the Canadian LIBOR rate plus 0.08%, with a weighted average effective interest rate of 1.80% as at December 31, 2009, maturing in 2010 and 2011. These facilities are for the purchase of live satellite television equipment, are guaranteed by the Ex-Im Bank and are secured by certain 700-series and 600-series aircraft.

(v) Term loan repayable in monthly instalments of $108, including fixed interest at 9.03%, maturing April 2011, secured by the Calgary Hangar facility.

(vi) 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 2.75% as at December 31, 2009, 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 $1,925,672 as at December 31, 2009 (2008 – $2,012,915).

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

| | |
|---|---|
| 2010 | $ 171,223 |
| 2011 | 183,924 |
| 2012 | 169,992 |
| 2013 | 169,750 |
| 2014 | 170,019 |
| 2015 and thereafter | 354,869 |
| | $ 1,219,777 |

Held within the special-purpose entities, as identified in note 1, significant accounting policies, are liabilities of $1,168,907 (2008 – $1,332,859) related to the acquisition of the 52 purchased aircraft and live satellite television equipment, which are included above in the long-term debt balances.

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

**8. Obligations under capital leases**

The Corporation has entered into capital leases relating to a fuel storage facility and ground handling equipment. The obligations are as follows:

| | |
|---|---|
| 2010 | $ 943 |
| 2011 | 282 |
| 2012 | 245 |
| 2013 | 245 |
| 2014 | 245 |
| 2015 and thereafter | 4,862 |
| Total minimum lease payments | $ 6,822 |
| Less weighted average imputed interest at 5.28% | (2,720) |
| Net minimum lease payments | 4,102 |
| Less current portion of obligations under capital leases | (744) |
| Obligations under capital leases | $ 3,358 |

**9. 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:

| | 2009 | 2008 Restated |
|---|---|---|
| Earnings before income taxes | $ 136,796 | $ 254,749 |
| Income tax rate | 30.62% | 31.30% |
| Expected income tax provision | 41,887 | 79,736 |
| Add (deduct): | | |
| Non-deductible expenses | 5,545 | 2,097 |
| Non-deductible stock-based compensation | 4,112 | 4,218 |
| Effect of tax rate changes | (18,206) | (9,970) |
| Other | 5,280 | 162 |
| Actual income tax provision | $ 38,618 | $ 76,243 |

The Corporation has included in its reconciliation an amount of $18,206 (2008 – $9,970) for the effect of tax rate changes. This amount reflects the impact of certain federal and provincial corporate income tax rate reductions enacted in 2009 and 2008, 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. Included in other for 2009 are revisions to the measurement of previously-recognized future tax assets of $5,700 (2008 - $nil).

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

**9. Income taxes** (continued)

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

| | 2009 | 2008 Restated |
|---|---|---|
| Future income tax liability: | | |
| Property and equipment | $ (327,783) | $ (308,108) |
| Deferred partnership income | (11,913) | (34,741) |
| Future income tax asset: | | |
| Share issue costs | 1,561 | 13 |
| Net unrealized loss on effective portion of derivatives designated in a hedging relationship | 2,120 | 11,346 |
| Non-capital losses | 50,200 | 91,461 |
| Credit carryforwards | 9,376 | 6,748 |
| | $ (276,439) | $ (233,281) |

The net future tax liability is presented on the consolidated balance sheet as follows:

| | | 2009 | 2008 Restated |
|---|---|---|---|
| Future income tax | Current assets | 2,560 | 8,459 |
| Future income tax | Long-term liability | (278,999) | (241,740) |
| | | $ (276,439) | $ (233,281) |

The Corporation has recognized a benefit on $188,474 (2008 – $314,384) of non-capital losses which are available for carryforward to reduce taxable income in future years. These losses will begin to expire in 2014. The Corporation has also recognized a benefit of $9,376 (2008 – $6,748) for unused corporate minimum tax credits which are available for carryforward to reduce Ontario taxable income in future years. These credits will begin to expire in 2013.

**10. 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.

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

**10. Share capital** (continued)

**(a) Authorized** (continued)

**Unlimited number of variable voting shares** (continued)

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 or non-voting preferred shares issued and outstanding.

**(b) Issued and outstanding**

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Common and variable voting shares: | | | | |
| Balance, beginning of year | 127,913,580 | $ 452,885 | 129,571,570 | $ 448,568 |
| Issuance of shares pursuant to stock option plans | 29,685 | — | 347,094 | 227 |
| Stock-based compensation expense on stock options exercised | — | 1,561 | — | 11,181 |
| Issuance of shares pursuant to executive share unit plan | 40,159 | — | — | — |
| Stock-based compensation expense on executive share units exercised | — | 569 | — | — |
| Issued on public offering | 15,398,500 | 172,463 | — | — |
| Issuance of shares pursuant to employee share purchase plan | 977,459 | 11,071 | — | — |
| Share issue costs | — | (7,468) | — | — |
| Tax effect of share issue costs | — | 1,994 | — | — |
| Shares repurchased | — | — | (2,005,084) | (7,091) |
| Balance, end of year | 144,359,383 | $ 633,075 | 127,913,580 | $ 452,885 |

As at December 31, 2009, the number of common voting shares outstanding was 138,763,891 (2008 – 124,291,677) and the number of variable voting shares outstanding was 5,595,492 (2008 – 3,621,903).

