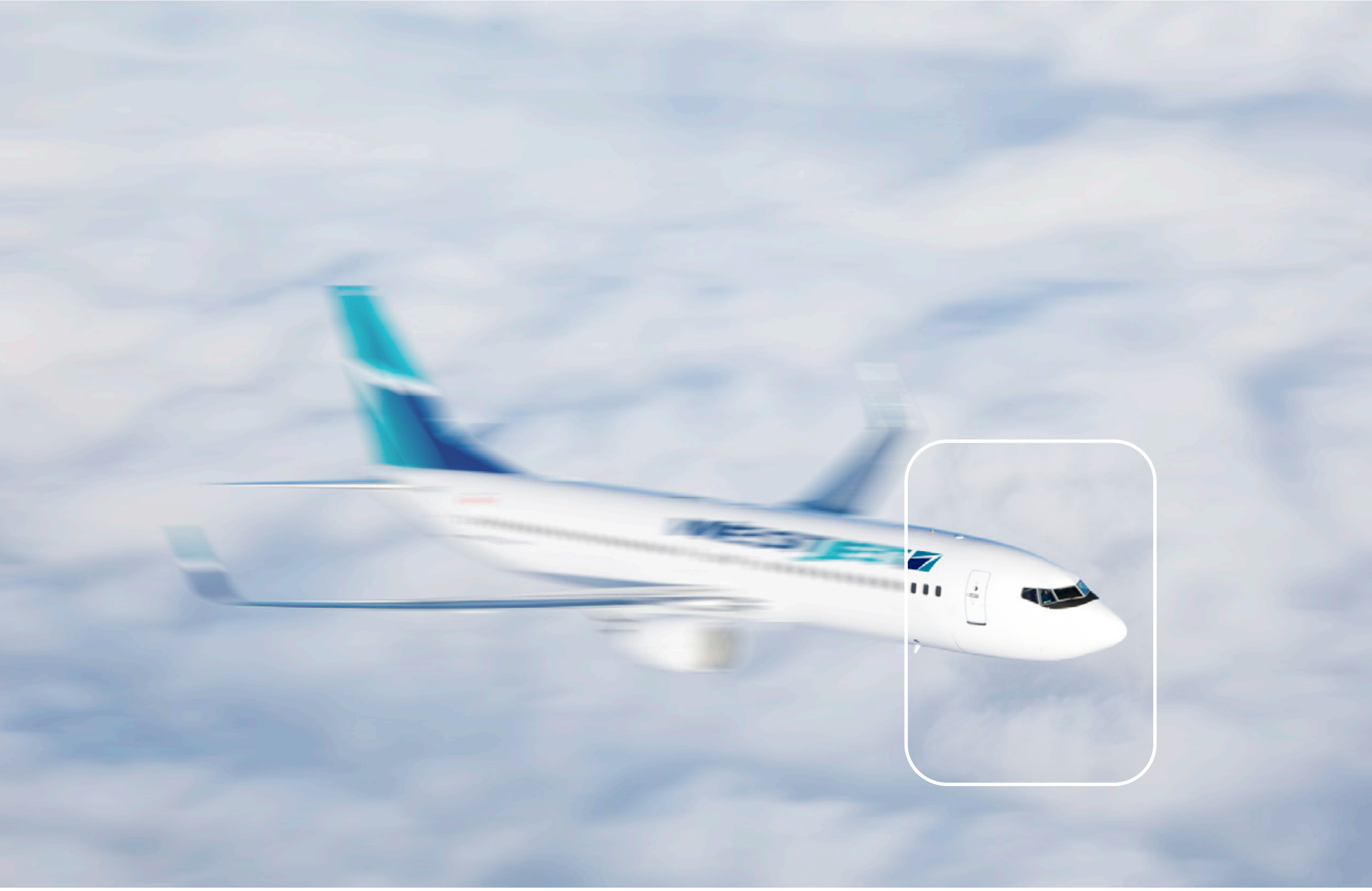
/ 2012 Annual Report



/ Building momentum

/ Building momentum

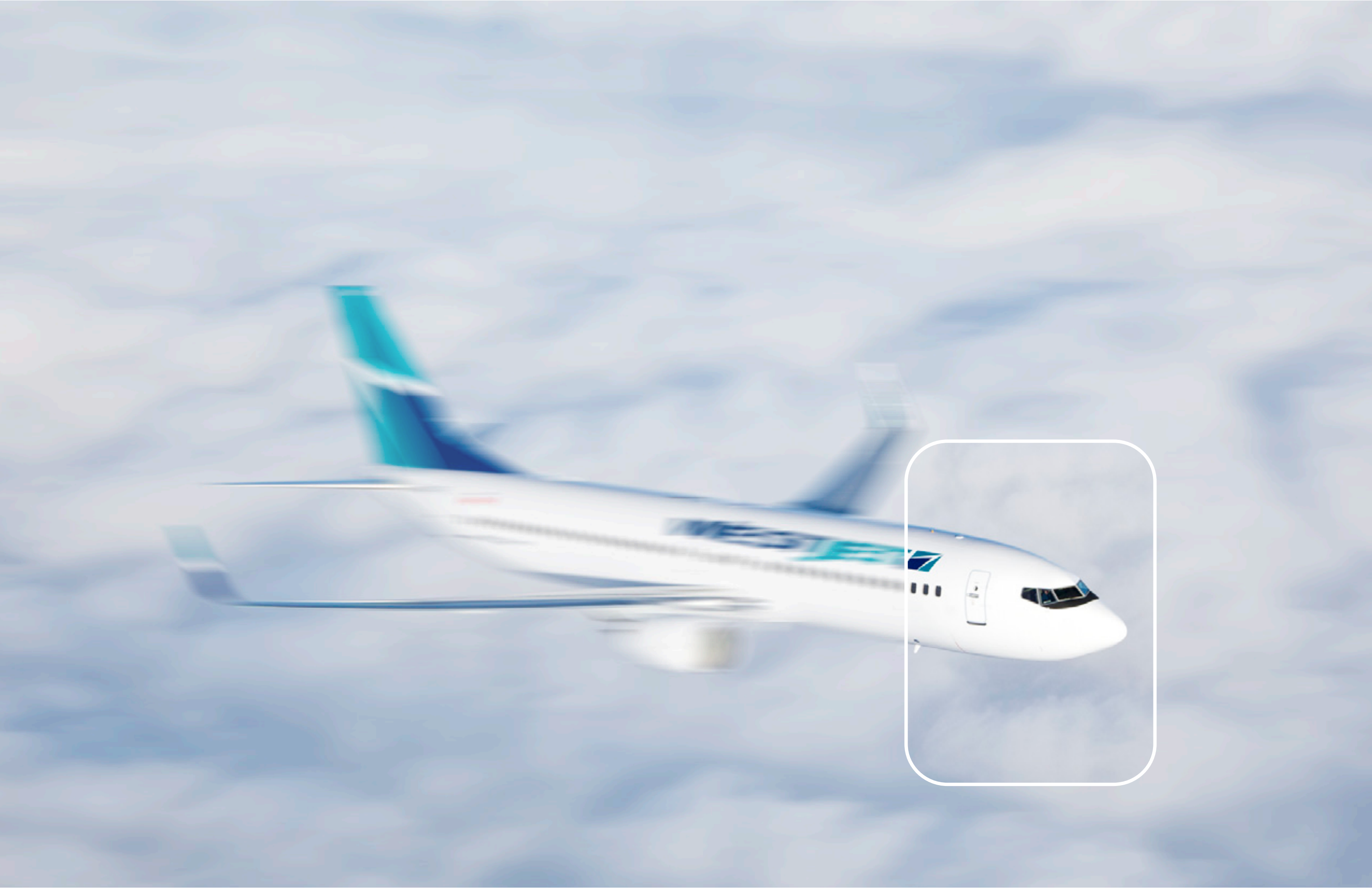
WestJet's growth story continued in 2012, as we set records throughout the year. Our earnings and load factors reached new highs, while we continued to earn awards for being a top employer. We are expanding our network and airline partnerships, and will see the launch of WestJet Encore in 2013.

Last year, we simplified the paper version of our annual report to use less paper and reduce our costs, and this year, we're continuing that. We encourage you to view the online version of our 2012 Annual Report at westjet.com/buildingmomentum to learn more.

/ Table of contents

Caution regarding forward-looking information

Certain information set forth in this annual report, including without limitation information regarding our growth in airline partnerships for 2013, our service initiatives for 2013 and beyond, the launch of WestJet Encore, our initiative to reduce costs by $100 million over the next three years and the ability to purchase and cancel up to five per cent of our outstanding shares over the next year, contain certain forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond WestJet's control. These forward-looking statements are based on our existing strategies, our implementation schedule for WestJet Encore, our long-term strategic plan and our current budget, but may vary due to factors including, but not limited to changes in fuel prices, changes in guest demand, general economic conditions, competitive environment, ability to effectively implement and maintain critical systems, ability to successfully negotiate and effectively implement new partnering relationships, regulatory approvals and requirements, and other factors described in WestJet's public reports and filings, which are available on WestJet's profile at www.sedar.com. Readers are cautioned that undue reliance should not be placed on forward-looking statements as actual results may vary materially from the forward-looking statements. WestJet does not undertake to update, correct or revise any forward-looking statements as a result of any new information, future events or otherwise, except as may be required by applicable law.



WestJet's ongoing success is a result of our focus on creating a remarkable guest experience in everything we do.

WestJet is proud of a year of records

A record number of guests enjoyed WestJet's remarkable experience, our aircraft were fuller than ever before, and we saw net earnings of $242 million—thanks to the commitment of more than 9,000 WestJetters.

Over 85 per cent of WestJetters participate in our employee share purchase plan, making them owners, as well, and aligned with the continued success of the airline. We are enthusiastic about our new initiatives in 2013—including the launch of WestJet Encore—and know that success will continue to come from our culture of caring for our guests and maintaining our low-cost roots.

/ President's message

Gregg Saretsky became WestJet's President and CEO in April 2010 and has spent more than 27 years in the airline industry.

Since joining WestJet in 2009, I have enjoyed working with a tremendously hard-working team and seeing record results from work done by people who are passionate about their company, their co-workers, and our guests. This teamwork is the foundation of our success and of the positive momentum we've built, all of which will carry us forward as we embark on exciting new initiatives in 2013 and beyond.

This year's annual report has building momentum as its theme, and I encourage you to view the online version of the report at westjet.com/buildingmomentum. In this report, you'll discover some of the key elements of what makes us unique and appreciated by our guests, as well as seeing why we're confident and excited about our future.

We have built on our long trend of profitable growth, and 2012 marks our eighth consecutive year of profitability and the 16th time we have reported an annual profit in our 17-year history. In fact, our diluted earnings per share for 2012 reached a record $1.78, a 67.9 per cent increase over 2011. We reported $3.4 billion in revenue, 11.6 per cent higher than in 2011, saw a 7.1 per cent increase in RASM for the year, and reached a return on invested capital of 13.7 per cent for the 12 months ending December 31, 2012, the second consecutive quarter in which we surpassed our target of 12 per cent.

In 2012, we reached a milestone when we took delivery of our 100th Boeing Next-Generation 737 aircraft. We flew more than 17.4 million guests in 2012, an 8.6 per cent increase over 2011, and achieved a record load factor of 82.8 per cent for the year as we increased our capacity by 4.1 per cent. We were also pleased to report an earnings before tax margin of 9.9 per cent in 2012, an increase of 3.1 percentage points over 2011, ranking us among the top airlines in North America.

We continued our network expansion, and now serve 85 destinations in 18 countries in North America, Central America, and the Caribbean. Our growth in airline partnerships is helping us build a virtual global network. During 2012, we increased the total number of partnerships to 30, including eight code-share agreements, as Delta Air Lines, Korean Air,

/ President's message

China Eastern Airlines, and British Airways were added to our roster of code-share partners. We expect this momentum to continue in 2013 as we evolve two to four interline agreements into new code-shares and pursue a handful of new interline relationships.

Our loyalty program, WestJet Rewards, continued to evolve in 2012, with new opportunities for members to earn WestJet dollars by flying on American Airlines, and by making hotel and car rental bookings directly on our website. We increased the value offered to holders of the WestJet RBC World Elite MasterCard, including a welcome bonus of 250 WestJet dollars and an annual $99 round-trip companion flight, making this credit card even more competitive.

We also announced our new fare bundles in 2012 as part of our strategy to increase the options we provide our guests and to allow them to choose the comfort, convenience and flexibility that best matches their budget. Guests can now choose the bundle that provides them with the best value and amenities.

These initiatives will increase the added value we offer business travellers, which is part of our integrated strategy of capturing a greater share of the corporate travel market, while continuing to provide our leisure travellers with increased travel options.

A key foundational component of the successful launch of these initiatives is the significant investment of $40 million we've made in our IT systems over the last two years. I'm excited about these enhancements, which include a new digital storefront with increased customizability for guests as they book, improvements to our self-service kiosks, and mobile flight notifications.

WestJetters' tremendous efforts in preparing for the introduction of WestJet Encore, our new regional airline, have set the stage for a successful launch in June 2013. Our survey of WestJetters in early 2012 showed overwhelming support of the new airline. Since then, we've selected the Bombardier NextGen Q400 aircraft for the new fleet, and the focused dedication of the entire WestJet team makes us confident that WestJet Encore will be a success. We look forward to bringing WestJet's friendly, caring service and low fares to smaller communities. On February 11, 2013, we announced WestJet Encore's first two communities—Nanaimo and Fort St. John, BC.

I'm confident that we are prepared to implement these exciting initiatives with the support and commitment of more than 9,000 proud WestJetters; 2012 was a great year for WestJet, and I expect to see more continued success in the years ahead. Our core values continue to remain the same—we are leveraging our strengths in continuing to bring low fares, with friendly and caring service to all of the communities we serve, while working hard to keep costs low. As part of that focus on low costs, we recently concluded a series of meetings with WestJetters across Canada, to present our business transformation initiative to reduce costs by $100 million over the next three years.

I'm proud of the recognition WestJetters have earned as a result of demonstrating the strength of our culture every day. In 2012, WestJet was once again ranked as Canada's preferred airline by TNS Canada and as a top 10 international airline in *Aviation Week*. WestJet Vacations announced a Leger Marketing survey showing we have the highest guest satisfaction and loyalty among Canadian tour operators and in late 2012, WestJet was named one of Canada's Top 100 Employers in Mediacorp's annual study of Canada's best workplaces. We also achieved an all-time high score in our internal "We Hear You" survey in 2012. Certainly these are recognitions that would not have been possible without the commitment to safety and care delivered by our over 9,000 WestJetters.

WestJetters also continued to give back in many ways, including our first two Hero Holidays in April and October 2012 where two groups of 50 WestJetters each built five homes for families living in extreme poverty in Puerto Plata, Dominican Republic. We also continued our focus on reducing our environmental footprint, and released our second corporate sustainability report in December.

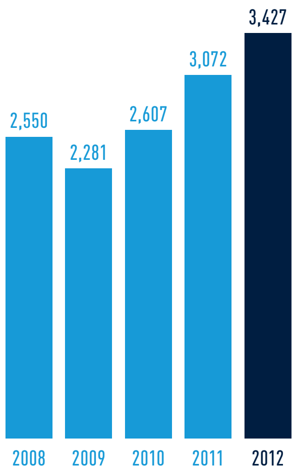
We were pleased to continue returning value to shareholders in 2012. In February and August of 2012, we announced increases to our quarterly dividend from $0.05 to $0.06 and then to $0.08 per share. In February 2013, we announced our third increase, to $0.10 per share. In 2012, we also completed our second normal course issuer bid. Since we began paying a quarterly dividend in 2010, and including our two completed normal course issuer bids, we have returned more than $290 million to our shareholders as of the end of 2012. On February 14, 2013, the Toronto Stock Exchange approved our notice for a further normal course issuer bid that will allow us to purchase and cancel up to five per cent of our outstanding shares over the next year.

On behalf of the Board of Directors, the Executive team, and more than 9,000 WestJetters, thank you for your continued support of our airline.

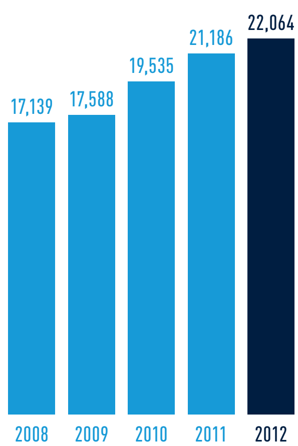
Gregg Saretsky
President and Chief Executive Officer
March 19, 2013

/ Growing our business

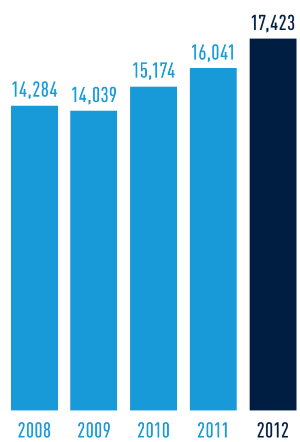
WestJet's positive revenue and earnings momentum continued in 2012.



Revenue*
(millions of dollars)



Available seat miles
(millions)



Segment guests
(thousands)

*The results for 2010–2012 are presented in accordance with the International Financial Reporting Standards (IFRS) and the 2009 results and prior are reported under Canadian Generally Accepted Accounting Principles (GAAP).

2012 marked our eighth consecutive year of profitability, ranking us among the top North American airlines.

($ in thousands, except per share data)	2012	2011	2010	2009	2008
Consolidated financial information*					
Revenue	$ 3,427,409	$ 3,071,540	$ 2,607,294	$ 2,281,120	$ 2,549,506
Earnings before income taxes	$ 340,229	$ 208,006	$ 133,465	$ 136,796	$ 254,749
Net earnings	$ 242,392	$ 148,702	$ 90,197	$ 98,178	$ 178,506
Cash and cash equivalents	$ 1,408,199	$ 1,243,605	$ 1,159,316	$ 994,989	$ 820,214
Earnings per share					
Basic	$ 1.79	$ 1.06	$ 0.62	$ 0.74	$ 1.39
Diluted	$ 1.78	$ 1.06	$ 0.62	$ 0.74	$ 1.37
Operational highlights*					
Available seat miles (ASM)	22,063,583,754	21,186,304,409	19,535,291,313	17,587,640,902	17,138,883,465
Revenue passenger miles (RPM)	18,262,554,881	16,890,941,121	15,613,121,610	13,834,761,211	13,730,960,234
Load factor	82.8%	79.7%	79.9%	78.7%	80.1%
Yield (cents)	18.77	18.18	16.70	16.49	18.57
Revenue per ASM (cents)	15.53	14.50	13.35	12.97	14.88
Cost per ASM (cents)	13.83	13.29	12.37	11.77	13.17
Cost per ASM, excluding fuel and employee profit share (cents)	9.12	8.85	8.80	8.45	8.29

*The results for 2010–2012 are presented in accordance with the International Financial Reporting Standards (IFRS) and the 2009 results and prior are reported under Canadian Generally Accepted Accounting Principles (GAAP).

/ Building momentum

WestJet flew over 17 million guests across our network in 2012. We achieved record load factors for each month in the second half, and also for the full year of 2012.

WestJet's growth story carried on in 2012 as we set records throughout the year. Our earnings and load factors reached new highs and we again earned awards as a top employer.

In 2012, we continued to grow our network and now reach 85 destinations in 18 countries with a fleet of over 100 Boeing 737s. This growth will continue as we begin taking delivery of our Q400 fleet for the launch of WestJet Encore.

Our list of airline partners continues growing—we added 13 new interline agreements in 2012, providing even more travel options for our guests, and enhanced WestJet Rewards while improving our technology offerings—all intended to increase our appeal to business and leisure travellers.

While setting the stage for continued growth, we have steadily returned value to our shareholders with three dividend increases —two in 2012 and one in early 2013—and we continued our share buyback program throughout 2012.