During the year ended December 31, 2009, the Corporation completed an equity offering under which it issued an aggregate of 15,398,500 common and variable voting shares at a share price of $11.20 per share for total gross proceeds of $172,463. The Corporation incurred a total of $5,474, net of tax, in share issue costs on the offering.

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

**10. Share capital** (continued)

**(c) Per share amounts**

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

| | 2009 | 2008 |
|---|---|---|
| Weighted average number of shares outstanding – basic | 132,130,009 | 128,690,146 |
| Effect of dilutive employee stock options and unit plans | 131,761 | 1,285,094 |
| Weighted average number of shares outstanding – diluted | 132,261,770 | 129,975,240 |

For the year ended December 31, 2009, 10,455,457 employee stock options (2008 – 5,918,948 employee stock options, and 48,527 restricted share units) were not included in the calculation of dilutive potential shares as the result would be anti-dilutive.

**(d) Stock option plan**

The Corporation has a stock option plan, whereby up to a maximum of 12,228,611 (2008 – 12,622,734) 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 four or 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:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Stock options outstanding, beginning of year | 11,918,168 | $ 13.90 | 12,226,232 | $ 13.66 |
| Granted | 3,011,148 | 12.47 | 1,974,485 | 16.68 |
| Exercised | (376,596) | 11.83 | (2,013,290) | 15.08 |
| Forfeited | (34,487) | 13.25 | (90,891) | 13.24 |
| Expired | (2,996,389) | 14.61 | (178,368) | 14.93 |
| Stock options outstanding, end of year | 11,521,844 | $ 13.42 | 11,918,168 | $ 13.90 |
| Exercisable, end of year | 6,647,525 | $ 12.90 | 7,849,131 | $ 12.87 |

Under the terms of the Corporation's stock option plan, option holders can either (i) elect to receive shares by delivering cash to the Corporation in the amount of the options, or (ii) choose a cashless settlement alternative whereby they can 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, 2009, option holders exercised 376,596 options (2008 – 1,998,926) on a cashless settlement basis and received 29,685 shares (2008 – 332,730). For the year ended December 31, 2009, nil options (2008 – 14,364) were exercised on a cash basis.

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

**10. Share capital** (continued)

**(d) Stock option plan** (continued)

The following table summarizes the options outstanding and exercisable as at December 31, 2009:

| | 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 | 5,084,673 | 0.38 | $ 11.81 | 5,023,365 | $ 11.82 |
| $12.00 – $14.99 | 2,987,619 | 3.29 | 12.49 | 82,918 | 12.40 |
| $15.00 – $16.50 | 1,529,041 | 1.35 | 16.41 | 1,522,602 | 16.42 |
| $16.51 – $19.99 | 1,920,511 | 2.34 | 16.72 | 18,640 | 19.12 |
| | 11,521,844 | 1.59 | $ 13.42 | 6,647,525 | $ 12.90 |

**(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.

For the year ended December 31, 2009, stock-based compensation expense related to stock options included in flight operations and navigational charges, and marketing, general and administration expenses totalled $12,045 (2008 – $12,597).

The fair value of options granted during the year ended December 31, 2009 and 2008, and the assumptions used in their determination are as follows:

| | 2009 | 2008 |
|---|---|---|
| Weighted average fair value per option | $ 3.82 | $ 5.24 |
| Weighted average risk-free interest rate | 1.7% | 3.0% |
| Weighted average volatility | 39% | 37% |
| Expected life (years) | 3.6 | 3.6 |
| Dividends per share | $ — | $ — |

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) 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. Shares acquired for the ESPP are restricted 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 Corporation's voting shares for the five trading days immediately preceding the employee's notice to the Corporation.

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, which is determined based on the volume weighted average trading price of the Corporation's voting shares for the five trading days preceding the issuance.

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

**10. Share capital** (continued)

**(f) Employee share purchase plan** (continued)

For the year ended December 31, 2009, for the Corporation's matching contribution, the Corporation elected to issue a portion of the shares from treasury. A total of 977,459 shares were issued at a total market value of $11,071 for which no cash was exchanged. The remaining shares were acquired through the open market. For 2008, all shares were acquired through the open market.

The Corporation's share of the contributions in 2009 amounted to $47,030 (2008 – $42,937) and is recorded as compensation expense within the related business unit.

**(g) Executive share unit plan**

The Corporation has an equity-based executive share unit (ESU) plan, whereby restricted share units (RSU) and performance share units (PSU) may be issued to senior executive officers. As at December 31, 2009, up to a maximum of 509,841 voting shares of the Corporation may be issued under the ESU plan.

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 voting shares for the five trading days immediately preceding the grant date.

Each RSU entitles the senior executive officers to receive payment upon vesting in the form of voting shares of the Corporation. RSUs time vest at the end of a three-year term, with compensation expense being recognized in net earnings over the vesting period.

Each PSU entitles the senior executive officers to receive payment upon vesting in the form of voting shares of the Corporation. PSUs time vest at the end of a three-year term and incorporate performance criteria based on achieving compounded average diluted earnings per share growth rate targets established at the time of grant. Compensation expense is recognized in net earnings over the vesting period based on the number of units expected to vest.

| | 2009 | | | |
|---|---|---|---|---|
| | RSUs | | PSUs | |
| | Number of units | Weighted average grant date fair value | Number of units | Weighted average grant date fair value |
| Units outstanding, beginning of year | 55,181 | $ 19.37 | 73,574 | $ 19.37 |
| Granted | 105,491 | 11.36 | 140,650 | 11.36 |
| Exercised | (17,211) | 14.16 | (22,948) | 14.16 |
| Units outstanding, end of year | 143,461 | $ 14.10 | 191,276 | $ 14.10 |
| Vested, end of year | — | $ — | — | $ — |

| | 2008 | | | |
|---|---|---|---|---|
| | RSUs | | PSUs | |
| | Number of units | Weighted average grant date fair value | Number of units | Weighted average grant date fair value |
| Units outstanding, beginning of year | — | $ — | — | $ — |
| Granted | 55,181 | 19.37 | 73,574 | 19.37 |
| Exercised | — | — | — | — |
| Units outstanding, end of year | 55,181 | $ 19.37 | 73,574 | $ 19.37 |
| Vested, end of year | — | $ — | — | $ — |

Stock-based compensation expense related to the ESU plan included in marketing, general and administration expense for the year ended December 31, 2009, totalled $1,395 (2008 – $888).

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

**10. Share capital** (continued)

**(h) 2007 restricted share units**

The Corporation has a cash-settled RSU plan, whereby 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, 2009, $181 of expense (2008 – $75 recovery) was included in marketing, general and administration expense. During the year ended December 31, 2009, the Corporation settled 6,376 RSUs for a total cash payment of $78 (2008 – $nil). As at December 31, 2009, 61,682 RSUs (2008 – 68,058) are outstanding, all of which vest in January 2010.

**(i) Deferred share units**

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for 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 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, 2009, 24,324 DSUs were granted (2008 – 15,192), with $288 of expense (2008 – $180) included in marketing, general and administration expense. During the year ended December 31, 2009, the Corporation settled 1,392 DSUs for a total cash payment of $16 (2008 – $nil). As at December 31, 2009, 40,423 DSUs (2008 – 17,491) are vested and outstanding. DSUs are redeemable upon the Director's retirement from the Board.

**11. 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, 2009, total long-term debt includes an amount of $6,392 (2008 – $7,265) due to the financial institution. See note 7, long-term debt, for further disclosure. Included in cash and cash equivalents, as at December 31, 2009, are short-term investments of $143,332 (2008 – $96,500) owing from the financial institution. In 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 12, commitments and contingencies, for further information. These transactions occurred in the normal course of operations on terms consistent with those offered to arm's-length parties and are measured at the exchange amount.

**12. Commitments and contingencies**

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

As at December 31, 2009, the Corporation is committed to purchase 38 737-700 aircraft for delivery between 2011 and 2016. The remaining estimated amounts to be paid in deposits and purchase prices for the 38 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:

| | USD | CAD |
|---|---|---|
| 2010 | $ 28,282 | $ 29,724 |
| 2011 | 109,265 | 114,834 |
| 2012 | 256,420 | 269,490 |
| 2013 | 271,633 | 285,479 |
| 2014 | 288,887 | 303,612 |
| 2015 and thereafter | 709,972 | 746,161 |
| | $ 1,664,459 | $ 1,749,300 |

The Corporation has yet to pursue financing agreements for the remaining 38 purchased aircraft included in the above totals. The next purchased aircraft delivery is not expected until January 2011.

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

**12. Commitments and contingencies** (continued)

**(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, 2009, the future payments in Canadian dollars, and when applicable the US-dollar equivalents, under operating leases and commitments are as follows:

| | USD | CAD |
|---|---|---|
| 2010 | $ 159,106 | $ 189,892 |
| 2011 | 182,562 | 205,904 |
| 2012 | 187,896 | 209,340 |
| 2013 | 191,963 | 210,489 |
| 2014 | 187,498 | 202,875 |
| 2015 and thereafter | 520,002 | 594,850 |
| | $ 1,429,027 | $ 1,613,350 |

As at December 31, 2009, the Corporation is committed to lease an additional six 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 above 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. During 2009, the Corporation amended its agreement with LiveTV to install, maintain and operate live satellite television on all of the Corporation's aircraft for a term of 10 years. The minimum commitment amounts associated with these agreements have been included in the table totals above.

In 2008, the Corporation signed an agreement with Sabre Airline Solutions (Sabre) to provide the Corporation with a licence to access and use Sabre's reservation system, SabreSonic for a term of eight years. The minimum contract amounts associated with the reservation system have been included in the table totals above.

**(c) Letters of guarantee**

The Corporation has available two revolving loan credit facilities with a Canadian charter bank for letters of guarantee. During the year ended December 31, 2009, the Corporation amended one of the two facilities and has available $38,000 (2008 – $15,000) for letters of guarantee. An accumulative balance greater than $8,000 requires funds to be assigned and held as cash security. As at December 31, 2009 $12,491 (2008 – $12,222) of letters of guarantee were issued under these facilities. These facilities are secured by a general security agreement, an assignment of insurance proceeds and $4,491 (2008 – $4,222) of restricted cash.

**(d) Operating line of credit**

Commencing in the third quarter of 2009, the Corporation has available 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 $85,000 and is secured by the Corporation's Campus facility. The line of credit bears interest at prime plus 0.50% per annum, or a bankers acceptance rate at 2.0% annual stamping fee or equivalent, and is available for general corporate expenditures 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. As at December 31, 2009, no amounts were drawn.