Our 2012 return on invested capital of 13.7 per cent shows our business model is robust, and the strong engagement and passion of more than 9,000 WestJetters is what helps us deliver a great experience to our guests.

We've built the momentum to execute several initiatives that will enable us to succeed in 2013 and beyond.

Our airline partnerships allow us to provide our guests with a network of global destinations, while introducing new guests from around the world to WestJet's friendly, caring service.

Airline partnerships are a low-cost and effective way for WestJet to grow our network. In 2012, four existing relationships (Delta Air Lines, Korean Air, China Eastern Airlines and British Airways) were evolved to code-shares and we implemented 13 new interline partnerships—bringing our total global partnerships to 30 as of year-end.

In 2012, we formed new interline relationships with several U.S. carriers. The extensive connectivity between the networks of WestJet and these carriers will continue to enhance WestJet's revenue.

In 2013, we expect to evolve two to four interline agreements into new code-shares, pursue a handful of new interline relationships, and focus on maximizing the performance of existing relationships.

Ferio Pugliese, Executive Vice-President, WestJet and President, WestJet Encore stands next to a Bombardier Q400 NextGen being built at Bombardier's plant.

Momentum continues into 2013 with the launch of WestJet Encore. Sales of WestJet Encore flights began in early February 2013, with flights to the first two communities to be serviced—Nanaimo and Fort St. John, BC—scheduled for June 24, 2013. We will take delivery of seven Bombardier Q400 NextGen aircraft in 2013, with the first two arriving in June.

Early in 2012, WestJetters voted overwhelmingly in favour of the new airline. WestJet Encore's mission: to provide lower fares in new Canadian communities, and bring these guests into WestJet's expansive network; increase frequency on existing routes; and connect existing WestJet destinations currently not serviced by our Boeing 737 fleet.

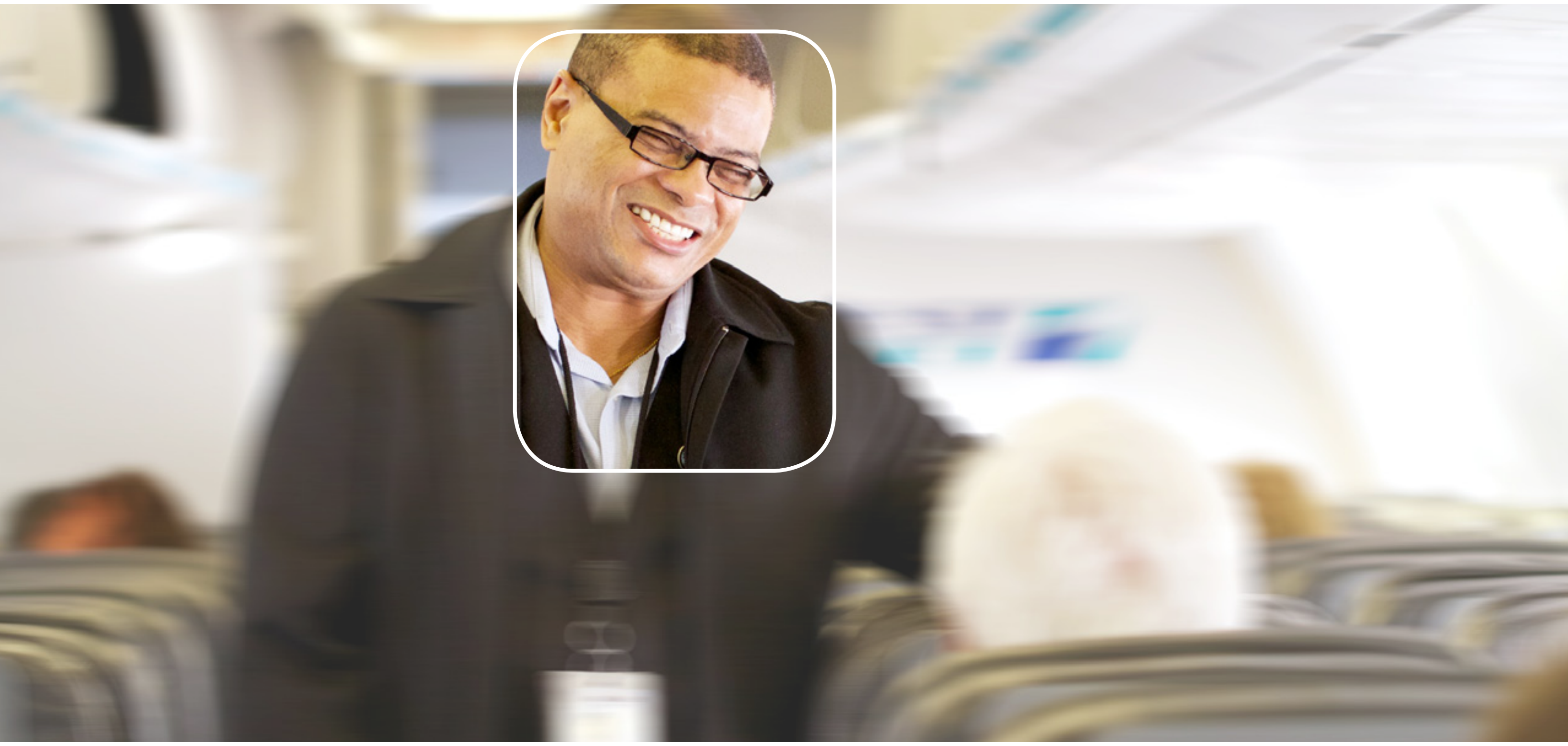
With our experience building a successful low-cost airline and providing guests with remarkable experiences, we expect WestJet Encore to duplicate the success WestJet had when it started 17 years ago.

Business travellers can take advantage of WestJet's enhanced schedule and amenities designed to get them where they are going, refreshed and ready to go.

In 2012, we continued our focus on the business-traveller segment, with corporate travellers taking advantage of network and schedule enhancements, a growing partnership network and amenities that make business travel easier.

Service was introduced between New York–LaGuardia and Toronto, expanding choice for business travellers already enjoying the frequency and added service features we offer in the eastern triangle. Daily non-stop flights between Chicago–O'Hare and Western Canada were added to the schedule, along with non-stop service from Chicago to Toronto, Ottawa, and Montreal through our partner, American Airlines. Our growing partnership network creates more options for business travellers going to international destinations.

In 2013, business travellers looking for more conveniences will be able to take advantage of our fare bundle options, with features such as extra legroom, priority screening and boarding, waived fees and ticket refunds to credit cards.



We're helping WestJet Rewards members earn trips even faster: WestJet dollars can be redeemed online or when calling our Sales Super Centre to make a reservation.

We continued improving the value offered to members of WestJet Rewards; in 2012 we added opportunities for members to earn and redeem WestJet dollars with our increasing partner network. WestJet Rewards members can now earn WestJet dollars when they fly on American Airlines, as well as when they book hotel stays and car rentals online at westjet.com.

In 2012, we also introduced the new WestJet RBC World Elite MasterCard, offering additional benefits including a welcome bonus of 250 WestJet dollars and an annual round-trip companion flight for $99.*

In 2013, we will continue building the WestJet Rewards program by adding value with more opportunities for members to earn and redeem WestJet dollars with our increasing partner network.

*Terms and conditions apply. See www.westjet.com/rewards for details.

WestJet Vacations' experts work hard to make sure guests have the best choice of vacation packages to suit their needs—all backed by WestJet's famous guest service.

WestJet Vacations continues to be a fast-growing portion of WestJet's business. Along with our route expansion, WestJet Vacations added Aruba; Antigua; Costa Rica; Curacao; Manzanillo, Mexico; and Kingston, Jamaica, bringing our total Vacations destinations to 52.

Revenue growth was strong year-over-year, especially for travel out of Ontario and Quebec, and profitability continues improving as we focus on lowering our costs.

The expansion of our caring WestJet people and culture into the Vacations market has been recognized by our guests; a survey conducted by Leger Marketing in 2012 found that WestJet Vacations is now Canada's preferred vacation company. We scored higher than our competitors on guest service, guest satisfaction, overall satisfaction, likelihood to recommend, and most trusted company.

In June 2012, we improved our self-service kiosks in 82 airports across 16 countries, adding services guest can perform, such as self-service bag tagging.

We've spent more than $40 million over the last two years on new technology, including critical systems infrastructure in Calgary and Toronto to ensure high system availability.

Website enhancements in early 2013 will enrich our guests' online experience, making it easier than ever to find and book the trip they want, or change/cancel a reservation. We're also making it easier for guests to take advantage of our new offerings, including fare bundles.

Hotels and car rentals can be booked directly through our website and added mobile notifications increase our ability to connect with guests.

Giving back to the communities who support us is our way of extending our culture of caring.

We believe we are as strong as the communities we serve, which is why WestJet is proud to give back through our WestJetters Caring for Our Community and WestJet Cares for Kids programs.

In 2012, we launched our first international community investment initiative, Hero Holiday. In 2012, 100 WestJetters went to Puerto Plata, Dominican Republic, to build 10 homes for families living in extreme poverty.

In June, we took 40 Bigs and Littles from Big Brothers Big Sisters on our inaugural flight from Toronto to New York-LaGuardia for an action-packed day of sightseeing in the Big Apple.

In September, WestJetters participated in the Ronald McDonald House Home for Dinner program by hosting a backyard barbecue at 14 Ronald McDonald houses across Canada.

/ WestJetters and our culture

Our culture isn't just an idea— it's a promise. WestJetters will always strive to create a remarkable experience for our guests and for each other.

WestJet's remarkable employee engagement is driven by our culture of caring and fueled by ownership. Over 85 per cent of WestJetters participate in our employee share purchase program, which means we treat our guests and our business as though we are owners, not just employees.

This engagement leads to great input in our initiatives—in early 2012, an overwhelming 91 per cent of WestJetters voted in favour of the decision to launch WestJet Encore.

WestJet's social media team was awarded best use of social media to drive revenue by The SimpliFlying Awards for Excellence in Social Media in 2012.

Recognized in 2012 by Mediacorp's Top 100 Employers in Canada, as well as Randstad Canada's most attractive employer, WestJet's award-winning culture of caring means we put our best foot forward every day—for our guests, business partners and fellow WestJetters. Culture is a core piece of the momentum we're carrying forward.

/ Corporate information

/ Board of directors

Clive Beddoe
Chair of the Board

Hugh Bolton
Director

Ron Brenneman
Director

Antonio Faiola
Director and PACT Chair

Brett Godfrey
Director

Allan Jackson
Director

S. Barry Jackson
Director

Wilmot Matthews
Director

L. Jacques Ménard
Director

Larry Pollock
Director

Janice Rennie
Director

Gregg Saretsky
President and CEO

Arthur Scace
Director

/ Executive team

Gregg Saretsky
President and
Chief Executive Officer

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

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

Cam Kenyon
Executive Vice-President,
Operations

Ferio Pugliese,
Executive Vice-President,
WestJet and President,
WestJet Encore

Cheryl Smith
Executive Vice-President
and Chief Information Officer

/ Stock exchange listing

Shares in WestJet stock are publicly traded on the Toronto Stock Exchange under the symbols WJA and WJA.A.

/ Investor relations contact information

Phone: 1-877-493-7853
Email: investor_relations@westjet.com

/ WestJet headquarters

22 Aerial Place NE
Calgary, AB 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 7, 2013, at WestJet's campus:
22 Aerial Place NE, Calgary, AB

/ Auditors

KPMG LLP, Calgary, AB

/ Transfer agent and registrar

CIBC Mellon Trust Company*
Toll-free in North America: 1-800-387-0825
www.canstockta.com

* On November 1, 2010, CIBC Mellon sold its issuer services business to Canadian Stock Transfer Company Inc. which is currently operating the stock transfer and employee share purchase plan business in the name of CIBC Mellon Trust Company during a transition period.

Management's Discussion and Analysis of Financial Results 2012

ADVISORIES

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 5, 2013, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as the audited consolidated financial statements and notes thereto, for the years ended December 31, 2012 and 2011. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). For periods prior to January 1, 2010, we prepared our financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the Canadian Institute of Chartered Accountant's Handbook (Previous GAAP). For additional information concerning the impact upon our financial statements for periods prior to January 1, 2011 of significant differences between IFRS as utilized in preparing our financial statements and Previous GAAP, please see note 22 to our financial statements for the years ended December 31, 2011 and 2010, which is incorporate by reference herein. All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "WestJet," "the Corporation," "we," "us" or "our" mean WestJet Airlines Ltd., its subsidiaries and special-purpose entities (SPEs), unless the context otherwise requires. Additional information relating to WestJet, including periodic quarterly and annual reports and Annual Information Forms (AIF), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at westjet.com.

Cautionary statement regarding forward-looking information

This MD&A offers our assessment of WestJet's future plans and operations and contains "forward-looking information" as defined under applicable Canadian securities legislation. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information. 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 its nature, forward-looking information is subject to numerous risks and uncertainties including, but not limited to, the impact of general economic conditions, changing domestic and international airline industry conditions, volatility of fuel prices, terrorism, pandemics, currency fluctuations, interest rates, competition from other airline industry participants (including new entrants, capacity fluctuations and the pricing environment), labour matters, government regulations, stock market volatility, the ability to access sufficient capital from internal and external sources, and additional risk factors discussed in other documents we file from time to time with securities regulatory authorities, which are available on SEDAR at sedar.com or, upon request, without charge from us.

The forward-looking information, including without limitation, the outlook, contained in this MD&A may not be appropriate for other purposes and is expressly qualified by this cautionary statement. Please refer to page 52 of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development. This forward-looking information typically contains the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should," "potential," "plan," "project" or other similar terms.

Our assumptions and estimates relating to the forward-looking information referred to above are updated in conjunction with filing our quarterly and annual MD&A and, except as required by law, we do not undertake to update any other forward-looking information.

Non-GAAP and additional GAAP measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by generally accepted accounting principles (GAAP) and, therefore, are considered non-GAAP measures. These measures are provided to enhance the reader's overall understanding of our current financial condition. They 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 periods. These measures are not in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures presented by other entities.

Please refer to page 55 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures, including cost per available seat mile (CASM), excluding fuel and employee profit share; return on invested capital (ROIC); free cash flow; free cash flow per share; and diluted operating cash flow per share and for a reconciliation of additional GAAP measures, including adjusted debt-to-equity; adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR).

Definitions

Various terms used throughout this MD&A are defined at page 54 under the title "Definition of key operating indicators".

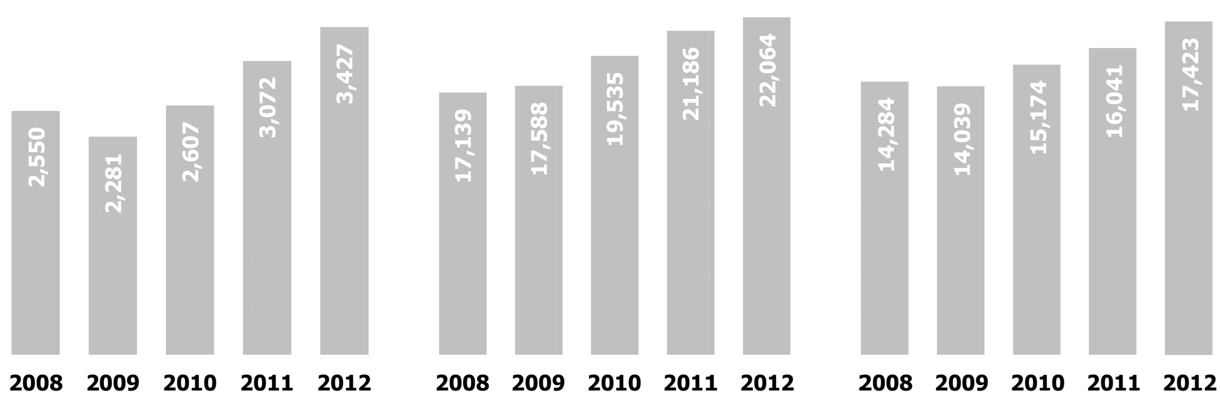
ANNUAL OVERVIEW

We achieved record annual results in 2012 with net earnings of $242.4 million and diluted earnings per share of $1.78, demonstrating our continued momentum throughout the year. This marks our eighth consecutive year of profitability and the sixteenth time we have reported an annual profit in our 17-years of reporting. During 2012, revenue increased by 11.6 per cent to end the year at over $3.4 billion. We achieved year-over-year revenue per available seat mile (RASM) growth of 7.1 per cent on a capacity increase of 4.1 per cent and our 2012 load factor of 82.8 per cent set an annual record. We are extremely pleased with the margin expansion realized in 2012, evidenced by our operating and earnings before tax (EBT) margins of 11.0 per cent and 9.9 per cent, up 2.6 percentage points and 3.1 percentage points year over year, respectively.

In 2012, we expanded the WestJet network through airline partnership agreements and the launch of ten new destinations, we announced the addition of WestJet Encore to the WestJet family and we commenced strategic service enhancements to attract the business traveller and provide guests with more options when flying with us. We returned approximately $149.6 million to our shareholders through our dividend and share buy-back programs in 2012, bringing our total over the past two years to $290.6 million. Our 12-month ROIC was 13.7 per cent at year-end representing an improvement of 3.6 percentage points compared to our 2011 year-end ROIC of 10.1 per cent and surpasses our goal of a sustainable 12 per cent ROIC.

2012 Highlights

- Recognized total revenue of $3,427.4 million, an increase of 11.6 per cent from $3,071.5 million in 2011.
- Increased capacity, measured in ASMs, by 4.1 per cent over 2011.
- Increased traffic, measured in revenue passenger miles (RPMs), by 8.1 per cent over 2011.
- Increased yield by 3.2 per cent over 2011.
- Recorded RASM of 15.53 cents, up 7.1 per cent from 14.50 cents in 2011.
- Realized CASM of 13.83 cents, up 4.1 per cent from 13.29 cents in 2011.
- Realized CASM, excluding fuel and employee profit share, of 9.12 cents, up 3.1 per cent from 8.85 cents in 2011.
- Recorded an operating margin of 11.0 per cent, up 2.6 percentage points from 8.4 per cent in 2011.
- Recorded an EBT margin of 9.9 per cent, up 3.1 percentage points from 6.8 per cent in 2011.
- Reported net earnings of $242.4 million, an increase of 63.0 per cent from $148.7 million in 2011.
- Reported diluted earnings per share of $1.78, an increase of 67.9 per cent from $1.06 per share in 2011.



Revenue* (millions of dollars)

Available seat miles (millions)

Segment guests (thousands)

* 2008 and 2009 revenue totals have not been restated to conform to IFRS and are presented in accordance with Previous GAAP.

WestJetters

WestJetters across our network are committed to the ongoing success of our airline. In 2012, we welcomed on board 17.4 million guests, an increase of 8.6 per cent over 2011. We are extremely honoured to have been awarded a number of recognitions during 2012 which would not otherwise have been possible without the commitment and care delivered each and every day by over 9,000 WestJetters.

- In March 2012, WestJet was once again rated as Canada's preferred airline, according to research performed by TNS Canada. Conducted in each of the last two quarters of 2011, the results showed that Canadians prefer our airline overall.
- In July 2012, WestJet was named by Aviation Week as a top 10 international airline. This study ranks airline carriers across the world in five different performance categories. We were the only Canadian airline and one of only two North American airlines to appear on this year's top 10 list.
- In August 2012, WestJet Vacations announced the results of a study, conducted by Leger Marketing, showing it has the highest guest satisfaction and loyalty among the six most widely used tour operators in Canada.
- In October 2012, WestJet was named one of Canada's Top 100 Employers as measured in Mediacorp's annual study of the best workplaces in Canada.