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

**12. Commitments and contingencies** (continued)

**(e) Fuel facility corporations**

The Corporation has entered into nine arrangements whereby it participates in fuel facility corporations, along with other airlines, to contract for fuel services at major Canadian airports. The fuel facility corporations operate on a cost recovery basis. The purpose of these corporations is to own and finance the system that distributes fuel to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including debt service requirements, of the fuel facility corporations are shared pro rata among the contracting airlines. The nine fuel facility corporations are considered variable interest entities and have not been consolidated within the Corporation's accounts. In the remote event that all other contracting airlines withdraw from the arrangements and the Corporation remained as sole member, it would be responsible for the costs of the fuel facility corporations, including debt service requirements. As at November 30, 2009, the nine fuel facility corporations have combined total assets of approximately $341,487 and debt of approximately $307,825.

**(f) Contingencies**

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.

**13. 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, deposits, accounts payable and accrued liabilities, long-term debt and capital lease obligations. The following tables set out the Corporation's classification and the carrying amount, together with the fair value, for each type of its financial assets and liabilities as at December 31, 2009 and 2008:

| | Fair value | | Amortized cost | | Totals | |
|---|---|---|---|---|---|---|
| 2009 | Held-for-trading | Derivatives | Loans and receivables | Other financial liabilities | Carrying amount | Fair value |
| Asset (liability) | | | | | | |
| Cash and cash equivalents | $ 1,005,181 | $ — | $ — | $ — | $ 1,005,181 | $ 1,005,181 |
| Accounts receivable | — | — | 27,654 | — | 27,654 | 27,654 |
| Foreign exchange derivatives (i) | — | (1,249) | — | — | (1,249) | (1,249) |
| Fuel derivatives (ii) | — | (8,667) | — | — | (8,667) | (8,667) |
| Deposits (iii) | 27,264 | — | — | — | 27,264 | 27,264 |
| Accounts payable and accrued liabilities (iv) | — | — | — | (221,208) | (221,208) | (221,208) |
| Long-term debt (v) | — | — | — | (1,219,777) | (1,219,777) | (1,323,120) |
| Obligations under capital leases (vi) | — | — | — | (4,102) | (4,102) | (4,102) |
| | $ 1,032,445 | $ (9,916) | $ 27,654 | $ (1,445,087) | $ (394,904) | $ (498,247) |

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

**13. Financial instruments and risk management** (continued)

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

| | Fair value | | Amortized cost | | Totals | |
|---|---|---|---|---|---|---|
| **2008** | **Held-for-trading** | **Derivatives** | **Loans and receivables** | **Other financial liabilities** | **Carrying amount** | **Fair value** |
| Asset (liability) | | | | | | |
| Cash and cash equivalents | $ 820,214 | $ — | $ — | $ — | $ 820,214 | $ 820,214 |
| Accounts receivable | — | — | 16,837 | — | 16,837 | 16,837 |
| Foreign exchange derivatives (i) | — | 6,735 | — | — | 6,735 | 6,735 |
| Fuel derivatives (ii) | — | (52,298) | — | — | (52,298) | (52,298) |
| Deposits (iii) | 24,309 | — | — | — | 24,309 | 24,309 |
| Accounts payable and accrued liabilities (iv) | — | — | — | (211,543) | (211,543) | (211,543) |
| Long-term debt (v) | — | — | — | (1,351,903) | (1,351,903) | (1,515,487) |
| Obligations under capital leases (vi) | — | — | — | (1,108) | (1,108) | (1,108) |
| | $ 844,523 | $ (45,563) | $ 16,837 | $ (1,564,554) | $ (748,757) | $ (912,341) |

(i) Includes $181 (2008 – $6,735) classified in prepaid expenses, deposits and other and $1,430 (2008 – $nil) classified in accounts payable and accrued liabilities.
(ii) Includes $96 (2008 – $nil) classified in prepaid expenses, deposits and other, $8,763 (2008 – $37,811) classified in accounts payable and accrued liabilities and $nil (2008 – $14,487) classified in other liabilities.
(iii) Includes $11,249 (2008 – $404) classified in prepaid expenses, deposits and other and $16,015 (2008 – $23,905) classified in other assets.
(iv) Excludes fuel-derivative liabilities of $8,763 (2008 – $37,811) and foreign exchange derivative liabilities of $1,430 (2008 – $nil).
(v) Includes current portion of long-term debt of $171,223 (2008 – $165,721) and long-term portion of $1,048,554 (2008 – $1,186,182).
(vi) Includes current portion of obligations under capital leases of $744 (2008 – $395) and long-term portion of $3,358 (2008 – $713).

Section 3862, Financial Instruments – Disclosures, requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of input as follows:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following items, shown in the consolidated balance sheet as at December 31, 2009 and 2008, are measured at fair value on a recurring basis using level 1, level 2 or level 3 inputs:

| **2009** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Asset (liability): | | | | |
| Cash and cash equivalents | $ 1,005,181 | $ — | $ — | $ 1,005,181 |
| Foreign exchange derivatives | — | (1,249) | — | (1,249) |
| Fuel derivatives | — | (8,667) | — | (8,667) |
| Deposits | 27,264 | — | — | 27,264 |
| | $ 1,032,445 | $ (9,916) | $ — | $ 1,022,529 |

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

**13. Financial instruments and risk management** (continued)

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

| 2008 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Asset (liability): | | | | |
| Cash and cash equivalents | $ 820,214 | $ — | $ — | $ 820,214 |
| Foreign exchange derivatives | — | 6,735 | — | 6,735 |
| Fuel derivatives | — | (52,298) | — | (52,298) |
| Deposits | 24,309 | — | — | 24,309 |
| | $ 844,523 | $ (45,563) | $ — | $ 798,960 |

During the years ended December 31, 2009 and 2008, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

**Cash and cash equivalents:** Cash and cash equivalents, classified as level 1 instruments, consist of bank balances and short-term investments, primarily highly liquid debt instruments, with terms of up to one year with the majority less than 91 days. The fair value of cash and cash equivalents approximates their carrying values due to their short-term nature.