In April 2012, WestJet partnered with Canadian charity Live Different for our first international community investment initiative, "Hero Holiday", which enabled us to share our culture of care to a community in need. A total of 50 WestJetters from across the business participated in a 10-day humanitarian trip to Puerto Plata, Dominican Republic where they immersed themselves in the local community helping to build new homes for five local families. A second trip followed in October 2012 where another group of 50 WestJetters returned to the Dominican Republic and built homes for five more deserving families. As a result of the tremendous impact and success of this initiative, the WestJet Hero Holiday is becoming an annual program that will take place in the fall of each year.

WestJet Encore

On February 8, 2012, with the overwhelming support of WestJetters, we announced our plans to move forward with the launch of a new low-cost, regional airline in the second half of 2013. Named in October 2012, WestJet Encore will leverage WestJet's brand, balance sheet strength and low-cost structure, to deliver on four key strategies designed to further improve WestJet's performance:

- Introduce WestJet's friendly and caring service to smaller communities who have asked for our service;
- Optimize the size of aircraft to efficiently increase flight frequency;
- Create new connections between existing WestJet markets; and
- Build additional feed to our current network.

During the second quarter of 2012, we selected the Q400 NextGen, supplied by Montreal-based Bombardier Inc., as the aircraft to support WestJet Encore and placed an order with Bombardier Inc. for 20 Q400s to deliver through 2016, with options for an additional 25, to deliver through 2018. As of the date of this MD&A, we have a working team in place dedicated to the start-up; we have appointed the President of the wholly-owned subsidiary, WestJet Encore; we are in the process of recruiting key positions; we paid aircraft deposits to Bombardier; we are negotiating key supplier contracts; we have selected Calgary as the head office location; and we are in the process of applying for an operating certificate from Transport Canada. During 2012, we incurred pre-operating expenditures, excluding the capital deposits associated with the Q400 aircraft order, which in the aggregate are not significant to the Corporation. We continue to leverage WestJet's existing internal structure and systems to support the launch of the regional airline.

We intend to announce a schedule for WestJet Encore, including the first group of communities it will serve, in February 2013.

Network expansion

Over the course of 2012, we launched scheduled service to ten new destinations: Antigua and Barbuda; Aruba, Netherlands Antilles; Chicago; Costa Rica; Curacao; Kingston, Jamaica; New York City (LaGuardia); Manzanillo, Mexico; Trinidad and Tobago; and Whitehorse. At December 31, 2012, WestJet offers scheduled service to 81 destinations in North America, Central America and the Caribbean.

A key strategy of ours is to establish strong partnerships with airlines from all major geographical regions around the world. In 2012, we entered into an additional 13 interline agreements and initiated new code-shares with four partners: Delta Air Lines, Korean Air, China Eastern Airlines and British Airways. At December 31, 2012 we have partnership agreements in place with 30 airlines, allowing us to welcome on board new guests from around the world. In addition, including through our partners, our guests can now access over 120 destinations directly via WestJet

Service enhancements

During the third quarter of 2012, we commenced a seat reconfiguration project for our Boeing 737s to support service and product enhancements planned for 2013. Four rows of extra leg room seating are being installed across the entire 737 fleet providing 36 inches of leg room. As part of this initiative, the remaining rows on board the fleet will be standardized to 31-32 inches, in line with WestJet's North American competitors. Furthermore, our 737-800s will be outfitted with eight more seats, resulting in a favourable impact to CASM while still maintaining a comfortable, industry standard seat pitch. The seat reconfiguration project is expected to be fully completed by the end of the first quarter of 2013.

During the first half of 2013, after the seat reconfiguration project is completed, we intend to introduce to the market three different fare bundles - Econo, Flex and Plus - with varying fares and additional service and product amenities. The fare bundles will provide guests with more options, while at the same time place a focus on incremental revenue opportunities for the airline, which we expect to be in the range of $50 million to $80 million on an annualized basis.

Select annual information

($ in thousands, except per unit data)	2012	2011	2010	2009(i)	2008(i)
Financial highlights					
Revenue	3,427,409	3,071,540	2,607,294	2,281,120	2,549,506
Earnings before income taxes	340,229	208,006	133,465	136,796	254,749
Net earnings	242,392	148,702	90,197	98,178	178,506
Basic earnings per share	1.79	1.06	0.62	0.74	1.39
Diluted earnings per share	1.78	1.06	0.62	0.74	1.37
Cash and cash equivalents	1,408,199	1,243,605	1,159,316	994,989	820,214
Total assets	3,746,615	3,473,678	3,383,980	3,493,702	3,268,702
Total long-term liabilities	1,086,457	1,161,604	1,240,285	1,051,912	1,201,382
Cash dividends declared per share	0.28	0.20	0.05	—	—
Operational highlights					
ASMs	22,063,583,754	21,186,304,409	19,535,291,313	17,587,640,902	17,138,883,465
RPMs	18,262,554,881	16,890,941,121	15,613,121,610	13,834,761,211	13,730,960,234
Load factor	82.8%	79.7%	79.9%	78.7%	80.1%
Yield (cents)	18.77	18.18	16.70	16.49	18.57
RASM (cents)	15.53	14.50	13.35	12.97	14.88
CASM (cents)	13.83	13.29	12.37	11.77	13.17
CASM, excluding fuel and employee profit share (cents)	9.12	8.85	8.80	8.45	8.29
Fuel consumption (litres)	1,079,108,614	1,027,821,192	950,341,292	859,115,698	839,699,921
Fuel costs per litre (dollars)	0.92	0.89	0.71	0.66	0.97
Segment guests	17,423,352	16,040,682	15,173,581	14,038,827	14,283,630
Average stage length (miles)	978	984	968	923	913
Utilization (hours)	11.9	11.8	11.6	11.7	12.3
Number of full-time equivalent employees at period end	7,742	7,141	6,877	6,291	6,187
Fleet size at period end	100	97	91	86	76

(i) 2008 and 2009 amounts have not been restated to conform to IFRS and are presented in accordance with Previous GAAP.

Please refer to page 55 of this MD&A for a reconciliation of the non-GAAP measures.

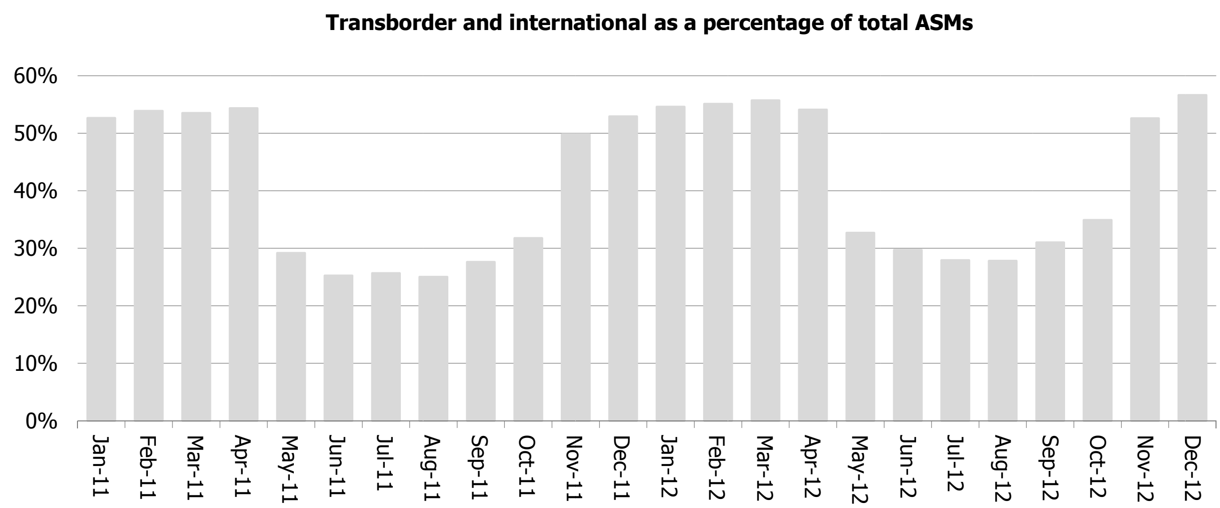
2012 RESULTS OF OPERATIONS

Revenue

($ in thousands)	2012	2011	Change
Guest	3,133,492	2,790,299	12.3%
Other	293,917	281,241	4.5%
	3,427,409	3,071,540	11.6%
RASM (cents)	15.53	14.50	7.1%

During 2012, total revenue increased by 11.6 per cent to $3,427.4 million compared to $3,071.5 million in 2011, driven mainly by the additional seat capacity in our network, increased traffic and the year-over-year improvement in yield. Our 2012 load factor of 82.8 per cent was the highest annual load factor we have ever achieved. On an ASM basis, revenue grew by 7.1 per cent to 15.53 cents from 14.50 cents in 2011.

The flexibility of our fleet deployment strategy allows us to react to demand changes by adjusting our schedule for more profitable flying. During the peak winter months, we allocated more than half of our system capacity outside of Canada to the high-demand transborder and international markets, as depicted in the following chart.



For the year ended December 31, 2012, our overall capacity increased by 4.1 per cent. During 2012, 43.1 per cent of ASMs were allocated to the transborder and international markets, which represents an 11.6 per cent increase in those markets versus 2011. On average, long-haul routes have lower yields; however, even with this significant capacity increase in the transborder and international markets, we were able to manage an overall yield improvement of 3.2 per cent.

	2012		2011		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	12,561,790,582	56.9%	12,670,462,757	59.8%	(0.9%)
Transborder and international	9,501,793,172	43.1%	8,515,841,652	40.2%	11.6%
Total	22,063,583,754	100.0%	21,186,304,409	100.0%	4.1%

During 2012, our domestic traffic, measured in RPMs, increased by 5.9 per cent year over year, as compared to the slight year-over-year decrease in domestic capacity of 0.9 per cent. With regard to our transborder and international markets, RPMs increased by 11.0 per cent over 2011, relatively in line with our significant increase in capacity to these areas of 11.6 per cent.

Other revenue

Included in other revenue are amounts related to WestJet Vacation's non-air revenue, ancillary revenue and our charter and cargo operations. For 2012, other revenue increased by 4.5 per cent to $293.9 million from $281.2 million in 2011. This improvement was driven mainly by increases in WestJet Vacation's non-air revenue and our ancillary revenue.

WestJet Vacations continues to be successful in generating additional revenue and supporting WestJet's overall network expansion. During 2012, we experienced year-over-year growth in our WestJet Vacations' non-air revenue due to the increased volume in vacation packages sold to our popular transborder and international destinations in line with the increased capacity in those markets. Furthermore, we achieved higher margins year over year on the land component of these vacation packages sold. The land component, which mainly includes hotels, attractions and car rentals, is reported on the consolidated statement of earnings at the net amount received.

Ancillary revenue, which includes service fees, onboard sales, and program revenue, provides an opportunity to maximize our profits through the sale of higher-margin goods and services, while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. For the year ended December 31, 2012 ancillary revenue was $137.3 million, an increase of approximately 10.8 per cent from $123.9 million in 2011. On a per guest basis, ancillary fees for the year increased by $0.15 or 1.9 per cent to $7.89 per guest, from $7.74 per guest during 2011 mainly attributable to improvements associated with an increase in the rate charged for pre-reserved seating and an increase in the number of these bookings, as well continued growth in our WestJet RBC Mastercard program. These improvements were offset by a year-over-year reduction in change and cancel fees attributable to our record load factor that limited our guests' opportunities to change their flights, and lower second bag and excess baggage charges driven partly from a growing number of interline and codeshare guests originating outside of Canada whose tickets were sold by another carrier with different terms.

In June of 2012, we introduced our first fully reciprocal frequent flyer program partnership. This agreement with American Airlines allows WestJet Reward members to earn WestJet dollars on flights operated by American Airlines and its affiliates, American Eagle and AmericanConnection.

Expenses

	Expense (thousands)			CASM (cents)		
	2012	2011	Change	2012	2011	Change
Aircraft fuel	992,787	915,878	8.4%	4.50	4.32	4.2%
Airport operations	454,114	421,561	7.7%	2.06	1.99	3.5%
Flight operations and navigational charges	366,871	344,442	6.5%	1.66	1.63	1.8%
Sales and distribution	313,082	296,954	5.4%	1.42	1.40	1.4%
Marketing, general and administration	208,620	186,290	12.0%	0.94	0.88	6.8%
Depreciation and amortization	185,401	174,751	6.1%	0.84	0.82	2.4%
Aircraft leasing	173,412	165,571	4.7%	0.79	0.78	1.3%
Inflight	156,411	139,478	12.1%	0.71	0.66	7.6%
Maintenance	154,406	146,260	5.6%	0.70	0.69	1.4%
Employee profit share	46,585	23,804	95.7%	0.21	0.12	75.0%
Total operating expenses	3,051,689	2,814,989	8.4%	13.83	13.29	4.1%
Total, excluding fuel and profit share	2,012,317	1,875,307	7.3%	9.12	8.85	3.1%

During 2012, operating expenses increased by 8.4 per cent to $3,051.7 million as compared to $2,815.0 million in 2011. On an ASM basis, operating expenses increased by 4.1 per cent to 13.83 cents from 13.29 cents in 2011. Excluding fuel and employee profit share, CASM increased by 3.1 per cent in 2012 to 9.12 cents as compared to 8.85 cents in 2011. This is in line with the previously provided estimate of a full-year 2012 year-over-year CASM increase of 3.0 to 3.5 per cent. The increase was mainly due to incremental airport operations, marketing, general and administration and inflight charges though CASM increases were realized across all expense line items.

Aircraft fuel

Fuel remains our most significant cost, representing 32.5 per cent of total operating expenses in 2012 and in 2011. For the year ended December 31, 2012, aircraft fuel expense increased by 8.4 per cent to $992.8 million from $915.9 million in 2011 due to a combination of the year-over-year increase in our fuel costs per litre and the 5.0 per cent year-over-year increase in our overall fuel consumption. Fuel costs per ASM for 2012, were 4.50 cents, compared to 4.32 cents in 2011, an increase of 4.2 per cent year over year.

Our fuel costs per litre increased by 3.4 per cent to 92 cents per litre during the year ended December 31, 2012 from 89 cents per litre in the same period of 2011. On average, the market price for jet fuel was US $130 per barrel in 2012 versus US $126 per barrel in 2011, an increase of approximately 3.2 per cent. With the average Canadian dollar slightly weaker versus the average U.S. dollar on a year-over-year basis, the average market price for jet fuel in Canadian dollars increased by approximately 4.0 per cent to $130 per barrel from $125 per barrel in 2011.

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. During the first quarter of 2012, we decided to cease our fuel hedging program based on our strong financial position and our ability to adjust to volatile fuel prices along with the completion of an in-depth internal analysis on the cost of the program in comparison to its potential benefits. As a result, all remaining contracts were extinguished during the second quarter, leaving no fuel derivative contracts outstanding at December 31, 2012. This resulted in a non-operating loss of $1.7 million included in the $6.5 million loss on derivatives line item in our consolidated statement of earnings for the year ended December 31, 2012. We will continue to mitigate the risk of movements in fuel prices through our revenue management strategy and may re-visit our hedging program as changing markets and competitive conditions warrant.

The following table presents the financial impact and statement presentation of our fuel derivatives on the consolidated statement of financial position as at December 31, 2012 and 2011 and on the consolidated statement of earnings for the years ended December 31, 2012 and 2011.

($ in thousands)	**Statement presentation**	**2012**	**2011**
Consolidated Statement of Financial Position:			
Receivable from counterparties	Accounts receivable	—	27
Fair value	Prepaid expenses, deposits and other	—	7,611
Consolidated Statement of Earnings:			
Realized gain	Aircraft fuel	—	2,656
Non-operating loss	Loss on derivatives	(6,512)	(6,052)

For 2013, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately $7 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity to changes in fuel pricing to be approximately $12 million for every one-cent change per litre of fuel.

Airport operations

Airport operations expense consists primarily of airport landing and terminal fees and ground handling costs for our scheduled service and charter operations. Also included in airport operations are costs relating to flight cancellations and accommodations for displaced guests for situations beyond our control, such as inclement weather conditions. For the year ended December 31, 2012, our airport operations expense was $454.1 million, a $32.6 million or 7.7 per cent increase from $421.6 million in 2011. Airport operations expense per ASM was 2.06 cents for 2012, an increase of 3.5 per cent from 1.99 cents in 2011. To support our network expansion we have increased our volume of service out of our major airport bases year-over-year, which are higher-cost airports, and we have also experienced rate increases for some of our destinations. This increase in volume and service along with annual market and merit adjustments contribute to the 9.9 per cent year-over-year increase in compensation costs included within airport operations.

Marketing, general and administration

Marketing largely consists of expenses such as advertising, promotions and live satellite television licensing fees. General and administration costs consist of corporate office departments, professional fees and insurance costs. Marketing, general and administration expense for the year ended December 31, 2012 was $208.6 million, a $22.3 million or 12.0 per cent increase from $186.3 million in the 2011. Marketing, general and administration expense per ASM was 0.94 cents for 2012, an increase of 6.8 per cent from 0.88 cents in 2011. The increase was primarily attributable to a year-over-year increase in the short-term incentive accrual, including amounts pursuant to our Owners' Performance Award, in addition to a higher investment in information technology operating costs to support our strategic projects undertaken during 2012.

Inflight

Inflight expense is comprised mainly of salaries and benefits, travel costs and training for our flight attendants. For the year ended December 31, 2012 inflight expense was $156.4 million, a $16.9 million or 12.1 per cent increase from $139.5 million in the comparable period of 2011. Our inflight cost per ASM was 0.71 cents in 2012, representing an increase of 7.6 per cent from 0.66 cents in the same period of the prior year. This year-over-year increase is primarily due to the 12.5 per cent or $13.5 million increase in compensation costs along with additional travel costs as a result of a greater number of flight attendants and increased flying time.

Compensation

Our compensation philosophy is designed to align corporate and personal success. We have created a compensation program 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 creates a personal vested interest in our financial results and operational accomplishments.

($ in thousands)	2012	2011	Change
Salaries and benefits	538,917	481,211	12.0%
Employee share purchase plan	65,439	58,682	11.5%
Employee profit share	46,585	23,804	95.7%
Share-based payment plans	12,815	12,553	2.1%
	663,756	576,250	15.2%
Presentation on the Consolidated Statement of Earnings:			
Airport operations	91,267	83,067	9.9%
Flight operations and navigational charges	200,883	184,174	9.1%
Sales and distribution	61,347	57,364	6.9%
Marketing, general and administration	90,923	75,586	20.3%
Inflight	122,025	108,483	12.5%
Maintenance	50,726	43,772	15.9%
Employee profit share	46,585	23,804	95.7%
	663,756	576,250	15.2%

Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2012, salaries and benefits increased by 12.0 per cent to $538.9 million from $481.2 million in 2011. This increase was primarily due to an increase in our total number of full-time equivalent employees of 8.4 per cent to 7,742 employees at December 31, 2012 from 7,141 employees at the end of 2011 as well as our annual market and merit increases. Salaries and benefits expense for each department is included in the respective department's operating expense line item, as presented in the table above.

Included in salaries and benefits is the expense associated with the Owners' Performance Award which was originally introduced in 2011 and connects employees to our business plan. The Owners' Performance Award is designed to recognize WestJetters for their efforts in four key areas: safety, on-time performance, guest experience and cost. Approximately $5.0 million was recognized in 2012 for this award and recorded in marketing, general and administration expense, an increase of over 500 hundred per cent from the $0.8 million recognized in 2011. This increase is a combination of a higher amount eligible for the award due to higher earnings as compared to the prior year and the year-end operational results for safety and guest experience exceeding targets.

Employee share purchase plan (ESPP)

The ESPP encourages employees to become owners of WestJet shares. Under the terms of the ESPP, WestJetters may, dependent on their employment agreement, contribute up to a maximum 20 per cent of their gross salary to acquire voting shares of WestJet at the current fair market value. The contributions are matched by WestJet. At December 31, 2012, 85.4 per cent of our eligible active employees participated in the ESPP, contributing an average of 13.9 per cent of their gross salaries. Under the terms of the ESPP, we acquire voting shares on behalf of employees through open market purchases. For the year ended 2012, our matching expense was $65.4 million, an 11.5 per cent increase from $58.7 million in 2011, driven largely by the increased number of WestJetters participating compared to the prior year.

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, 2012, was $46.6 million, a 95.7 per cent increase from $23.8 million in 2011, bringing our total profit share expense since 1996 to approximately $270 million. The year-over-year increase was directly attributable to higher earnings eligible for profit share versus the prior year.

Share-based payment plans

We have three equity-settled share-based payment plans whereby either stock options, restricted share units (RSUs) or performance share units (PSUs) may be awarded to pilots, senior executives and certain non-executive employees. Our equity-settled, share-based payments are measured at the fair value of the instrument granted and recognized as compensation expense with a corresponding increase in equity reserves on a straight-line basis over the related service period based on the number of awards expected to vest. For the year ended December 31, 2012 share-based payment expense totalled $12.8 million, representing an increase of 2.1 per cent over the $12.6 million recognized in 2011. This increase related primarily to an estimate revision made to the number of PSUs expected to vest in 2013. Share-based payment expense related to pilots' awards is included in flight operations and navigational charges, while the expense related to senior executives' and certain non-executive employees' awards is included in marketing, general and administration expense.

Foreign exchange

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 liabilities. At December 31, 2012, US-dollar-denominated net monetary liabilities totalled approximately US $11.5 million (2011 – net monetary liability of US $21.5 million). These net monetary liabilities consist mainly of monetary assets of US-dollar cash and cash equivalents, security deposits on various leased and financed aircraft, and maintenance reserves paid to lessors, offset by monetary liabilities of US-dollar accounts payable and accrued liabilities and maintenance provisions. We reported a foreign exchange gain of $1.1 million in 2012, as compared to a foreign exchange gain of $2.5 million in 2011, on the revaluation of our US-dollar-denominated net monetary liabilities.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At December 31, 2012, to fix the exchange rate on a portion of our US-dollar denominated aircraft lease payments, we entered into foreign exchange forward contracts for an average of $13.5 million per month for the period of January to December 2013 for a total of US $162.4 million at a weighted average contract price of one Canadian dollar to one US dollar. 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 hedge reserves. Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves are recorded in net earnings as a component of aircraft leasing expense. At December 31, 2012, no portion of the forward contracts was considered ineffective.

The following table presents the financial impact and statement presentation of our foreign exchange derivatives on the consolidated statement of financial position as at December 31, 2012 and 2011 and on the consolidated statement of earnings for the years ended December 31, 2012 and 2011.

($ in thousands)	**Statement presentation**	**2012**	**2011**
Consolidated Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	800	4,662
Fair value	Accounts payable and accrued liabilities	(898)	—
Unrealized gain (loss)	Hedge reserves (before tax)	(98)	4,662
Consolidated Statement of Earnings:			
Realised gain (loss)	Aircraft leasing	1,245	(4,840)

The fair value of the foreign exchange forward contracts presented on the consolidated statement of financial position 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.

For 2013, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $15 million on our annual operating costs (approximately $11 million for fuel, $2 million for aircraft leasing and $2 million related to other US-dollar denominated operating expenses).

Income taxes

Our operations span several Canadian tax jurisdictions, subjecting our income to various rates of taxation. 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 the years ended December 31, 2012 and December 31, 2011 was approximately 29 per cent. Typically when we experience higher comparative earnings, the impact of relatively fixed permanent differences (expenses which are non-deductible from taxable income) on the overall effective tax rate is less pronounced, resulting in a corresponding decrease in the rate. However this decrease was offset by the increase to our net deferred income tax liability due to the provincial government of Ontario cancelling the July 1, 2012 and July 1, 2013 corporate income tax rate reductions and freezing the corporate income tax rate at 11.5 per cent. As a result, our effective consolidated tax rate remained consistent in comparison to the prior year.

For 2013, we anticipate that our annual effective tax rate will fall within the range of 27 and 29 per cent. The decrease in our range from 2012 is primarily due to the removal of the one-time deferred tax liability revalue arising from the corporate tax rate increase in Ontario.

2012 FOURTH QUARTER RESULTS OF OPERATIONS

Our 2012 fourth quarter financial results represent our 31st consecutive quarter of reported profitability with net earnings of $60.9 million and diluted earnings per share of $0.46, year-over-year improvements of 71.3 per cent and 76.9 per cent, respectively. During the quarter, we increased our revenue by 10.1 per cent as compared to the fourth quarter of 2011, and we continued to achieve year-over-year RASM growth, up 6.9 per cent.

On December 21, 2012, we announced a new single-day record of over 57,000 guests flown.

Quarterly financial highlights

- Recognized total revenue of $860.6 million, an increase of 10.1 per cent from $781.5 million in the fourth quarter of 2011.
- Increased capacity, measured in ASMs, by 3.0 per cent over the fourth quarter of 2011.
- Increased traffic, measured in RPMs, by 7.1 per cent over the fourth quarter of 2011.
- Increased yield by 2.8 per cent over the fourth quarter of 2011.
- Recorded RASM of 15.68 cents, up 6.9 per cent from 14.67 cents in the fourth quarter of 2011.
- Realized CASM of 14.01 cents, up 3.4 per cent from 13.55 cents in the fourth quarter of 2011.
- Realized CASM, excluding fuel and employee profit share, of 9.32 cents, up 3.2 per cent from 9.03 cents in the fourth quarter of 2011.
- Recorded an operating margin of 10.6 per cent, up 3.0 percentage points from 7.6 per cent in the fourth quarter of 2011.
- Recorded an EBT margin of 9.9 per cent, up 3.5 percentage points from 6.4 per cent in the fourth quarter of 2011.
- Realized net earnings of $60.9 million, an increase of 71.3 per cent from $35.6 million in the fourth quarter of 2011.
- Reported diluted earnings per share of $0.46, up 76.9 per cent from $0.26 in the fourth quarter of 2011.

	Three months ended December 31		
($in thousands, except per unit data)	2012	2011	Change
Financial highlights			
Revenue	860,640	781,545	10.1%
Earnings before income taxes	85,543	49,834	71.7%
Net earnings	60,944	35,584	71.3%
Basic earnings per share	0.46	0.26	76.9%
Diluted earnings per share	0.46	0.26	76.9%
Cash dividends declared per share	0.08	0.05	60.0%
Operational highlights			
ASMs	5,487,467,646	5,328,928,405	3.0%
RPMs	4,492,833,159	4,193,629,320	7.1%
Load factor	81.9%	78.7%	3.2 pts.
Yield (cents)	19.16	18.64	2.8%
RASM (cents)	15.68	14.67	6.9%
CASM (cents)	14.01	13.55	3.4%
CASM, excluding fuel and employee profit share (cents)	9.32	9.03	3.2%
Fuel consumption (litres)	271,741,925	255,906,491	6.2%
Fuel costs per litre (dollars)	0.91	0.92	(1.1%)
Segment guests	4,314,024	3,996,593	7.9%
Average stage length (miles)	973	980	(0.7%)
Utilization (hours)	12.0	11.7	2.6%
Number of full-time equivalent employees at period end	7,742	7,141	8.4%

Revenue

($ in thousands)	Three months ended December 31 2012	2011	Change
Guest	783,750	711,246	10.2%
Other	76,890	70,299	9.4%
	860,640	781,545	10.1%
RASM (cents)	15.68	14.67	6.9%

For the fourth quarter of 2012, revenue increased by 10.1 per cent to $860.6 million from $781.5 million in the fourth quarter of 2011. On a per unit basis, we saw an improvement in RASM of 6.9 per cent to 15.68 cents in the fourth quarter of 2012, as compared to a RASM of 14.67 cents in the same period of 2011. This increase in RASM was due to the 2.8 per cent increase in yield as well as the increase in load factor of 3.2 percentage points to a record fourth quarter load factor of 81.9 per cent from 78.7 per cent in the fourth quarter of 2011.

For the three months ended December 31, 2012, overall capacity increased by 3.0 per cent. During the fourth quarter of 2012, 48.5 per cent of ASMs were allocated to the transborder and international markets, which represents a 10.7 per cent increase versus the same quarter of 2011.

	Three months ended December 31 2012		2011		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	2,823,935,413	51.5%	2,922,072,513	54.8%	(3.4%)
Transborder and international	2,663,532,233	48.5%	2,406,855,892	45.2%	10.7%
Total	5,487,467,646	100.0%	5,328,928,405	100.0%	3.0%

During the three months ended December 31, 2012, our domestic traffic, measured in RPMs, increased by 3.5 per cent year-over-year as compared to the 3.4 per cent decrease in domestic capacity. Our charter and scheduled transborder and international traffic increased 11.3 per cent, relatively in line with the increase in capacity to these areas.

Other revenue

Other revenue increased by 9.4 per cent to $76.9 million for the fourth quarter of 2012, from $70.3 million in the comparable quarter of 2011. These improvements were driven mainly by improvements in our WestJet Vacations' non-air revenue as well as our ancillary revenue.

For the three months ended December 31, 2012 ancillary revenue was $34.4 million, an increase of approximately 7.8 per cent from $31.9 million in the same quarter 2011. On a per guest basis, ancillary fees for the quarter decreased slightly by $0.02 or 0.2 per cent to $7.98 per guest, from $8.00 per guest during the fourth quarter of 2011.

Expenses

	Three months ended December 31 Expense (thousands) 2012	2011	Change	CASM (cents) 2012	2011	Change
Aircraft fuel	246,216	235,574	4.5%	4.48	4.42	1.4%
Airport operations	118,051	107,295	10.0%	2.15	2.01	7.0%
Flight operations and navigational charges	91,242	84,814	7.6%	1.66	1.59	4.4%
Sales and distribution	76,509	72,958	4.9%	1.40	1.37	2.2%
Marketing, general and administration	59,690	50,869	17.3%	1.09	0.96	13.5%
Depreciation and amortization	46,175	44,312	4.2%	0.84	0.83	1.2%
Aircraft leasing	43,729	41,850	4.5%	0.80	0.79	1.3%
Inflight	40,199	36,144	11.2%	0.73	0.68	7.4%
Maintenance	35,590	42,816	(16.9%)	0.65	0.80	(18.8%)
Employee profit share	11,639	5,662	105.6%	0.21	0.10	110.0%
Total operating expenses	769,040	722,294	6.5%	14.01	13.55	3.4%
Total, excluding fuel and profit share	511,185	481,058	6.3%	9.32	9.03	3.2%

For the fourth quarter of 2012, operating expenses increased by 6.5 per cent to $769.0 million as compared to $722.3 million in 2011. On an ASM basis, operating expenses increased by 3.4 per cent to 14.01 cents from 13.55 cents in 2011. Excluding fuel and employee profit share, CASM increased by 3.2 per cent in 2012 to 9.32 cents as compared to 9.03 cents in 2011 due mainly to increases in airport operations, marketing, general and administration and inflight offset by a decrease in maintenance CASM.

Aircraft fuel

In the fourth quarter of 2012, aircraft fuel expense increased by 4.5 per cent to $246.2 million from $235.6 million due mainly to the 6.2 per cent year-over-year increase in our overall fuel consumption. Fuel costs per ASM for the fourth quarter of 2012, was 4.48 cents, compared to 4.42 cents in the fourth quarter of 2011, an increase of 1.4 per cent year over year.

Our fuel costs per litre decreased by 1.1 per cent to 91 cents per litre during the quarter ended December 31, 2012 from 92 cents per litre in the same period of 2011. On average, the market price for jet fuel was US $128 per barrel in the fourth quarter of 2012 versus US $125 per barrel in the fourth quarter of 2011, an increase of approximately 2.4 per cent. With the Canadian dollar slightly stronger versus the U.S. dollar on a quarter-over-quarter basis, the average market price for jet fuel in Canadian dollars was approximately $126 per barrel during the three months ended December 31, 2012 as compared to $128 per barrel in the comparable period of 2011.

Airport operations

For the three months ended December 31, 2012, our airport operations expense was $118.1 million, a $10.8 million or 10.0 per cent increase from $107.3 million in 2011. Airport operations expense per ASM was 2.15 cents for the fourth quarter of 2012, an increase of 7.0 per cent from 2.01 cents in the comparable period of 2011. In line with our network expansion to the transborder and international markets, the volume of service out of our major domestic airport bases, which are higher-cost airports, increased quarter over quarter. Along with this increase are additional labour costs. We also experienced a quarter-over-quarter increase in the cost of de-icing our aircraft as well as costs relating to flight cancellations and accommodations for displaced guests due to the winter weather conditions experienced during the fourth quarter of 2012.

Marketing, general and administration

Marketing, general and administration expense for the fourth quarter of 2012 was $59.7 million, a 17.3 per cent increase from $50.9 million in the fourth quarter of 2011. Marketing, general and administration expense per ASM was 1.09 cents for the fourth quarter of 2012, an increase of 13.5 per cent from 0.96 cents in the comparable period of 2011. This period-over-period increase was primarily attributable to increases in short-term incentive compensation accruals due to improved year-over-year results, such as our Owners' Performance Award mentioned previously, timing on advertising-related spend and an increase in information technology costs.

Maintenance

Maintenance expense for the three months ended December 31, 2012 was $35.6 million, a $7.2 million or 16.9 per cent decrease from $42.8 million in the comparable period of 2011. Maintenance cost per ASM was 0.65 cents in the fourth quarter of 2012, representing a decrease of 18.8 per cent from 0.80 cents in the fourth quarter of 2011. During the fourth quarter of 2011, we incurred a $6.8 million non-cash charge for the decrease in discount rates. Excluding this charge in 2011, our 2012 fourth quarter maintenance expense decreased by 1.2 per cent and 4.0 per cent on an ASM basis as a result of an increase in compensation costs and routine maintenance events as the fleet continues to grow and mature offset by favourable adjustments to our maintenance provision mainly due to the timing and scope of certain engine overhauls on leased aircraft. Our provision is calculated based on the best information available to us and includes estimates on maintenance cycle timing, total cost and discount rates.

SUMMARY OF QUARTERLY RESULTS

($ in thousands, except per share data)	Three months ended Dec. 31 2012	Sept. 30 2012	Jun. 30 2012	Mar. 31 2012
Total revenue	860,640	866,537	809,282	890,950
Net earnings	60,944	70,648	42,479	68,321
Basic earnings per share	0.46	0.53	0.31	0.50
Diluted earnings per share	0.46	0.52	0.31	0.49

($ in thousands, except per share data)	Three months ended Dec. 31 2011	Sept. 30 2011	Jun. 30 2011	Mar. 31 2011
Total revenue	781,545	775,285	742,288	772,422
Net earnings	35,584	39,267	25,602	48,249
Basic earnings per share	0.26	0.28	0.18	0.34
Diluted earnings per share	0.26	0.28	0.18	0.34

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.

GUEST EXPERIENCE

At WestJet, 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 at every stage of our service, from the time the flight is booked to its completion.

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. On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring our guest experience. The completion rate indicator represents the percentage of flights completed from flights originally scheduled. 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		
	2012	2011	Change	2012	2011	Change
On-time performance	64.0%	77.9%	(13.9 pts.)	75.4%	76.8%	(1.4 pts.)
Completion rate	98.5%	99.5%	(1.0 pts.)	98.9%	99.3%	(0.4 pts.)
Bag ratio	2.94	2.50	17.6%	2.68	2.68	—

During the fourth quarter of 2012, our on-time performance decreased by 13.9 percentage points due primarily to an increase in significant weather events experienced at our key domestic and international airports in addition to the high utilization of our available fleet. Our completion rate decreased slightly by 1.0 percentage points and our bag ratio increased by 17.6 per cent mainly due to operational factors, such as flight connections, associated with the decrease in on-time performance. Our completion rate remained strong for 2012 at 98.9 per cent versus 99.3 per cent in 2011 and our 2012 bag ratio of 2.68 was flat on a year-over-year basis. Despite year-over-year improvements in each of the first three quarters, on-time performance decreased slightly by 1.4 percentage points to 75.4 per cent in 2012 from 76.8 per cent in 2011, due to the decrease experienced during the fourth quarter of 2012. We continue to place our internal focus and efforts on safely performing on time.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. Our consistent and strong financial results are visible in the health of our balance sheet. We completed 2012 with a cash and cash equivalents balance of $1,408.2 million, compared to $1,243.6 million at December 31, 2011. This increase in our cash position was a result of our positive cash flow from operations of $721.6 million more than offsetting the $269.3 million in capital expenditures, the $132.7 million in net aircraft financing outflows, including cash interest paid, and the combined total of $149.6 million spent on our dividend and share buy-back programs in 2012.

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, 2012, was $480.9 million, an increase of 11.3 per cent from $432.2 million at December 31, 2011. 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. At December 31, 2012, we had cash on hand of 2.93 (2011 – 2.88) times our advance ticket sales balance.

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 at December 31, 2012 was 1.38, which took into consideration $1,300.6 million in off-balance-sheet aircraft operating leases. This was an 8.6 per cent improvement from our adjusted debt-to-equity ratio of 1.51 at December 31, 2011, mainly due to the slight decrease in adjusted debt as well as the increase in shareholders' equity as a result of net earnings more than offsetting equity costs associated with our share buy-back and dividend programs. At December 31, 2012, our adjusted net debt to EBITDAR ratio improved by 38.1 per cent to 0.86, compared to 1.39 at December 31, 2011, attributable to the increase in EBITDAR and cash and cash equivalents.

Our current ratio, defined as current assets over current liabilities, was 1.38 at December 31, 2012 as compared to 1.51 at December 31, 2011 due mainly to the increases in our advance ticket sales, the current portion of maintenance provisions and accounts payable and accrued liabilities more than offsetting the year-over-year increase in cash and cash equivalents.

During the third quarter of 2012, we elected to terminate and cancel the three-year revolving operating line of credit we had available to us with a syndicate of three Canadian banks. The line of credit was available to a maximum of $76.5 million and was secured by our Calgary Campus facility.

Select cash flow information

($ in thousands)	2012	2011	Change
Cash provided by operating activities	721,634	566,460	27.4%
Less:			
Cash used by investing activities	(269,307)	(118,373)	127.5%
Cash used by financing activities	(288,054)	(362,675)	(20.6%)
Cash flow from operating, investing and financing activities	164,273	85,412	92.3%
Effect of foreign exchange on cash and cash equivalents	321	(1,123)	128.6%
Net change in cash and cash equivalents	164,594	84,289	95.3%
Cash and cash equivalents, beginning of year	1,243,605	1,159,316	7.3%
Cash and cash equivalents, end of year	1,408,199	1,243,605	13.2%

Operating cash flows

During 2012, cash from operations increased to $721.6 million compared to $566.5 million in 2011, representing an improvement of 27.4 per cent. This year-over-year increase was mainly the result of higher net earnings from operations as well as an increase in non-cash working capital on a year-over-year basis. Similarly, on a per share basis, our operating cash flow increased to $5.31 per share, as compared to $4.03 per share in 2011, representing an increase of 31.8 per cent year over year. Operating cash flow per share further benefitted from the reduction in our diluted weighted average shares outstanding as a result of our share buy-back program.

At December 31, 2012 restricted cash consisted of $43.2 million (2011 – $41.4 million) for cash held in trust by WestJet Vacations; $7.6 million (2011 – $6.6 million) for security on letters of guarantee; and, in accordance with US regulatory requirements, $0.9 million (2011 – $0.3 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

Cash used in investing activities for 2012 totalled $269.3 million, as compared to $118.4 million in 2011. In 2012, investing cash flow activities consisted of $218.1 million in aircraft related additions, an increase of $156.9 million over the $61.3 million in the prior year mainly related to the delivery of two 737-800 aircraft during the first half of the year, deposits made for future 737 and Q400 aircraft deliveries and costs incurred for engine and landing gear overhauls on owned aircraft. In 2012, we incurred $51.2 million in other property and equipment and intangibles additions as compared to $57.1 million in the prior year.