**Accounts receivable and accounts payable and accrued liabilities:** The carrying amount of accounts receivable and accounts payable and accrued liabilities approximates their fair values due to the short-term nature of the instruments.

**Foreign exchange derivatives:** Foreign exchange derivatives consist of forward contracts and option arrangements. The fair value of the foreign exchange forward contracts 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. These instruments are classified as level 2. As at December 31, 2009, the average contracted rate on the forward contracts was 1.0671 (2008 – 1.0519) US dollars to Canadian dollars, and the average forward rate used in determining the fair value was 1.0512 (2008 – 1.2178) US dollars to Canadian dollars. The fair value of the foreign exchange option arrangements is determined through a standard option valuation technique used by the counterparty based on market inputs, including foreign exchange rates, interest rates and volatilities. These instruments are classified as level 2. The contract outstanding as at December 31, 2009, is at a contracted range of 1.0800 to 1.1500 US dollars to Canadian dollars (2008 – 1.1333 to 1.2254).

**Fuel derivatives:** Fuel derivatives consist of fixed swap agreements and costless collar structures. The fair value of the fuel derivatives 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 fixed swap agreements is estimated by discounting the difference between the contractual strike price and the current forward price. These instruments are classified as level 2. The fair value of the costless collar structures is estimated by the use of a standard option valuation technique. These instruments are classified as level 2. As at December 31, 2009, for the period that the Corporation is hedged, the closing forward curve for crude oil ranged from approximately US $79 to US $84 (2008 – US $45 to US $67) with the average forward foreign exchange rate used in determining the fair value being 1.0536 US dollars to Canadian dollars (2008 – 1.2136).

**Deposits:** The fair value of the deposits that relate to purchased aircraft and airport operations approximates their carrying amounts as they are at a floating market rate of interest. These instruments are classified as level 1.

**Long-term debt:** 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, 2009, rates used in determining the fair value ranged from 2.28% to 3.27% (2008 – 2.08% to 2.58%). 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.

**Obligations under capital leases:** The fair value of the Corporation's capital lease obligations approximates their carrying value due to their short-term remaining maturities or their recent inception date.

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

**13. Financial instruments and risk management** (continued)

**(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 perform 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, 2009, aircraft fuel expense represented approximately 28% (2008 – 36%) of the Corporation's total operating expenses.

Under the Corporation's fuel price risk management policy, the Corporation is permitted to hedge a portion of its future anticipated jet fuel purchases for up to 36 months, as approved by the Board of Directors. The policy establishes maximum hedging limits based on time horizon, but does not include a minimum hedging requirement. Management continuously reviews and adjusts its strategy based on market conditions and competitors' positions. During the year ended December 31, 2009, the Corporation did not enter into any new fuel derivatives. Although jet fuel is not traded on an organized North American futures exchange, there are limited opportunities to hedge directly in jet fuel through the over-the-counter market; however, financial derivatives in other crude-oil-based commodities that are traded directly on organized exchanges, such as crude oil and heating oil, are also useful in decreasing the risk of volatile fuel prices.

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

| Year | Instrument | Notional volumes (bbl.) | WTI average strike price (CAD$/bbl.) | WTI average call price (CAD$/bbl.) | WTI average put price (CAD$/bbl.) |
|---|---|---|---|---|---|
| 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 elects 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.

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

**13. Financial instruments and risk management** (continued)

**(b) Risk management** (continued)

**Fuel risk** (continued)

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 years ended December 31, 2009 and 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).

The following table presents the financial impact and statement presentation of the Corporation's fuel derivatives on the consolidated balance sheet as at December 31, 2009 and 2008:

| | Statement presentation | 2009 | 2008 |
|---|---|---|---|
| Receivable from counterparties for settled fuel contracts | Prepaid expenses, deposits and other | $ 96 | $ — |
| Fair value of fuel derivatives – current portion | Accounts payable and accrued liabilities | (7,521) | (37,811) |
| Fair value of fuel derivatives – long-term portion | Other liabilities | — | (14,487) |
| Payable to counterparties for settled fuel contracts | Accounts payable and accrued liabilities | (1,242) | — |
| Unrealized loss from fuel derivatives | AOCL – before tax impact | 6,713 | 44,711 |

The following table presents the financial impact and statement presentation of the Corporation's fuel derivatives on the consolidated statement of earnings for the years ended December 31, 2009 and 2008:

| | Statement presentation | 2009 | 2008 |
|---|---|---|---|
| Realized loss on designated fuel derivatives – effective portion | Aircraft fuel | $ (28,411) | $ — |
| Gain (loss) on designated fuel derivatives – ineffective portion | Gain (loss) on derivatives | 5,617 | (7,587) |
| Fair market loss on fuel derivatives not designated | Gain (loss) on derivatives | — | (10,606) |

During the year ended December 31, 2009, the Corporation cash settled fuel derivatives in favour of the counterparties of $29,574 (2008 – $10,606).

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 before tax of $6,713.

A 10% increase in the forward curve for WTI, the underlying commodity of the Corporation's fuel derivatives, as at December 31, 2009, would have decreased AOCL by approximately $3,583, net of taxes (2008 – $11,546). A 10% decrease in the forward curve for WTI, as at December 31, 2009, would have increased AOCL by approximately $3,814, net of taxes (2008 – $11,574). This is assuming that all other variables remain constant, particularly 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.

**13. Financial instruments and risk management** (continued)

**(b) Risk management** (continued)

**Foreign exchange risk**

Foreign 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 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, 2009, the average US-dollar exchange rate was 1.1425 (2008 – 1.0651), with the year-end exchange rate at 1.0510 (2008 – 1.2180).

The gain or loss on foreign exchange included in 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, 2009, US-dollar-denominated net monetary assets totalled approximately US $19,858 (2008 – US $99,488). The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar as at December 31, 2009 would have increased or decreased net earnings for the year ended December 31, 2009 by $143 (2008 – $697) as a result of the Corporation's US-dollar-denominated net monetary asset balance.

As at December 31, 2009, the Corporation is entered into foreign exchange forward contracts for US $7,270 per month for the period of February to October 2010 for a total of US $65,430 at a weighted average contract price of 1.0671 per US dollar to offset a portion of its US-dollar-denominated aircraft lease payments. Upon proper qualification, the Corporation designated the 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. As at December 31, 2009, no portion of the forward contracts is considered ineffective.

As at December 31, 2009, the estimated fair market value of the foreign exchange forward contracts recorded in prepaid expenses, deposits and other and accounts payable and accrued liabilities is a net loss of $1,038. For the year ended December 31, 2009, the Corporation realized a gain before tax on forward contracts $5,553 (2008 – $4,554), included in net earnings as a deduction to aircraft leasing expense. The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft leasing expense in the next 12 months is a loss before tax of $1,038.

As at December 31, 2009, the Corporation is entered into a foreign exchange option arrangement for US $7,270 at a range of 1.0800 to 1.1500 per US dollar to offset its US-dollar-denominated aircraft lease payments on a portion of its leased aircraft for the month of January 2010. The Corporation's 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 December 31, 2009, the estimated fair market value of the option arrangement recorded in accounts payable and accrued liabilities is a loss of $211 (2008 – gain of $862). For the year ended December 31, 2009, the Corporation recorded a loss of $3,789 (2008 – gain of $862) included in non-operating income (expense) on foreign exchange option arrangements.

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2009, would not have significantly impacted the Corporation's net earnings and other comprehensive income 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.

**13. Financial instruments and risk management** (continued)

**(b) Risk management** (continued)

**Interest rate risk** (continued)

(i) Cash and cash equivalents

The Corporation is exposed to interest rate fluctuations on its short-term investments included in cash and cash equivalents. A change of 50 basis points in the market interest rate would have had for the year ended December 31, 2009, an approximate impact on net earnings of $2,555 (2008 – $2,571) as a result of the Corporation's short-term investment activities.

(ii) Deposits

The Corporation is exposed to interest rate fluctuations on its deposits that relate to purchased aircraft and airport operations, which, as at December 31, 2009, totalled $27,264 (2008 – $24,309). A reasonable change in market interest rates as at December 31, 2009, would not have significantly impacted the Corporation's net earnings as a result of the deposits.

(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, 2009, 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, 2009, totalled $8,563 (2008 – $11,172) or 0.7% (2008 – 0.8%) 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 as at December 31, 2009, 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, 2009, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, accounts receivable, 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 one year with the majority less than 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, 2009, the Corporation had a total principal amount invested of $813,215 (2008 – $692,188) in Canadian-dollar short-term investments with terms ranging between five and 365 days and a total of US $nil (2008 – US $23,832) invested in US-dollar short-term investments.

The Corporation performs an ongoing review to evaluate its risk associated with its cash and cash equivalent counterparties. As at December 31, 2009, 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 certain agents and in some cases, when deemed necessary, a letter of credit is obtained. As at December 31, 2009, $10,374 (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, 2009, $603 (2008 – $651) of the balance receivable is covered by letters of credit.

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

**13. Financial instruments and risk management** (continued)

**(b) Risk management** (continued)

**Credit risk** (continued)

As at December 31, 2009, the Corporation determined that $2,368 of its accounts receivable balance relating to its cargo operations was doubtful, as amounts receivable are in dispute with the counterparty. Accordingly, the Corporation has recorded a bad debt provision for the amount.

(iii) Derivative financial instruments

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 closely considering the size, credit rating and diversification of the counterparty. As at December 31, 2009, fuel derivatives of $96 (2008 - $nil) and foreign exchange derivatives of $181 (2008 - $6,735) outstanding with one of the Corporation's counterparties were in an asset position. The Corporation does not expect this counterparty to fail to meet its obligations.

(iv) Deposits

The Corporation is not exposed to counterparty credit risk on its deposits that relate to purchased aircraft, as the funds are held in a security trust separate from the assets of the financial institution. While the Corporation is exposed to counterparty credit risk on its deposit relating to airport operations, it considers this risk to be remote because of the nature of the deposit and the credit risk rating of the counterparty.