Financing cash flows

During 2012, our financing cash outflow of $288.1 million consisted largely of cash outflows related to long-term debt repayments of $162.7 million, cash interest paid of $43.1 million, dividends paid of $37.5 million and shares repurchased pursuant to our normal course issuer bid of $112.1 million offset by a cash inflow of $73.0 million from the financing of the two 737-800 aircraft delivered during the first half of the year. In the prior year, financing cash outflow of $362.7 million was attributable to long-term debt repayments of $199.2 million which included US$21.8 million associated with the early repayment of a long-term facility originally scheduled for maturity in 2014, cash interest paid of $51.7 million as well as share repurchases of $74.6 million and dividends paid of $35.0 million.

Free cash flow

Free cash flow is a measure that represents the cash that a company is able to generate after meeting its requirements to maintain or expand its asset base. It is a calculation of operating cash flow, less the amount of cash used in investing activities related to property and equipment. Our free cash flow for the year ended December 31, 2012, was $452.3 million, as compared to $448.1 million in the prior year, representing a slight increase of 0.9 per cent. Our 2012 free cash flow per share was $3.33 as compared to $3.19 per share in 2011, a year-over-year increase of 4.4 per cent. This increase was mainly due to the year-over-year reduction in our diluted weighted average shares outstanding as a result of shares repurchased under our normal course issuer bid.

Please refer to page 55 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

Aircraft financing

We have grown through acquisitions of Boeing 737 aircraft financed by 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 the aircraft. All of this debt has been financed in Canadian dollars, eliminating the future foreign exchange exposure on these US-dollar aircraft purchases. On February 2, 2012, Ex-Im Bank authorized a final commitment of US $77.6 million to support the financing of two 737-800 aircraft delivered in 2012. The final commitment amount provided for an exposure fee of four per cent on the financed portion of the aircraft price to be included under the guarantee. We took delivery of the first aircraft under the commitment in February 2012 and the second aircraft in June 2012. This brings the total number of aircraft financed with loan guarantees to 54 at December 31, 2012, with an outstanding debt balance of $739.0 million. There are no financial covenant compliance requirements associated with the 54 financed 737 aircraft guaranteed by the Ex-Im Bank.

In connection with the 2012 guarantee from Ex-Im Bank, we arranged for debt financing with a Canadian chartered bank. The facility is financed in Canadian dollars and amortized over a 12-year term, repayable in fixed principal installments plus a floating rate of interest equal to the three month Canadian Dealer Offer Rate plus 75 basis points. To mitigate the impact of floating interest rates on our earnings, we entered into swap agreements with the same Canadian chartered bank to fix the interest rates at 2.89 per cent and 2.99 per cent for the February and June 2012 deliveries, respectively. Upon proper qualification, we designated the swap contracts as effective cash flow hedges for accounting purposes. At December 31, 2012, no portion of the swap agreements were considered ineffective.

The following table presents the financial impact and statement presentation of the swap agreements on the consolidated statement of financial position as at December 31, 2012 and 2011 and on the consolidated statement of earnings for the years ended December 31, 2012 and 2011.

($ in thousands)	**Statement presentation**	**2012**	**2011**
Consolidated Statement of Financial Position:			
Fair value, current portion	Accounts payable and accrued liabilities	611	112
Fair value, long-term portion	Other liabilities	268	420
Unrealized loss	Hedge reserves (before tax)	(879)	(532)
Consolidated Statement of Earnings:			
Realized loss	Finance costs	(418)	—

The fair value of the interest rate swap agreements is measured based on the difference between the fixed swap rate and the forward curve for the applicable floating interest rates obtained from the counterparty, which can be observed and corroborated in the marketplace.

Subsequent to year end, on February 5, 2013, we signed an $820 million commitment letter with Export Development Canada (EDC) pursuant to which EDC will make available to WestJet Encore financing support for the purchase of the Bombardier Q400s. We will be charged a non-refundable commitment fee of 0.2 per cent per annum on the remaining undisbursed portion of the commitment, commencing on the date of the letter. Availability of any undrawn amount will expire at the end of 2018. The available amount for each aircraft would be up to 80 per cent of the delivery price with a term to maturity of 12 years, payable in quarterly installments.

We are actively reviewing financing opportunities, including a sale leaseback structure, for the three Boeing 737-800 aircraft scheduled for delivery in the first quarter of 2013, the first of which was delivered in January 2013 and funded with cash from operations. We did not reach a formal agreement with the independent third party with respect to the Letter of Intent for a sale-leaseback transaction entered into previously.

Contractual obligations and commitments

At December 31, 2012, our contractual obligations and commitments, which do not include financial commitments for goods and services required in the ordinary course of business, are indicated in the following table. All US-dollar amounts have been converted at the year-end closing exchange rate and presented in Canadian dollars in the table.

($ in thousands)	**Total**	**Within 1 year**	**1 - 3 years**	**3 - 5 Years**	**Over 5 years**
Long-term debt repayments	739,048	164,909	302,021	172,671	99,447
Operating leases and commitments (i)	956,577	228,058	358,509	206,690	163,320
Purchase commitments (ii)	1,875,686	354,254	769,472	622,825	129,135
Total contractual obligations	3,571,311	747,221	1,430,002	1,002,186	391,902

(i) Relates to operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming.
(ii) Relates to obligations for our confirmed purchased aircraft deliveries for Boeing 737s and for Bombardier Q400s.

We plan to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing. We continuously monitor the capital markets and assess financing alternatives available to us for our future aircraft deliveries. At this time, we are not aware of, nor do we reasonably expect, adverse changes to our future ability to access similar or different sources of liquidity than we historically have.

Contingencies

We are 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 our financial position, results of operations or cash flows.

FLEET

In early December 2012, WestJet took delivery of its 100th Boeing Next-Generation 737 aircraft, a celebrated milestone for the Corporation. In total for 2012, we took delivery of three new 737-800 aircraft, two owned and one leased, to end the year with a registered 737 fleet of 100 aircraft with an average age of 6.7 years. Looking forward, we have firm commitments to take delivery of an additional 35 Boeing 737 aircraft, and 33 Boeing 737 aircraft leases expiring between 2014 and 2018, each with the option to renew. This provides us with the flexibility to end 2018 with a 737 series fleet size between 102 and 135, dependent on the exercise of the lease renewal options. During the fourth quarter of 2012, we exercised our option to convert one 737-700 to one 737-800, scheduled for delivery in 2013.

On May 1, 2012, we announced the selection of the Bombardier Q400 NextGen aircraft to support WestJet Encore's operations. At December 31, 2012, we have commitments to take delivery of 20 Bombardier Q400 aircraft through 2016, along with options to purchase an additional 25 Q400s between the years 2014 and 2018, allowing us the flexibility to end 2018 with a Q400 fleet size between 20 and 45.

The following table illustrates our Boeing 737 and Bombardier Q400 fleet as at December 31, 2012 and 2011 as well as our firm commitments by year to 2018.

			Commitments							
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**	**2018**
Boeing										
737-600 Next Generation										
Leased	—	—	—	—	—	—	—	—	—	—
Owned	13	13	—	—	—	—	—	—	—	13
	13	**13**	—	—	—	—	—	—	—	**13**
737-700 Next Generation										
Leased	30	30	—	—	—	—	—	—	—	30
Owned	39	39	—	4(i)	9(i)	8(i)	6(i)	3(i)	30	69
	69	**69**	—	**4**	**9**	**8**	**6**	**3**	**30**	**99**
737-800 Next Generation										
Leased	13	14	—	—	—	—	—	—	—	14
Owned	2	4	5	—	—	—	—	—	5	9
	15	**18**	**5**	—	—	—	—	—	**5**	**23**
	97	**100**	**5**	**4**	**9**	**8**	**6**	**3**	**35**	**135**
Lease renewal options				(3)	(12)	(8)	(6)	(4)	(33)	(33)
	97	**100**	**5**	**1**	**(3)**	—	—	**(1)**	**2**	**102**
Bombardier										
Q400 NextGen(ii)										
Leased	—	—	—	—	—	—	—	—	—	—
Owned	—	—	7	7	4	2	—	—	20	20
	—	—	**7**	**7**	**4**	**2**	—	—	**20**	**20**

(i) We have an option to convert any of these 737-700 Next Generation future commitments to 737-800 Next Generation aircraft.

(ii) We have options to purchase an additional 25 Bombardier Q400 NextGen aircraft between the years 2014 and 2018.

OFF BALANCE SHEET ARRANGEMENTS

Aircraft operating leases

We currently have 44 Boeing 737 aircraft under operating leases. Future cash flow commitments in connection for these aircraft totalled US$756.4 million at December 31, 2012 which we expect to fund through cash from operations. Although the current obligations related to our aircraft operating lease agreements are not recognized on our consolidated statement of financial position, we include an amount equal to 7.5 times our annual aircraft leasing expense in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios discussed previously.

Fuel facility corporations

We have entered into nine arrangements whereby we participate under contract in fuel facility corporations, along with other airlines, to obtain 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 the debt service requirements, of the fuel facility corporations are shared pro rata among the contracting airlines. The nine fuel facility corporations are not 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. At November 30, 2012, the nine fuel facility corporations have combined total assets of approximately $430 million and liabilities of approximately $400 million.

RELATED-PARTY TRANSACTIONS

At December 31, 2012, we had no transactions with related parties as defined in *International Accounting Standard (IAS) 24 – Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

SHARE CAPITAL

Outstanding share data

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

(number of shares)	January 31, 2013	December 31, 2012
Issued and outstanding:		
Common voting shares	124,060,098	123,947,500
Variable voting shares	8,270,767	8,309,294
Total voting shares issued and outstanding	132,330,865	132,256,794
Voting shares potentially issuable:		
Stock options	3,637,167	3,850,898
RSUs – Key employee and pilot plan	465,417	465,417
RSUs – Executive share unit plan	214,168	214,168
PSUs	254,515	254,515
Total voting shares potentially issuable	4,571,267	4,784,998
Total outstanding and potentially issuable voting shares	136,902,132	137,041,792

Quarterly dividend policy

Our dividend policy is reviewed on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On February 5, 2013, the Board of Directors declared our 2013 first quarter dividend of $0.10 per common voting share and variable voting share payable on March 28, 2013 to shareholders of record on March 13, 2013. This represents an increase of 25 per cent from our previous quarterly amount of $0.08 per share and is our third increase since the initiation of our dividend program in November 2010. We believe this demonstrates our confidence in delivering continued profitable results and is consistent with our objective of creating and returning value to our shareholders.

Normal course issuer bid

On February 7, 2012, we filed a notice with the TSX for a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, we were authorized to purchase up to 6,914,330 common voting shares and variable voting shares (representing approximately 5 per cent of our issued and outstanding at the time of the bid) during the period of February 10, 2012 to February 9, 2013, or until such time as the bid is completed or terminated at our option. Any shares purchased under the bid were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transactions. Shares acquired under the 2012 bid were cancelled. As of November 26, 2012, we successfully completed the bid for total consideration of $112.1 million.

A shareholder of WestJet may obtain a copy of the notice filed with the TSX in relation to the bid, free of charge, by contacting the Corporate Secretary of WestJet at 22 Aerial Place N.E., Calgary, Alberta T2E 3J1 (telephone: (403) 444-2600) or by faxing a written request to (403) 444-2604.

Subject to the approval of the TSX, upon the expiry of the 12-month period of our 2012 normal course issuer bid, we intend to make an application to the TSX to initiate a further normal course issuer bid to purchase up to 5 per cent of our issued and outstanding shares pursuant to the rules of the TSX. If our application is accepted by the TSX, any shares purchased under the 2013 normal course issuer bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transactions. Shares acquired under such bid will be cancelled.

OUTLOOK

Our positive momentum is clearly reflected in the record earnings per share and load factors accomplished in 2012. We flew 17.4 million guests in 2012, a year-over-year increase of 8.6 per cent and surpassed our sustainable ROIC target of 12 per cent for the second consecutive quarter, achieving 13.7 per cent for the year. During 2012, we increased our system-wide capacity by 4.1 per cent and saw our traffic increase by 8.1 per cent. We realized record quarterly load factors in all four quarters of 2012 with year-over-year increases in both yield and RASM. We expect moderate growth in RASM and margin expansion in the first quarter of 2013, notwithstanding the difficult prior year comparisons and increases in system-wide capacity.

We will add five Boeing 737 Next-Generation aircraft in 2013, the first of which delivered in January 2013 and remaining four are scheduled to deliver in March (2), October (1) and December (1). This will bring our Boeing 737 aircraft count to 105 by the end of 2013. WestJet Encore will take delivery of seven Bombardier Q400 NextGen aircraft in 2013, with the first two scheduled for delivery in June. We anticipate system-wide capacity growth for 2013 to be between 7.5 and 8.5 per cent. System-wide capacity increases are expected to be between five and six per cent year over year for the first quarter of 2013. We are projecting domestic capacity growth of between five and six per cent for the full-year, and down two to three per cent year-over-year for the first quarter of 2013.

We expect fuel costs to range between 94 and 96 cents per litre for the first quarter of 2013. This is based on current forecasted jet fuel prices of US$136 per barrel and an average foreign exchange rate of approximately one Canadian dollar to one US dollar. We anticipate our first quarter and full-year 2013 CASM, excluding fuel and employee profit share, to be up two to three per cent compared to 2012. This incorporates costs associated with the launch of WestJet Encore.

For the full-year 2013, we are forecasting capital expenditures of approximately $430 million to $450 million, with spending related primarily to direct owned aircraft deliveries, deposits on future aircraft, overhauls on owned engines and rotable purchases. For the first quarter of 2013, we expect our capital expenditures to range between approximately $140 and $150 million. The full-year and first-quarter 2013 estimates include the purchase commitments for the three Boeing 737-800 aircraft scheduled for delivery during the first quarter of 2013. The previously provided capital expenditure guidance excluded these purchase commitments.

We estimate that our 2013 annual effective income tax rate will range between 27.0 and 29.0 per cent. We will begin paying income tax in early 2013 for current taxes accrued in 2012 and expect that ongoing cash tax installments will be required moving forward.

2013 promises to be another exciting year for WestJet as we launch WestJet Encore, add to and evolve our airline partnerships, and enhance value to more business and leisure guests. The introduction of fare bundles, WestJet Plus, and new options for more comfort, convenience and flexibility will give our guests more choices than ever. We remain focussed on our sustainable ROIC target of 12 per cent and believe this will allow us to continue generating and returning value to our shareholders.

Guidance summary

	Three months ended March 31, 2013	Year ended December 31, 2013
RASM	Moderate Growth	
Fuel cost per litre	94 to 96 cents	
CASM, excluding fuel and profit share	Up 2% to 3%	Up 2% to 3%
System capacity	Up 5% to 6%	Up 7.5% to 8.5%
Domestic capacity	Down 2% to 3%	Up 5% to 6%
Effective tax rate		27% to 29%
Capital expenditures	$140 to $150 million	$430 to $450 million

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Our financial assets and liabilities consist primarily of cash and cash equivalents, restricted cash, accounts receivable, derivative instruments, identified interest-bearing deposits, accounts payable and accrued liabilities and long-term debt.

We are exposed to market, credit and liquidity risks associated with our financial assets and liabilities. From time to time, we 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, including those related to financial instruments. Management performs continuous assessments so that all significant risks related to financial instruments are reviewed and addressed in light of changes to 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 affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. 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. During the first quarter of 2012, we decided to cease our fuel hedging program based on our strong financial position and our ability to adjust to volatile fuel prices along with the completion of an in-depth internal analysis on the cost of the program in comparison to its potential benefits. As a result, all remaining contracts were extinguished during the second quarter, leaving no fuel derivative contracts outstanding at December 31, 2012.

Previously, upon proper qualification, we accounted for 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 was recognized in hedge reserves, while the ineffective portion was recognized in non-operating income (expense). Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves were recorded in net earnings as a component of aircraft fuel expense. We excluded time value from the measurement of effectiveness; accordingly, changes in time value were recognized in non-operating income (expense) during the period the change occurred.

For a discussion of the nature and extent of our use of fuel derivatives for the years ended December 31, 2012 and 2011, including the financial statement classification and amount of income, expense, gain and loss associated with the instruments, please refer to *2012 Results of operations – Aircraft fuel* on page 24 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 monetary assets and liabilities and our US-dollar-denominated operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operation costs. To manage our exposure, we periodically use financial derivative instruments, including US-dollar foreign exchange forward contracts. 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 derivatives, including the business purposes they serve; risk management activities; the financial statement classification and amount of income, expense, gain and loss associated with the instruments; and the significant assumptions made in determining their fair value, please refer to *2012 Results of operations – Foreign exchange* on page 27 of this MD&A.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument 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. A change of 50 basis points in the market interest rate would have had an approximate impact on net earnings of $5.0 million for the year ended December 31, 2012 (2011 – $4.4 million) as a result of our cash and cash equivalents. We are also exposed to interest rate fluctuations on our deposits that relate to purchased aircraft and airport operations which, at December 31, 2012, totalled $31.1 million (2011 – $28.4 million). A reasonable change in market interest rates at December 31, 2012, would not have significantly impacted our net earnings due to the balance of these deposits.

The fixed-rate nature of the majority of our long-term debt mitigates the impact of interest rate fluctuations over the term of the outstanding debt. We account for our long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates at December 31, 2012, would not impact net earnings. We are exposed to interest rate fluctuations on our variable-rate long-term debt entered into during 2012, which, at December 31, 2012 totalled $69.2 million or 9.4% of the Corporation's total long-term debt. To manage this exposure, we entered into interest rate swap agreements to fix the interest rates over the terms of the facilities. The swap agreements were designated as cash flow hedges for accounting purposes.

For a discussion of the nature and extent of our use of interest rate swap agreements, including the business purposes they serve; risk management activities; the financial statement classification and amount of income, expense, gain and loss associated with the instruments; and the significant assumptions made in determining their fair value, please refer to *Liquidity and Capital Resources – Aircraft Financing* on page 34 of this MD&A.

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. At December 31, 2012, our credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, deposits as well as the fair value of derivative financial assets.

($ in thousands)	2012	2011
Cash and cash equivalents (i)	1,408,199	1,243,605
Restricted cash (i)	51,623	48,341
Accounts receivable (ii)	37,576	34,122
Deposits (iii)	31,088	28,386
Derivative financial assets (iv)	800	12,273

(i) Consists of bank balances and short-term investments with terms of up to 92 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, some of which are directly or indirectly guaranteed by provincial governments. We manage our exposure by assessing the financial strength of our counterparties and by limiting the total exposure to any single counterparty.

(ii) All significant counterparties, both current and new, are reviewed and approved for credit on a regular basis under our credit management policies. We do not hold any collateral as security; however, in some cases we require guaranteed letters of credit with certain counterparties. Trade receivables are generally settled in less than 30 to 60 days. Industry receivables are generally settled within 30 days.

(iii) 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 to be remote because of the nature and size of the counterparty.

(iv) Derivative financial assets consist of fuel derivative contracts and foreign exchange forward contracts. We review the size and credit rating of both current and any new counterparties in addition to limiting the total exposure to a single 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 flow for our non-derivative and derivative financial liabilities as at December 31, 2012. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date, and includes both principal and interest cash flows for long-term debt.

($ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years
Accounts payable and accrued liabilities(i)	417,377	417,377	—	—	—
Derivative financial liabilities(ii)	1,777	1,509	758	169	(659)
Long-term debt	853,163	203,381	350,222	192,563	106,997
Total	1,272,317	622,267	350,980	192,732	106,338

(i) Excludes current portion of maintenance provisions of $34,135, deferred WestJet Rewards liability of $41,117, foreign exchange derivative liabilities of $898 and interest rate derivative liabilities of $611.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of $898 and net interest rate derivative contracts of $879.

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 statement of financial position approximate their fair values because of the short-term nature of the instruments. At December 31, 2012, the fair value of our long-term debt was approximately $810.6 million (2011 – $937.3 million). The fair value of our fixed-rate long-term debt is determined by discounting the future contractual cash flow 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. At December 31, 2012, rates used in determining the fair value ranged from 1.52 per cent to 1.72 per cent (2011 – 1.28 per cent to 1.61 per cent). Though the interest rates used to fair value our fixed-rate long-term debt have remained relatively the same, the fair value debt decreased due to the decline in our long-term debt balances. 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 *2012 Results of Operations – Foreign exchange* and *Liquidity and Capital Resources – Aircraft Financing* on page 27 and page 34, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of derivatives designated in an effective hedging relationship at December 31, 2012.

RISKS AND UNCERTAINTIES

The risks described below are not intended to be an exhaustive list of all risks facing the Corporation. Other risks of which we are not currently aware or which we currently deem immaterial may surface and have a material adverse impact on our business.

Risks relating to the business

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 seen historically elevated levels throughout the past few years and is largely unpredictable. Fuel prices are affected 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 and by factors such as our low-cost high value philosophy, the portion of our guest segment that travels on a discretionary basis for leisure, and the demand impact resulting from fare increases.

Our fuel costs constitute our largest single expense category, representing 32.5 per cent of operating costs in 2012 and in 2011. Our low cost structure has been one of our core strategic advantages and facilitates our ability to offer our guests lower fares, which in turn allows us to increase market share and yield, and impact our growth strategy. Therefore, the price of fuel has affected, and could continue to affect, the timing and nature of our growth initiatives, and our ability to hedge our fuel costs on a cost-effective basis may be limited and could adversely affect our financial results.

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 those of our competitors, if their hedging programs are effective in mitigating the risk of the increasing costs of jet fuel.

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.

Our plan to launch WestJet Encore, a short-haul regional airline, could result in unforeseen disruptions, distractions and costs.

From our beginning, we have operated using a single aircraft type, the Boeing 737, and through our extensive experience in operating and maintaining that single aircraft type we have developed systems and procedures to mitigate operating and financial risks. To effectively launch and integrate a new short-haul regional airline into our current operations, we must establish appropriate operational, administrative, finance, management systems and controls and marketing functions relating to such an airline, which could result in the occurrence of unforeseen costs that may adversely affect our profitability.

This initiative will also require substantial attention from our management team. This diversion of management attention, as well as any other difficulties which we may encounter in undertaking the process of developing and integrating a new short-haul regional airline with our existing business could have an adverse impact on our business, financial condition, results of operations and cash flows. We may not realize on one or more of the goals we have established for WestJet Encore which could affect the profitability of the new airline.

As we have expanded our use of partnership agreements with other airlines our financial results will become more sensitive to the effectiveness of our interline and code sharing arrangements.

We have expanded our network through airline partnerships with other airlines around the world. Our results will be affected by the traffic exchanged with our partners in other jurisdictions who we rely on through these arrangements to bring passengers onto our network. As well, guest satisfaction depends on the quality of the flying experience and we could therefore be affected by guest perceptions of their flight experience that are shaped by the quality of service offered by our partners. The effectiveness of these partnerships also depends on seamless integration of systems between us and our partners and technical issues encountered in integrating our network with those of our partners could adversely affect our guests and have a negative effect on our business.

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, increased expenses, and could generally harm our business.

Key technology systems, including our revenue accounting system and reservation systems, are outsourced to third parties on whom we are reliant for timely and accurate processing of information critical to our business.

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 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 adverse impact on our guest bookings, revenue and profitability.

We are dependent on single aircraft and engine suppliers for our 737 aircraft and separate single aircraft and engine suppliers for our Q400 aircraft commitments. 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 supplier for our 737 aircraft and we are dependent on Bombardier as supplier for our Q400 aircraft commitments. If we were unable to acquire additional aircraft from these suppliers, or if they were unable or unwilling to provide adequate support for their products, our operations would be materially adversely affected. If either of the suppliers was unable to adhere to its contractual obligations in meeting scheduled delivery dates for our owned aircraft, we would be required to find another supplier of 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 aircraft type, including negative perceptions from the travelling community.

We are also dependent on General Electric as our sole supplier of aircraft engines on our 737 fleet and would therefore be materially adversely affected in the event of a mechanical or regulatory issue associated with our engines. We are dependent on Pratt Whitney as the sole supplier of aircraft engines for our Q400 aircraft commitments.

Our ability to obtain parts, materials, inventory, consumables and services from third party vendors and outside service providers on commercially reasonable terms will also impact our low cost operating structure and the loss of any such suppliers or service providers may negatively impact our operating results.

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 our business.

Our business is labour intensive and requires large numbers of pilots, flight attendants, mechanics, customer service 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 operation costs. Since our revenue 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 purchase of the 35 remaining 737 aircraft for which we have purchase commitments. 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. We continuously review financing alternatives available to us for our future direct aircraft deliveries. 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.

Our maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2012, was 6.7 years. These aircraft require less maintenance now than they will in the future. Our maintenance costs will increase as our fleet ages and warranties expire. At December 31, 2012, 76 aircraft have come off warranty, with an additional 10 coming off warranty in 2013.

In 2013, we expect to overhaul 12 engines, 16 sets of landing gear, and five airframes, at an estimated total cost of approximately US$55 to $60 million. Overhaul costs on owned components are separately capitalized and amortized over the period until the next overhaul. Overhaul costs on leased components are accrued for in our maintenance provision. Of the 12 engines expected to be overhauled in 2013, three are owned and nine are leased. The related leases require maintenance reserve payments, from which we expect to claim reimbursement of the engine overhaul costs. The 16 sets of landing gear expected to be overhauled in 2013 are owned, and the five airframes expected to be overhauled in 2013 are leased.

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. 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 requirements 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. Changes in the conditions of the equity capital markets, the debt capital markets and the commercial bank market, as well as regulatory or other government-imposed changes, could adversely impact WestJet's access to and cost of financing which could harm our ability to meet our growth strategy.

Loss of contracts, changes to our pricing agreements or access to travel suppliers' products and services could have an adverse impact on WestJet Vacations.

We depend on third parties to supply us with certain components of the travel packages sold through WestJet Vacations. We are dependent, for example, on a large number of hotels in our transborder and international destinations in the United States, Mexico and the Caribbean. In general, these suppliers can terminate or modify existing agreements with us on relatively short notice. The potential inability to replace these agreements, to find similar suppliers or to renegotiate agreements at competitive rates could have an adverse effect on the results of WestJet Vacations. Furthermore, any decline in the quality of products or services provided by these suppliers, or any perception by travelers of such a decline, could adversely affect our reputation or the demand for the products and services of WestJet Vacations.

As the airline industry is labour intensive, significant increases in labour costs could have an adverse impact on WestJet.

The airline business is labour intensive. Salaries and benefits represented approximately 22 per cent of WestJet's operating expenses for the year ended December 31, 2012. Employment-related issues that may impact WestJet's results of operations include hiring/retention rates, pay rates, outsourcing costs and the costs of employee benefits. Significantly increased labour costs, combined with curtailed growth, could negatively impact WestJet's competitive position.

Our business is subject to the effects of weather and natural disasters and seasonality, which can cause our results to fluctuate.

Our results of operations will reflect fluctuations from weather, natural disasters and seasonality. Severe weather conditions and natural disasters can significantly disrupt service and create air traffic control problems. These events decrease revenue and can also increase costs. In addition, increases in frequency, severity or duration of thunderstorms, hurricanes or other severe weather events, including from changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays and cancellations, any of which would increase the potential for greater loss of revenue and higher costs.

There are risks associated with our presence in some of our international emerging markets, including political or economic instability and failure to adequately comply with existing legal requirements.

Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us and the resulting instability may adversely affect our business.

We continue to expand our service to Mexico and countries in the Caribbean, some of which have less developed legal systems, financial markets, and business and political environments than Canada and the United States, and therefore present greater political, economic and operational risks. We emphasize legal compliance and have implemented policies, procedures and certain ongoing training of employees with regard to business ethics and many key legal requirements; however, there can be no assurance that our employees will adhere to our code of business ethics, our other policies, or other legal requirements. If we fail to enforce our policies and procedures properly or maintain adequate record-keeping and internal accounting practices to accurately record our transactions, we may be subject to sanctions. In the event that we believe or have reason to believe that employees have or may have violated applicable laws or regulations, we may be subject to investigation costs, potential penalties and other related costs which in turn could negatively affect our results of operations and cash flow.

Risks relating to the airline industry

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 Montréal and Warsaw Conventions. Any changes to these or other conventions or treaties could increase our potential liability to guests.

We carry insurance similar to other scheduled airlines operating in the North American market. While we believe our insurance is adequate, there can be no assurance that such coverage will fully protect us against all losses that we might sustain, 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 possibility that a significant terrorist attack, pandemic or geological event could have a material impact on our operations, which could also negatively impact the insurance market and our ability to obtain coverage at current terms.

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 not be available to us in the commercial markets, and the costs and impact of such costs are, as yet, undetermined.

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.

General worldwide economic conditions have experienced negative impacts due to the effects of the European debt crisis, unfavourable U.S. economic conditions and slowing growth in certain Asian economies, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. The airline industry is particularly sensitive to changes in economic conditions, which affect guest travel patterns and related revenue. 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 revenue and results of operations.

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, since 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 the same Canadian airlines and numerous U.S. carriers in the transborder and international markets. We face significant competition from other airlines that are serving most of our existing and potential markets. Other airlines regularly meet or price their fares below our fares, potentially preventing us from attaining a share of the guest traffic necessary to maintain profitable operations. Our ability to meet price competition depends on our ability to operate at costs lower than that of our competitors or potential competitors over the medium to long term.

In addition, consumers are able to more effectively shop for travel services through 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. A significant 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.

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 impact on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations or reducing the demand for air travel.

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.

The increase in security measures and clearance times required for guest travel 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 revenue and results of operations.

Many aspects of airlines' operations are subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition of additional regulation particularly with respect to greenhouse gas emissions. Numerous jurisdictions around the world have implemented or announced measures to penalize for greenhouse gas emissions as a means to deal with climate change. Certain of these measures cover the airline industry or may do so in the future. The impact to us and our industry from such actions is likely to be adverse and could be significant, particularly if regulators were to conclude that emissions from commercial aircraft cause significant harm to the upper atmosphere or have a greater impact on climate change than other industries. We may be directly exposed to such measures, which could result in additional costs that could adversely affect our margins and results of operations. We may not be able to recover the cost of compliance with new or more stringent environmental laws and regulations from our guests, which could adversely affect our business.

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 decline in guest traffic and revenue, and increased security and insurance costs. In late 2009, certain incidents again heightened the concern regarding terrorist attacks. Any future incidents causing a heightened concern over potential terrorist attacks could cause a decrease in guest traffic and yields, and an increase in security measures and related costs for the airline industry generally. Additional terrorist attacks would likely have a 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 due to weather conditions and work stoppages or strikes by airport workers, baggage handlers, air traffic controllers and other workers not employed by us could have a material adverse impact on our financial condition and operating results. Delays contribute to increased costs and decreased aircraft utilization, which negatively affect profitability.

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

A localized epidemic or a global pandemic may adversely affect our business.

A widespread outbreak of communicable disease (whether domestic or international) or any governmental or World Health Organization travel advisories (whether relating to Canadian or international cities or regions) 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.

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 through to air carriers and air travellers, may negatively impact travel, in particular, discretionary travel.

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

ACCOUNTING

Critical accounting judgments and estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make both judgments and estimates that could materially affect the amounts recognized in the financial statements. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The following judgments and estimates are those deemed by management to be material to the preparation of the financial statements.

Judgments

(i) Componentization

The componentization of our assets, namely aircraft, are based on management's judgment of what costs constitute a significant cost in relation to the total cost of an asset and whether these costs have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization. The components chosen by management may have a material effect on the balances of property, plant and equipment and intangible assets as well as the provision for depreciation and amortization recorded in earnings each period.

(ii) Depreciation and amortization

Depreciation and amortization methods for aircraft and related components as well as other property, plant and equipment and intangible assets are based on management's judgment of the most appropriate method to reflect the pattern of the asset's future economic benefit expected to be consumed. These judgments are based on industry standards, manufacturers' guidelines and company-specific history and experience.

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or Cash Generating Unit (CGU) is impaired. The determination of CGUs are also based on management's judgment and are an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations.

(iv) Lease classification

Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in *IAS 17 – Leases*. The most prevalent leases are those for aircraft. Management has determined that all of our leased aircraft are operating leases based on an internal review and analysis of the aircraft leasing agreements against the criteria included in *IAS 17 – Leases* at the inception of the lease.

Estimates

(i) Depreciation and amortization

Depreciation and amortization are calculated to write off the cost, less estimated residual value, of assets on a straight-line basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including vendors, industry practice, and company-specific history and experience. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions.

Our aircraft are depreciated over a term of 20 years, with residual values ranging between $4.0 million and $6.0 million per aircraft. The cost to overhaul our engines, airframes and landing gear on owned aircraft is depreciated over a term of eight to 15 years. Spare engines are depreciated over a term of 20 years, with a residual value equal to approximately 10 per cent of the original purchase price. Buildings are depreciated over a term of 40 years and ground property and equipment is depreciated over five to 25 years.

Included in intangible assets are costs related to software, trademarks and landing rights. Intangible assets with definite lives are carried at cost less accumulated amortization and are amortized on a straight-line basis over their respective useful life of five and 20 years. Expected useful lives and amortization methods are reviewed annually. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Expense is recorded on the consolidated statement of earnings as depreciation and amortization.

(ii) Maintenance provisions

We have legal obligations to adhere to certain maintenance conditions set out in our aircraft operating lease agreements relating to the condition of the aircraft when it is returned to the lessor. To fulfill these obligations, a provision is made during the lease term. Estimates related to the maintenance provision include the likely utilization of the aircraft, the expected future cost of the maintenance, the point in time at which maintenance is expected to occur, the discount rate used to present value the future cash flows and the lifespan of life-limited parts. These estimates are based on data and information obtained from various sources including the lessor, current maintenance schedules and fleet plans, contracted costs with maintenance service providers, other vendors and company-specific history and experience.

We recognize maintenance expense in the consolidated statement of earnings based on aircraft usage and the passage of time as well as changes to previously made judgments or estimates. The unwinding of the discounted present value is recorded as a finance cost. At December 31, 2012, our maintenance provision is discounted using a weighted average risk-free rate of approximately 1.16% (2011 – 1.20%) which is equal to the weighted average remaining term of approximately 38 months until cash outflow (2011 – 43 months).

(iii) Fair value of awards and breakage associated with WestJet Rewards

Estimates are required in determining the fair value of the credits awarded for air travel and related rewards under WestJet Rewards. Estimates are also required in determining the amount of revenue to be deferred for these credits and the proportion of credits that will ultimately be redeemed, commonly referred to as breakage. Breakage is based on company-specific redemption history and future forecasts of expected redemption.

(iv) Income taxes

Current tax assets and liabilities are recognized based on amounts receivable from or payable to a tax authority within the next 12 months. A current tax asset is recognized for a benefit relating to an unused tax loss or unused tax credit that can be carried back to recover current tax of a previous period. Deferred tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities on the consolidated statement of financial position using the tax rates that are expected to apply in the period in which the deferred tax asset or liability is expected to settle. Deferred tax assets are only recognized to the extent that it is probable that a taxable profit will be available when the deductible temporary differences can be utilized. A deferred tax asset is also recognized for any unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will available for use against the unused tax losses and unused tax credits.

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. We closely monitor current and potential changes to tax law and base our estimate on the best available information at each reporting date.

Current and deferred tax benefit or expense is recognized in the same period as the related transaction or event is recognized in net earnings.

(v) Impairment of assets

Impairment assessments may require us to determine the recoverable amount of a CGU, defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: the determination of fair value, selling costs, timing and size of cash flows, and discount and interest rates.

(vi) Fair value of equity-settled share-based payments

Grants under our equity-settled share-based compensation plans are measured at the fair value of the equity instrument granted. We use an option pricing model to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. We consider historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Separate from the fair value calculation, we are required to estimate the expected forfeiture rate of share-based payment expense. We have assessed forfeitures to be insignificant based on the underlying terms of our compensation plans.

The cost of our equity-settled share-based payments is recognized as compensation expense within the respective department's operating expense line item with a corresponding increase to equity reserves over the related service period.

(vii) Fair value of derivative instruments

We use various financial derivative instruments such as forwards, swaps and call options to manage fluctuations in foreign exchange rates, interest rates and jet fuel prices.

The fair value of derivative instruments is estimated using inputs, including forward commodity prices, foreign exchange rates, interest rates and volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of our derivative instruments are subject to regular changes in fair value each reporting period. Please refer to *2012 Results of Operations – Foreign exchange* and *Liquidity and Capital Resources – Aircraft Financing* on page 27 and page 34, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of our derivatives designated in an effective hedging relationship at December 31, 2012.

Future accounting pronouncements

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing our audited consolidated financial statements and notes thereto, for the years ended December 31, 2012 and 2011 as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date (i)
IFRS 10 – Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	SIC-12 – Consolidation – Special Purpose Entities IAS 27 – Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 – Interests in Joint Ventures SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	Various – no direct replacement	January 1, 2013
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various – no direct replacement	January 1, 2013
IFRS 9 – Financial Instruments	Addresses the classification and measurement of financial assets and financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

(i) Effective for annual periods beginning on or after the stated date.

Management has performed an initial assessment of the new standards effective January 1, 2013 and anticipates the impact will result in additional disclosure requirements, but no recognition or measurement impacts to the financial statements.

The Corporation does not anticipate early adopting these standards at this time.

CONTROLS AND PROCEDURES

Disclosure controls and procedures (DC&P)

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 our DC&P was conducted, as at December 31, 2012, 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, 2012, our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

Internal control over financial reporting (ICFR)

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with 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 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 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 our ICFR using the framework and criteria established in Internal Controls – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2012, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2012 that have materially affected, or are reasonably likely to affect, our ICFR.