**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 sufficient financial resources to meet its obligations as they fall due.

The table below presents a maturity analysis of the Corporation's undiscounted contractual cash flows for its non-derivative and derivative financial liabilities as at December 31, 2009. The analysis is based on foreign exchange and interest rates in effect at the balance sheet date, and includes both principal and interest cash flows for long-term debt and obligations under capital leases.

| | Total | Within 1 year | 1 – 3 years | 4 – 5 years | Over 5 years |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities (i) | $ (221,208) | $ (221,208) | $ — | $ — | $ — |
| Foreign exchange derivatives | (1,430) | (1,430) | — | — | — |
| Fuel derivatives | (8,763) | (8,763) | — | — | — |
| Long-term debt | (1,466,636) | (232,461) | (447,906) | (397,540) | (388,729) |
| Obligations under capital leases | (6,822) | (943) | (527) | (490) | (4,862) |
| Total | $ (1,704,859) | $ (464,805) | $ (448,433) | $ (398,030) | $ (393,591) |

(i) Excludes fuel-derivative liabilities of $8,763 and foreign exchange derivative liabilities of $1,430.

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, 2009, was $286,361 (2008 – $251,354). 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, 2009, the Corporation had cash and cash equivalents on hand of 3.51 (2008 – 3.26) 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, 2009, the Corporation's current ratio was 1.48 (2008 – 1.24).

As at December 31, 2009, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.

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

**14. Additional financial information**

**(a) Balance sheet**

| | | 2009 | 2008 Restated |
|---|---|---|---|
| Prepaid expenses, deposits and other: | | | |
| Prepaid expenses | | $ 29,797 | $ 26,521 |
| Short-term deposits | (i) | 23,439 | 18,761 |
| Derivatives (note 13) | | 277 | 6,735 |
| Other | | 2,726 | 1,266 |
| | | $ 56,239 | $ 53,283 |
| Other assets: | | | |
| Aircraft-related deposits | (ii) | $ 50,975 | $ 68,492 |
| Other | | 3,392 | 2,513 |
| | | $ 54,367 | $ 71,005 |
| Other liabilities: | | | |
| Deferred sale and leaseback | (iii) | $ 5,281 | $ 5,270 |
| Asset retirement obligations | (iv) | 4,926 | 3,508 |
| Long-term fuel-derivative liability (note 13) | | — | 14,487 |
| Deferred contract incentives | (v) | 9,421 | 968 |
| | | $ 19,628 | $ 24,233 |

(i) Short-term deposits include deposits relating to aircraft fuel, airport operations and other operating costs.

(ii) 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.

(iii) Deferred gains from the sale and leaseback of aircraft, net of amortization, which are being deferred and amortized over the lease terms with the amortization included in aircraft leasing.

(iv) Included in other liabilities is an estimate pertaining to asset retirement obligations on its aircraft under operating leases. During the year ended December 31, 2009, the Corporation increased the liability by $1,217 (2008 – $2,216), due to the addition of further leased aircraft with $nil (2008 – $nil) incurred on the settlement of these obligations.

(v) Incentives received by the Corporation for entering into various leasing and maintenance contracts. Amounts are deferred and recognized in net earnings on a straight-line basis over the term of the contract.

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

**14. Additional financial information** (continued)

**(b) Supplementary cash flow information**

| | 2009 | 2008 Restated |
|---|---|---|
| Net change in non-cash working capital from operations: | | |
| Increase in accounts receivable | $ (11,365) | $ (1,828) |
| Increase in prepaid expenses, deposits and other | (2,691) | (21,957) |
| Increase in inventory | (9,014) | (6,852) |
| Increase in accounts payable and accrued liabilities | 15,926 | 43,373 |
| Increase in advance ticket sales | 35,008 | 56,425 |
| Increase (decrease) in non-refundable guest credits | (8,514) | 18,881 |
| Other non-cash items | — | (3,800) |
| | $ 19,350 | $ 84,242 |

During the year ended December 31, 2009, the Corporation entered into a capital lease for a fuel storage facility for a total obligation of $3,400 (2008 - $nil).

**(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, 2008 | $ (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) |
| Amortization of settlements | 1,400 | — | — | 1,400 |
| Unrealized gain (loss) on derivatives | — | (1,358) | 9,587 | 8,229 |
| Tax on unrealized portion | — | 447 | (2,878) | (2,431) |
| Realized (gain) loss on derivatives | — | (5,553) | 28,411 | 22,858 |
| Tax on realized portion | — | 1,576 | (8,372) | (6,796) |
| Balance as at December 31, 2009 | $ (9,220) | $ (755) | $ (4,877) | $ (14,852) |