FORWARD-LOOKING INFORMATION

This MD&A offers our assessment of WestJet's future plans, operations and outlook and contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation: our plans to launch WestJet Encore in the second half of 2013, referred to under the headings *WestJet Encore* on page 21 and *Outlook* on page 39; our intention to announce the WestJet Encore schedule in February 2013, referred to under the heading *WestJet Encore* on page 21 our plans to make the WestJet Hero Holiday an annual event, referred to under the heading *WestJetters* on page 21; our expectation that the fleet reconfiguration project is expected to be fully completed by the end of the first quarter of 2013 and the impact of such reconfiguration on CASM, as referred to under the headings *Service enhancements* on page 22 and *Outlook* on page 39; our intention to introduce to the market three different fare bundles during the first half of 2013 which we expect to provide incremental revenue opportunities in the range of $50 million to $80 million on an annualized basis, as referred to under the headings *Service enhancements* on page 22 and *Outlook* on page 39; our key strategy to establish partnerships with airlines from all major geographical regions around the world, referred to under the heading *Network expansion* on page 22; our expectation that we will continue to mitigate risk of movements in fuel prices through our revenue management strategy and that we may re-visit our hedging program, referred to under the heading *Aircraft fuel* on page 24; our estimated sensitivity to fuel costs and changes in fuel pricing, referred to under the heading *Aircraft fuel* on page 24; our estimated sensitivity to the change in value of the Canadian dollar versus the US dollar, referred to under the heading *Foreign exchange* on page 27 our anticipation that our annual effective tax rate for 2013 will fall within the range of 27 and 29 per cent and that we will begin paying income tax in early 2013 with the expectation that ongoing tax instalments will be required moving forward, referred to under the headings *Income taxes* on page 28 and *Outlook* on page 39; our plan to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing and expectations to our future ability to access similar or different sources of liquidity than we historically have, referred to under the heading *Contractual obligations and commitments* on page 35; 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 flow, referred to under the heading *Contingencies* on page 35; our expectation that we will fund operating leases and commitments through cash from operations, referred to under the heading *Aircraft operating leases* on page 37; our intention to pay the 2013 first quarter dividend to shareholders of record on March 13, 2013 on March 28, 2013, referred to under the heading *Quarterly dividend policy* on page 38; our intention to make an application to the TSX to initiate a further normal course issuer bid along with our intention, if approved, to purchase shares pursuant to the normal course issuer bid on the open market through the facilities of the TSX and to cancel any shares purchased pursuant to such bid, referred to under the heading Normal course issuer bid on page 38; our expectations that we will moderate RASM growth and margin expansion in the first quarter of 2013, notwithstanding the difficult prior year comparisons and increase in system-wide capacity, referred to under the heading *Outlook* on page 39; our expectation of 2013 aircraft deliveries of five Boeing 737 aircraft and seven Bombardier Q400 aircraft, as referred to under the heading *Outlook* on page 39; our expectation that 2013 system-wide capacity will increase between 7.5 and 8.5 per cent on a full-year basis, as referred to under the heading *Outlook* on page 39; our expectation that system-wide capacity for the first quarter of 2013 will increase by five to six per cent, as referred to under the heading *Outlook* on page 39; our expectation that domestic capacity will increase by five to six per cent year-over-year in 2013 and down two to three per cent year-over-year for the first quarter of 2013, as referred to under the heading *Outlook* on page 39; our projection of fuel costs to range between 94 and 96 cents per litre for the first quarter of 2013, as referred to under the heading *Outlook* on page 39; our anticipation that our first quarter and 2013 full-year CASM, excluding fuel and employee profit share, will be up two to three per cent compared to 2012, referred to under the heading *Outlook* on page 39; our expectation that full-year 2013 capital expenditures will range between $430 and $450 million and 2013 first quarter capital expenditures will range between $140 and $150 million, as referred to under the heading *Outlook* on page 39; our belief that our ROIC target of 12 per cent will allow us to continue generating and returning value to our shareholders, referred to under the heading *Outlook* on page 39; our expectations with respect to the overhaul of 12 engines, 16 sets of landing gear and five airframes in 2013, as referred to under the heading *Our maintenance costs will increase as our fleet ages* on page 44; and our expectations with respect to the impact of future accounting policy standards, amendments and interpretations, including the impact of such on the Corporation, referred to under the heading *Future accounting pronouncements* on page 51.

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 information contained within this MD&A, we have made the following key assumptions:

- Our plans to launch WestJet Encore in the second half of 2013 along with our intention to announce the WestJet Encore schedule in February 2013 is based on the current project plan for our regional airline and anticipated timing for receipt of regulatory approvals;
- Our plans to make WestJet Hero Holiday an annual event is based on the Corporation's long-term community investment initiatives;
- Our expectation that the fleet reconfiguration will be fully completed by the end of the first quarter of 2013 and our intention to introduce to the market three different fare bundles during the first half of 2013 which we expect to provide incremental revenue opportunities in the range of $50 million to $80 million on an annualized basis is based on our current strategic plan for the fleet reconfiguration project and the completion of certain system enhancements;
- Our key strategy to establish partnership with airlines from all major geographical regions around the world is based on our current strategic plan;
- Our expectation that we will continue to mitigate the risk of movements in fuel prices through our revenue management strategy and that we may re-visit our hedging program is based on our risk management policies;
- Our estimated sensitivity to fuel costs and changes in fuel prices is 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 rate;
- Our estimated sensitivity to the change in value of the Canadian dollar versus the US dollar is based on forecasted operating expenses denominated in US dollars, excluding a portion of aircraft leasing expenses hedged under foreign exchange forward contracts, as well as the exchange rate for the Canadian dollar similar to the current market rate;

- Our expected annual effective tax rate for 2013 and that we will begin paying income tax in early 2013 with the expectation that ongoing tax instalments will be required moving forward, is based on forecasted financial information, tax rates, current legislation, and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- Our plans to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing is based on our current financial position and strategic plan;
- Our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect on our financial position, results of operations or cash flow is based on a review of current legal proceedings by management and legal counsel;
- Our expectation that we will fund operating leases and commitments through cash from operations is based on our current strategic plan, budget and forecast;
- Our intention to pay our 2013 first quarter dividend to shareholders of record on March 13, 2013 on March 28, 2013 is based on the declaration and terms of the dividend declared by our Board of Directors;
- Our intention to make an application to the TSX to initiate a further normal course issuer bid along with our intention, if approved, to purchase shares pursuant to the normal course issuer bid on the open market through the facilities of the TSX and to cancel any shares purchased pursuant to such bid is subject to approval by the TSX and is based on the TSX requirements with respect to normal course issuer bids;
- Our expectations that we will have moderate RASM growth and margin expansion, notwithstanding the difficult prior year comparisons and increase in capacity, in the first quarter of 2013 is based on our current demand forecast and expected aircraft deliveries;
- Our expectation of aircraft deliveries of five Boeing 737 aircraft and seven Bombardier Q400 aircraft is based on our current aircraft delivery schedule and fleet plans;
- Our expectation that 2013 full-year system-wide capacity will increase between 7.5 and 8.5 per cent, that capacity for the first quarter of 2013 will increase by five to six per cent basis and that domestic capacity will increase by five and six per cent year-over-year in 2013 and down two to three per cent year-over-year for the first quarter of 2013 is based on our current network plans and aircraft deliveries;
- Our projection of fuel costs to range between 94 and 96 cents per litre for the first quarter of 2013 is based on current forecasted jet fuel prices of US $136 per barrel and an average foreign exchange rate of approximately one Canadian dollars to one US dollar;
- Our anticipation that our first quarter and 2013 full-year CASM, excluding fuel and employee profit share, will be up two to three per cent compared to 2012 is based on our current operating forecast;
- Our expectation that full-year 2013 capital expenditures will range between $430 and $450 million and 2013 first quarter capital expenditures will range between $140 and $150 million is based on our 2013 capital forecast and contractual commitments;
- Our belief that our ROIC target of 12 per cent will allow us to continue generating and returning value to our shareholders is based on our current financial and operating results as well as our long-term strategic goals;
- Our expectations with respect to the overhaul of 12 engines, 16 sets of landing gear and five airframes in 2013 is based on our current maintenance shop plan; and
- Our expectations with respect to the impact of future accounting policy standards, amendments and interpretations is based on our current accounting policies and the assessment of those standards on our policies.

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

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

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

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

Revenue per available seat mile (RASM): Total revenue 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.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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

Adjusted debt: The sum of long-term debt, obligations under finance leases and off-balance-sheet aircraft operating leases. Our practice, consistent with common airline industry practice, is to multiply the trailing 12 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, equity reserves and retained earnings, excluding hedge reserves. 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 net finance costs, 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 measure commonly used in the airline industry to evaluate results by excluding differences in the method by 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 because fuel prices are affected 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 because of its variable nature and excluding this expense allows for greater comparability.

Return on invested capital: ROIC is a measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on our earnings before tax, excluding special items, finance costs and implied interest on our off-balance-sheet aircraft leases. Invested capital includes average long-term debt, average finance lease obligations, average shareholders' equity and off-balance-sheet aircraft operating leases.

Free cash flow: Operating cash flow less capital expenditures. This measure is used to calculate the amount of cash available that can be used to pursue other opportunities after maintaining and expanding the asset base.

Free cash flow per share: Free cash flow divided by the diluted weighted average number of shares outstanding.

Operating cash flow per share: Cash flow from operations divided by diluted weighted average shares outstanding.

WESTJET

Reconciliation of non-GAAP and additional GAAP measures

The following provides a reconciliation of non-GAAP and additional GAAP measures to the nearest measure under GAAP for items presented throughout this MD&A.

CASM, excluding fuel and employee profit share

	Three months ended December 31			Twelve months ended December 31		
($ in thousands)	2012	2011	Change	2012	2011	Change
Operating expenses	769,040	722,294	46,746	3,051,689	2,814,989	236,700
Aircraft fuel expense	(246,216)	(235,574)	(10,642)	(992,787)	(915,878)	(76,909)
Employee profit share expense	(11,639)	(5,662)	(5,977)	(46,585)	(23,804)	(22,781)
Operating expenses, adjusted	511,185	481,058	30,127	2,012,317	1,875,307	137,010
ASMs	5,487,467,646	5,328,928,405	158,539,241	22,063,583,754	21,186,304,409	877,279,345
CASM, excluding above items (cents)	9.32	9.03	3.2%	9.12	8.85	3.1%

Adjusted debt-to-equity

($ in thousands)	2012	2011	Change
Long-term debt(i)	739,048	828,712	(89,664)
Obligations under finance leases(ii)	—	3,249	(3,249)
Off-balance-sheet aircraft leases(iii)	1,300,590	1,241,783	58,807
Adjusted debt	2,039,638	2,073,744	(34,106)
Total shareholders' equity	1,472,305	1,370,217	102,088
Add: Hedge reserves	5,746	3,353	2,393
Adjusted equity	1,478,051	1,373,570	104,481
Adjusted debt-to-equity	1.38	1.51	(8.6%)

(i) At December 31, 2012, long-term debt includes the current portion of long-term debt of $164,909 (December 31, 2011 – $158,832) and long-term debt of $574,139 (December 31, 2011 – $669,880).

(ii) At December 31, 2012, obligations under finance leases includes the current portion of obligations under finance leases of $nil (December 31, 2011 – $75) and obligations under finance leases of $nil (December 31, 2011 – $3,174).

(iii) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2012, the trailing 12 months of aircraft leasing costs totalled $173,412 (December 31, 2011 – $165,571).

Adjusted net debt to EBITDAR

($ in thousands)	2012	2011	Change
Net earnings	242,392	148,702	93,690
Add:			
Net finance costs(i)	30,509	44,924	(14,415)
Taxes	97,837	59,304	38,533
Depreciation and amortization	185,401	174,751	10,650
Aircraft leasing	173,412	165,571	7,841
Other(ii)	5,451	3,567	1,884
EBITDAR	735,002	596,819	138,183
Adjusted debt	2,039,638	2,073,744	(34,106)
Less: Cash and cash equivalents	(1,408,199)	(1,243,605)	(164,594)
Adjusted net debt	631,439	830,139	(198,700)
Adjusted net debt to EBITDAR	0.86	1.39	(38.1%)

(i) At December 31, 2012, net finance costs includes the trailing 12 months of finance income of $18,391 (December 31, 2011 – $15,987) and the trailing 12 months of finance cost of $48,900 (December 31, 2011 – $60,911).

(ii) At December 31, 2012, other includes the trailing 12 months foreign exchange gain of $1,061 (December 31, 2011 – gain of $2,485) and the trailing 12 months non-operating loss on derivatives of $6,512 (December 31, 2011 – loss of $6,052).

Return on invested capital

($ in thousands)	2012	2011	Change
Earnings before income taxes	340,229	208,006	132,223
Add:			
Finance costs	48,900	60,911	(12,011)
Implicit interest in operating leases(i)	91,041	86,925	4,116
	480,170	355,842	124,328
Invested capital:			
Average long-term debt(ii)	783,880	927,757	(143,877)
Average obligations under finance leases(iii)	1,625	3,303	(1,678)
Average shareholders' equity	1,421,261	1,337,225	84,036
Off-balance-sheet aircraft leases(iv)	1,300,590	1,241,783	58,807
	3,507,356	3,510,068	(2,712)
Return on invested capital	13.7%	10.1%	3.6 pts.

(i) Interest implicit in operating leases is equal to 7.0 per cent of 7.5 times the trailing 12 months of aircraft lease expense. 7.0 per cent is a proxy and does not necessarily represent actual for any given period.

(ii) Average long-term debt includes the current portion and long-term portion.

(iii) Average obligations under finance leases include the current portion and long-term portion.

(iv) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2012, the trailing 12 months of aircraft leasing costs totalled $173,412 (December 31, 2011 – $165,571).

Operating cash flow per share

($ in thousands, except per share data)	2012	2011	Change
Cash flow from operating activities	721,634	566,460	155,174
Weighted average number of shares outstanding - diluted	135,964,118	140,638,659	(4,674,541)
Diluted operating cash flow per share	5.31	4.03	31.8%

Free cash flow

($ in thousands, except per share data)	2012	2011	Change
Cash flow from operating activities	721,634	566,460	155,174
Adjusted for:			
Aircraft additions	(218,116)	(61,265)	(156,851)
Other property and equipment and intangible additions	(51,191)	(57,108)	5,917
Free cash flow	452,327	448,087	4,240
Weighted average number of shares outstanding - diluted	135,964,118	140,638,659	(4,674,541)
Diluted free cash flow per share	3.33	3.19	4.4%

Consolidated Financial Statements and Notes

For the years ended December 31, 2012 and 2011

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When a choice between accounting methods exists, management has chosen those they deem 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 so that the consolidated financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures and internal controls over financial reporting, which are designed and operated 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 Canadian generally accepted auditing standards on behalf of the shareholders. The auditors' report outlines the scope of their examination and sets forth their opinion.

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

Calgary, Canada
February 5, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of WestJet Airlines Ltd.

We have audited the accompanying consolidated financial statements of WestJet Airlines Ltd., which comprise the consolidated statement of financial position as at December 31, 2012 and December 31, 2011, the consolidated statement of earnings, changes in equity, cash flows and comprehensive income for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of WestJet Airlines Ltd. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 5, 2013

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

	Note	2012	2011
Revenue:			
Guest		3,133,492	2,790,299
Other		293,917	281,241
		3,427,409	3,071,540
Expenses:			
Aircraft fuel		992,787	915,878
Airport operations		454,114	421,561
Flight operations and navigational charges		366,871	344,442
Sales and distribution		313,082	296,954
Marketing, general and administration		208,620	186,290
Depreciation and amortization		185,401	174,751
Aircraft leasing		173,412	165,571
Inflight		156,411	139,478
Maintenance		154,406	146,260
Employee profit share		46,585	23,804
		3,051,689	2,814,989
Earnings from operations		375,720	256,551
Non-operating income (expense):			
Finance income	15	18,391	15,987
Finance costs	15	(48,900)	(60,911)
Gain on foreign exchange		1,061	2,485
Gain (loss) on disposal of property and equipment		469	(54)
Loss on fuel derivatives	16	(6,512)	(6,052)
		(35,491)	(48,545)
Earnings before income tax		340,229	208,006
Income tax expense:			
Current		66,230	1,236
Deferred		31,607	58,068
	11	97,837	59,304
Net earnings		242,392	148,702
Earnings per share:			
Basic		1.79	1.06
Diluted		1.78	1.06

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

Consolidated Statement of Financial Position
As at December 31
(Stated in thousands of Canadian dollars)

	Note	2012	2011
Assets			
Current assets:			
Cash and cash equivalents	5	1,408,199	1,243,605
Restricted cash	6	51,623	48,341
Accounts receivable	19	37,576	34,122
Prepaid expenses, deposits and other	19	101,802	66,936
Inventory	19	35,595	31,695
		1,634,795	1,424,699
Non-current assets:			
Property and equipment	7	1,985,599	1,911,227
Intangible assets	8	50,808	33,793
Other assets	19	75,413	103,959
Total assets		3,746,615	3,473,678
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	19	460,003	307,109
Advance ticket sales	19	480,947	432,186
Non-refundable guest credits	19	47,859	43,485
Current portion of long-term debt	10	164,909	158,832
Current portion of maintenance provisions	9	34,135	245
		1,187,853	941,857
Non-current liabilities:			
Maintenance provisions	9	145,656	151,645
Long-term debt	10	574,139	669,880
Obligations under finance leases		–	3,174
Other liabilities	19	9,914	10,449
Deferred income tax	11	356,748	326,456
Total liabilities		2,274,310	2,103,461
Shareholders' equity:			
Share capital	12	614,899	630,408
Equity reserves		69,856	74,184
Hedge reserves		(5,746)	(3,353)
Retained earnings		793,296	668,978
Total shareholders' equity		1,472,305	1,370,217
Total liabilities and shareholders' equity		3,746,615	3,473,678

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

On behalf of the Board:

Gregg Saretsky, Director

Hugh Bolton, Director

Consolidated Statement of Cash Flows
For the years ended December 31
(Stated in thousands of Canadian dollars)

	Note	2012	2011
Operating activities:			
Net earnings		242,392	148,702
Items not involving cash:			
Depreciation and amortization		185,401	174,751
Change in long-term maintenance provisions		34,426	38,522
Change in other liabilities		(383)	(313)
Amortization of hedge settlements		1,400	1,400
Loss on fuel derivatives	16	6,512	6,052
(Gain) loss on disposal of property and equipment		(469)	54
Share-based payment expense	12	12,815	12,553
Deferred income tax expense		31,607	58,068
Finance income		(18,391)	(15,987)
Finance cost		48,900	60,911
Unrealized foreign exchange (gain) loss		(1,487)	1,453
Change in non-cash working capital		173,563	89,739
Change in restricted cash		(3,282)	(19,758)
Change in other assets		(6,894)	(4,344)
Cash interest received		17,780	14,631
Cash taxes (paid) received		(950)	26
Purchase of shares pursuant to compensation plans		(1,306)	–
		721,634	566,460
Investing activities:			
Aircraft additions		(218,116)	(61,265)
Other property and equipment and intangible additions		(51,191)	(57,108)
		(269,307)	(118,373)
Financing activities:			
Increase in long-term debt		72,995	–
Repayment of long-term debt		(162,678)	(199,225)
Decrease in obligations under finance leases		(75)	(108)
Shares repurchased	12	(112,065)	(74,570)
Dividends paid	13	(37,549)	(35,000)
Issuance of shares pursuant to compensation plans		198	34
Cash interest paid		(43,055)	(51,722)
Change in non-cash working capital		(5,825)	(2,084)
		(288,054)	(362,675)
Cash flow from operating, investing and financing activities		164,273	85,412
Effect of foreign exchange on cash and cash equivalents		321	(1,123)
Net change in cash and cash equivalents		164,594	84,289
Cash and cash equivalents, beginning of year		1,243,605	1,159,316
Cash and cash equivalents, end of year	5	1,408,199	1,243,605

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

Consolidated Statement of Changes in Equity

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

	Note	2012	2011
Share capital:	12		
Balance, beginning of year		630,408	647,637
Issuance of shares pursuant to compensation plans		16,251	5,129
Shares repurchased		(31,760)	(22,358)
		614,899	630,408
Equity reserves:			
Balance, beginning of year		74,184	66,726
Share-based payment expense	12	12,815	12,553
Issuance of shares pursuant to compensation plans		(17,143)	(5,095)
		69,856	74,184
Hedge reserves:			
Balance, beginning of year		(3,353)	(10,470)
Other comprehensive income		(2,393)	7,117
		(5,746)	(3,353)
Retained earnings:			
Balance, beginning of year		668,978	600,340
Dividends declared	13	(37,549)	(27,852)
Shares repurchased	12	(80,305)	(52,212)
Purchase of shares pursuant to compensation plans		(220)	–
Net earnings		242,392	148,702
		793,296	668,978
Total shareholders' equity		**1,472,305**	**1,370,217**

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)

	2012	2011
Net earnings	242,392	148,702
Items to be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Amortization of hedge settlements to aircraft leasing	1,400	1,400
Net unrealized gain (loss) on foreign exchange derivatives (i)	(2,611)	2,532
Reclassification of net realized (gain) loss on foreign exchange derivatives to net earnings (ii)	(926)	3,590
Net unrealized loss on interest rate derivatives (iii)	(566)	(397)
Reclassification of net realized loss on interest rate derivatives to net earnings (iv)	310	–
Net unrealized gain on fuel derivatives (v)	–	1,966
Reclassification of net realized gain on fuel derivatives to net earnings (vi)	–	(1,974)
	(2,393)	7,117
Total comprehensive income	239,999	155,819

(i) Net of income taxes of $904 (2011 – $(870)).
(ii) Net of income taxes of $319 (2011 – $(1,250)).
(iii) Net of income taxes of $199 (2011 – $135).
(iv) Net of income taxes of $(108) (2011 – $nil).
(v) Net of income taxes of $nil (2011 – $(679)).
(vi) Net of income taxes of $nil (2011 – $682).