## BOARD OF DIRECTORS

**Clive Beddoe**
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WestJet Airlines Ltd.

**Hugh Bolton**
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EPCOR Utilities Inc.

**Ron Brenneman**
Former CEO
Petro-Canada

**Sean Durfy**
President and CEO
WestJet Airlines Ltd.

**Brett Godfrey**
CEO
Virgin Blue Airlines

**Don Hougan**
Captain
PACT Chair
WestJet Airlines Ltd.

**Allan Jackson**
President and CEO
Arci Ltd.

**Barry Jackson**
Chair
TransCanada Corporation
and TransCanada Pipelines

**Wilmot Matthews**
President
Marjad Inc.

**Larry Pollock**
President and CEO
Canadian Western Bank
and Canadian Western Trust

**Arthur Scace**
Former Chair
Bank of Nova Scotia

## EXECUTIVE TEAM

**Sean Durfy**
President and CEO

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

**Bob Cummings**
Executive Vice-President,
Marketing and Sales

**Dr. Hugh Dunleavy**
Executive Vice-President,
Strategy and Planning

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

**Gregg Saretsky**
Executive Vice-President,
Operations

## CORPORATE INFORMATION

**Stock exchange listing**
Shares in WestJet stock are
publicly traded on the
Toronto Stock Exchange
(www.tmx.com)
under the symbols WJA and WJA.A

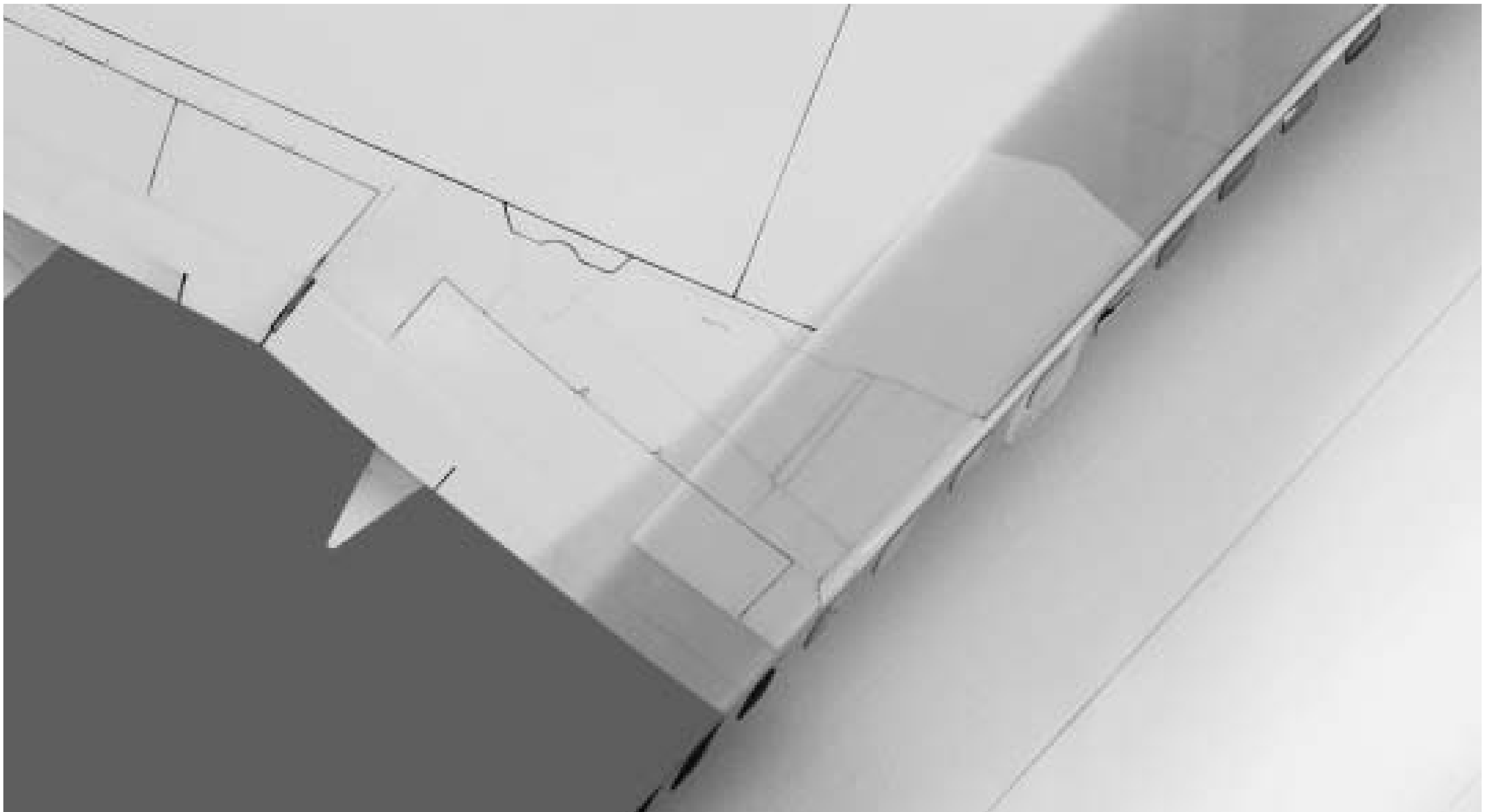
**Investor relations contact information**
Phone: (877) 493-7853
Email: investor_relations@westjet.com

**WestJet Campus**
22 Aerial Place NE
Calgary, Alberta, T2E 3J1
Phone: (403) 444-2600
Toll free: (888) 293-7853

**Annual general meeting (AGM)**
WestJet Airlines Ltd.'s AGM will
be held at 2 p.m. (MDT) on
Tuesday, May 4, 2010
at WestJet's Campus
22 Aerial Place NE
Calgary, Alberta, T2E 3J1

**Transfer agent and registrar**
CIBC Mellon Trust Company
Toll free in North America: (800) 387-0825
www.cibcmellon.com

**Auditors**
KPMG LLP, Calgary, Alberta



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