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

1. Statement of significant accounting policies

The annual consolidated financial statements of WestJet Airlines Ltd. (the Corporation) for the years ended December 31, 2012 and 2011, were authorized for issue by the Board of Directors on February 5, 2013. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline service and travel packages. The Corporation's shares are publicly traded on the Toronto Stock Exchange. The principal business address is 22 Aerial Place N.E., Calgary, Alberta, T2E 3J1 and the registered office is Suite 2400, 525 - 8 Avenue SW, Calgary, Alberta, T2P 1G1.

(a) Basis of presentation

These annual consolidated financial statements and the notes hereto have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These annual consolidated financial statements have been prepared on an historical cost basis except for certain financial assets and liabilities, including derivative financial instruments that are measured at fair value. Where applicable, these differences have been described in the notes hereto.

Amounts presented in these annual consolidated financial statements and the notes hereto are in Canadian dollars, the Corporation's reporting currency, unless otherwise stated. The Corporation's functional currency is the Canadian dollar.

(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 six special-purpose entities (SPEs), which are utilized to facilitate the financing of aircraft. The Corporation has no equity ownership in the SPEs; however, the substance of the relationship between the Corporation and the SPEs indicates that they are controlled by the Corporation. Accordingly, the accounts of the SPEs have been consolidated in the Corporation's financial statements and all intercompany balances and transactions have been eliminated.

(c) Seasonality

The airline industry is sensitive to general economic conditions and the seasonal nature of air travel. The Corporation experiences increased domestic travel in the summer months and more demand for transborder and international travel over the winter months, thus reducing the effects of seasonality on net earnings.

(d) Revenue recognition

(i) Guest

Guest revenue, 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 statement of financial position as advance ticket sales.

(ii) Other

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

Revenue for 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 is reported at the net amount received. Revenue from the land component is deferred as advance ticket sales and recognized in earnings on completion of the vacation.

Ancillary revenue are recognized when the services and products are provided to the guests. Included in ancillary revenue are fees associated with guest itinerary changes or cancellations, baggage fees, buy-on-board sales, pre-reserved seating fees, and ancillary revenue from the WestJet Rewards Program.

1. Statement of significant accounting policies (continued)

(d) Revenue recognition (continued)

(iii) WestJet Rewards Program

The Corporation has a rewards program that allows guests to accumulate credits to be used towards flights and vacation packages. Revenue received in relation to credits issued is deferred as a liability at fair value until the credit is utilized and air transportation is provided, at which time it is recognized in guest revenue. Revenue associated with credits expected to expire (breakage) is recognized in other revenue at the time the revenue is expected to be received.

The Corporation also has a co-branded MasterCard with the Royal Bank of Canada (RBC). RBC issues reward credits to cardholders as a percentage of their total retail spend. The fair value of these credits is deferred and recognized on redemption as described above. Revenue from cardholder retail spend is recognized in other revenue at the time a credit is issued. Revenue related to new cards issued is recognized in other revenue immediately upon activation.

(iv) Non-refundable guest credits

The Corporation issues future travel credits to guests for flight changes and cancellations. Where appropriate, travel credits are also issued for flight delays, missing baggage and other inconveniences. All credits are non-refundable and have expiry dates dependent upon the nature of the credit. The Corporation records a liability at face value for credits issued for flight changes and cancellations. Revenue related to flight changes and cancellations is recorded in guest revenue when air transportation is provided. No liability is recorded for travel credits related to flight delays, missing baggage or other inconveniences as these credits are issued as goodwill gestures by the Corporation and do not represent a performance obligation. Credits issued as a sign of goodwill are recorded as a reduction to guest revenue when the credit is utilized.

(e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability to another entity or equity instrument of another entity. Financial assets and liabilities, including derivatives, are recognized in the consolidated statement of financial position at the time the Corporation becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Subsequent measurement is based on designation in one of the following five categories: at fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

The following table lists the Corporation's financial instruments and the method of measurement subsequent to initial recognition:

Financial instrument	Category	Measurement method
Cash and cash equivalents	At fair value through profit or loss	Fair value
Restricted cash	At fair value through profit or loss	Fair value
Deposits	At fair value through profit or loss	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
Finance lease obligations	Other financial liabilities	Amortized cost
Derivative instruments	At fair value through profit or loss	Fair value

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition at fair value through profit or loss. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as effective hedging instruments. As at December 31, 2012 and 2011, the Corporation did not hold any financial instruments classified as held-for-trading. Financial assets and liabilities designated upon initial recognition at fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recorded in net earnings. The Corporation uses trade-date accounting for initial recognition of financial instruments in this category.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method. Impairment, if any, is recorded in net earnings.

1. Statement of significant accounting policies (continued)

(e) Financial instruments (continued)

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities other than derivatives, which are designated as cash flow hedges.

The Corporation will, from time to time, use various financial derivatives to reduce market risk exposure from changes in foreign exchange rates, interest rates and jet fuel prices. Derivatives are recorded at fair value on the consolidated statement of financial position with changes in fair value recorded in net earnings unless designated as effective hedging instruments. Similarly, embedded derivatives are recorded at fair value on the consolidated statement of financial position with the changes in fair value recorded in the consolidated statement of earnings unless exempted from derivative treatment as a normal purchase and sale or the host contract and derivative are deemed to be clearly and closely related. 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 as cash flow hedges. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

At each reporting period, the Corporation will assess whether there is any objective evidence that a financial asset, other than those classified as at fair value through profit or loss, is impaired.

The Corporation offsets qualifying transaction costs incurred in relation to the acquisition of financial assets and liabilities not measured at fair value through profit or loss against those same financial assets and liabilities.

(f) Cash flow hedges

The Corporation uses various financial derivative instruments such as forwards, swaps and call options to manage fluctuations in foreign exchange rates, interest 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 each reporting date, whether derivatives 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 other comprehensive income (OCI) and presented within shareholders' equity in hedge reserves. The ineffective portion of the change in fair value is recognized in non-operating income (expense). Upon maturity of the financial derivative instrument, the effective gains and losses previously accumulated in hedge reserves within shareholders' equity are recorded in net earnings under the same caption as the hedged item.

The Corporation excludes 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.

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 accumulated in hedge reserves within shareholders' equity will remain in shareholders' equity 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 accumulated in hedge reserves within shareholders' equity will be reclassified to non-operating income (expense).

(g) Foreign currency

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

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments that are highly liquid in nature and have maturity dates of up to 92 days.

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

1. Statement of significant accounting policies (continued)

(i) Inventory

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

(j) Property and equipment

Property and equipment is stated at cost and depreciated to its estimated residual value. Assets under finance leases are initially recorded at the present value of minimum lease payments at the inception of the lease. Expected useful lives and depreciation methods are reviewed annually.

Asset class	Basis	Rate
Aircraft, net of estimated residual value	Straight-line	20 years
Engine, airframe and landing gear overhaul	Straight-line	8 to 15 years
Live satellite television equipment	Straight-line	10 years/Term of lease
Ground property and equipment	Straight-line	5 to 25 years
Spare engines and rotables, net of estimated residual value	Straight-line	20 years
Buildings	Straight-line	40 years
Leasehold improvements	Straight-line	5 years/Term of lease
Assets under finance leases	Straight-line	Term of lease

Estimated residual values of the Corporation's aircraft range between $4,000 and $6,000 per aircraft. Spare engines have a residual value equal to 10% of the original purchase price. Residual values, where applicable, are reviewed annually against prevailing market rates at the consolidated statement of financial position date.

Major overhaul expenditures are capitalized and depreciated over the expected life between overhauls. All other costs relating to the maintenance of fleet assets are charged to the consolidated statement of earnings on consumption or as incurred.

Rotable assets are purchased, depreciated and disposed of on a pooled basis. When parts are purchased, the cost is added to the pool and depreciated over its useful life of 20 years. The cost to repair rotable parts is recognized in maintenance expense as incurred.

(k) Intangible assets

Included in intangible assets are costs related to software, landing rights and other. Software and landing rights are carried at cost less accumulated amortization and are amortized on a straight-line basis over their respective useful lives of five and 20 years. Expected useful lives and amortization methods are reviewed annually.

(l) Impairment

Property and equipment and intangible assets are grouped into cash generating units (CGUs) and reviewed for impairment when events or changes in circumstances indicate that the carrying value of the CGU may not be recoverable. When events or circumstances indicate that the carrying amount of the CGU may not be recoverable, the long-lived assets are tested for recoverability by comparing the recoverable amounts, defined as the greater of the CGU's fair value less cost to sell or value-in-use, with the carrying amount of the CGU. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties, in an arm's length transaction. Value-in-use is defined as the present value of the cash flows expected from the future use or eventual sale of the asset at the end of its useful life. If the carrying value of the CGU exceeds the greater of the fair value less cost to sell and value-in-use, an impairment loss is recognized in net earnings for the difference. Impairment losses may subsequently be reversed and recognized in earnings due to changes in events and circumstances, but only to the extent of the original carrying amount of the asset, net of depreciation or amortization, had the original impairment not been recognized.

1. Significant accounting policies (continued)

(m) Maintenance provisions and reserves

Provisions are made when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation in respect of a past event and where the amount of the obligation can be reliably estimated.

The Corporation's aircraft operating lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. This obligation requires the Corporation to record a maintenance provision liability for certain return conditions specified in the operating lease agreements. Certain obligations are based on aircraft usage and the passage of time, while others are fixed amounts regardless of aircraft usage or passage of time. Expected future costs are estimated based on contractual commitments and company-specific history. Each period, the Corporation recognizes additional maintenance expense based on increased aircraft usage, the passage of time and any changes to judgments or estimates, including discount rates and expected timing and cost of maintenance activities. The unwinding of the discounted present value is recorded as a finance cost on the consolidated statement of earnings. The discount rate used by the Corporation is the current pre-tax risk-free rate approximated by the corresponding term of a Government of Canada Bond to the remaining term until cash outflow. Any difference between the provision recorded and the actual amount incurred at the time the maintenance activity is performed is recorded to maintenance expense.

A certain number of aircraft leases also require the Corporation to pay a maintenance reserve to the lessor. Payments are based on aircraft usage. The purpose of these deposits is to provide the lessor with collateral should an aircraft be returned in an operating condition that does not meet the requirements stipulated in the lease agreement. Maintenance reserves are refunded to the Corporation when qualifying maintenance is performed, or if not refunded, act to reduce the end of lease obligation payments arising from the requirement to return leased aircraft in a specific operating condition. Where the amount of maintenance reserves paid exceeds the estimated amount recoverable from the lessor, the non-recoverable amount is recorded as maintenance expense in the period it is incurred.

(n) Leases

The determination of whether an arrangement is, or contains, a lease is made at the inception of the arrangement based on the substance of the arrangement and whether (i) fulfillment of the arrangement is dependent on the use of a specific asset and (ii) whether the arrangement conveys a right to use the asset.

Finance leases transfer substantially all the risks and rewards incidental to ownership. Finance leases are recognized as assets and liabilities on the consolidated statement of financial position at the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any costs directly attributable to the finance lease are added to the cost of the leased asset. Minimum lease payments are apportioned between a finance charge, which produces a constant rate of interest on the outstanding liability, and a principal reduction of the lease liability. Depreciation of finance lease assets follows the same methods used for other similar owned assets over the term of the lease.

Operating leases do not result in the transfer of substantially all risks and rewards incidental to ownership. Non-contingent lease payments are recognized as an expense in the consolidated statement of earnings on a straight-line basis over the term of the lease.

(o) Borrowing costs

Interest and other borrowing costs are capitalized to a qualifying asset provided they are directly attributable to the acquisition, construction or production of the qualifying asset. For specific borrowings, any investment income on the temporary investment of borrowed funds is offset against the capitalized borrowing costs.

1. Significant accounting policies (continued)

(p) Income taxes

Current tax assets and liabilities are recognized based on amounts receivable from or payable to a tax authority within the next 12 months. A current tax asset is recognized for a benefit relating to an unused tax loss or unused tax credit that can be carried back to recover current tax of a previous period.

Deferred tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities on the consolidated statement of financial position using the tax rates that are expected to apply in the period in which the deferred tax asset or liability is expected to settle. The tax rates that are expected to be applied in future periods are based on the enacted or substantively enacted rates known at the end of the reporting period. Deferred tax assets are only recognized to the extent that it is probable that a taxable profit will be available when the deductible temporary differences can be utilized. A deferred tax asset is also recognized for any unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available for use against the unused tax losses and unused tax credits. Deferred tax assets and liabilities are not discounted.

Current and deferred tax benefit or expense is recognized in the same period as the related transaction or event is recognized in net earnings. Current and deferred tax benefit or expense related to transactions or events in other comprehensive income or equity are recognized directly in those accounts.

Current tax assets and liabilities are offset on the consolidated statement of financial position to the extent the Corporation has a legally enforceable right to offset and the amounts are levied by the same taxation authority or when the Corporation has the right to offset and intends to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are classified as long-term.

(q) Share-based payment plans

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument granted. An option valuation model is used to fair value stock options issued to employees on the date of grant. The market value of the Corporation's voting shares on the date of the grant is used to determine the fair value of the equity-based share units issued to employees on the date of grant.

The cost of the equity-settled share-based payments is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Corporation. The service period may commence prior to the grant date with compensation expense recognition being subject to specific vesting conditions and the best estimate of equity instruments expected to vest. Estimates related to vesting conditions are reviewed regularly with any adjustments recorded to compensation expense. On the vesting date, the Corporation revises, if necessary, the estimate to equal the number of equity instruments ultimately vested and adjusts the corresponding compensation expense and equity reserves accordingly.

Market conditions attached to certain equity-settled share-based payments are taken into account when estimating the fair value of the equity instruments granted.

Upon exercise or settlement of equity-based instruments, consideration received, if any, together with amounts previously recorded in the equity reserves, are recorded as an increase in share capital.

Cash-settled share-based payments are measured based on the fair value of the cash liability. The amount determined is recorded as compensation expense and recognized over the service period. The liability is remeasured each period with a corresponding adjustment to the related compensation expense until the date of settlement.

(r) Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to equity holders by the weighted average number of voting shares outstanding during the period, accounting for any changes to the number of voting shares outstanding without a corresponding change in resources.

Diluted earnings per share is calculated by dividing net earnings attributable to equity holders by the weighted average number of voting shares outstanding adjusted for the effects of all potential dilutive voting shares. Potential dilutive voting shares are only those shares that would result in a decrease to earnings per share or increase to loss per share. The calculation of potential dilutive voting shares assumes the exercise of all dilutive instruments at the average market price during the period with the proceeds received from exercise assumed to reduce the number of dilutive voting shares otherwise issued.

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that could materially affect the amounts recognized in the financial statements. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The following judgments and estimates are those deemed by management to be material to the Corporation's financial statements.

Judgments

(i) Componentization

The componentization of the Corporation's assets, namely aircraft, are based on management's judgment of what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization.

(ii) Depreciation and amortization

Depreciation and amortization methods for aircraft and related components as well as other property, plant and equipment and intangible assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Corporation. Among other factors, these judgments are based on industry standards, manufacturers' guidelines and company-specific history and experience.

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or CGU is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Corporation's operations.

(iv) Lease classification

Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in IAS 17 – Leases. The most prevalent leases of the Corporation are those for aircraft. Management has determined that all of the Corporation's leased aircraft are operating leases.

Estimates

(v) Depreciation and amortization

Depreciation and amortization are calculated to write off the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including vendors, industry practice, and company-specific history. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions.

(vi) Maintenance provisions

The Corporation has a legal obligation to adhere to certain maintenance conditions set out in its aircraft operating lease agreements relating to the condition of the aircraft when it is returned to the lessor. To fulfill these obligations, a provision is made during the lease term. Estimates related to the maintenance provision include the likely utilization of the aircraft, the expected future cost of the maintenance, the point in time at which maintenance is expected to occur, the discount rate used to present value the future cash flows and the lifespan of life-limited parts. These estimates are based on data and information obtained from various sources including the lessor, current maintenance schedules and fleet plans, contracted costs with maintenance service providers, other vendors and company-specific history.

(vii) Fair value of awards and breakage associated with the WestJet Rewards Program

Estimates are required in determining the amount of revenue to be recognized or deferred in relation to credits awarded under the rewards program. These estimates are based on the amount of reward credits expected to expire (breakage). Management bases its estimates on company-specific redemption history, industry results and future forecasts of expected redemption.

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates (continued)

Estimates (continued)

(vii) Income taxes

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

(ix) Impairment

Impairment assessments may require the Corporation to determine the recoverable amount of a CGU, defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: the determination of fair value, selling costs, timing and size of cash flows, and discount and interest rates. The Corporation documents and supports all assumptions made in the determination of a recoverable amount and updates these assumptions to reflect the best information available to the Corporation if and when an impairment assessment requires the recoverable amount of a CGU to be determined.

(x) Fair value of equity-settled share-based payments

The Corporation uses an option pricing model to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Corporation considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Separate from the fair value calculation, the Corporation is required to estimate the expected forfeiture rate of equity-settled share-based payments. The Corporation has assessed forfeitures to be insignificant based on the underlying terms of its payment plans.

(xi) Fair value of derivative instruments

The fair value of derivative instruments is estimated using inputs, including forward prices, foreign exchange rates, interest rates and historical volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of the Corporation's derivative instruments are subject to regular changes in fair value each reporting period.

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

2. New accounting standards and interpretations

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standards	Description	Previous standard	Effective date (i)
IFRS 10 – Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	SIC-12 – Consolidation – Special Purpose Entities IAS 27 – Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 – Interests in Joint Ventures SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	Various – no direct replacement	January 1, 2013
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various – no direct replacement	January 1, 2013
IFRS 9 – Financial Instruments	Addresses the classification and measurement of financial assets and financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

(i) Effective for annual periods beginning on or after the stated date.

Management has performed an initial assessment of these new standards effective January 1, 2013 and anticipates the impact will result in additional disclosure requirements, but no recognition or measurement impacts to the financial statements. The Corporation does not expect to early adopt these standards.

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

3. Capital management

The Corporation's policy is to maintain a strong capital base in order 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 in light of changes in economic conditions and the risk characteristics of the underlying assets.

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

In the management of capital, the Corporation includes shareholders' equity (excluding hedge reserves), long-term debt, finance 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 its capital structure on a number of bases, including adjusted debt-to-equity and adjusted net debt to earnings before net finance costs, taxes, depreciation and amortization and aircraft leasing (EBITDAR). EBITDAR is an additional GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in tax jurisdictions and in the method an airline finances its aircraft. In addition, the Corporation will adjust EBITDAR for non-operating gains and losses on derivatives and foreign exchange. The calculation of EBITDAR is a measure that does not have a standardized meaning prescribed under IFRS and therefore may not 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 12 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 total shareholders' equity, excluding hedge reserves.

	2012	2011	Change
Adjusted debt-to-equity			
Long-term debt (i)	739,048	828,712	(89,664)
Obligations under finance leases (ii)	–	3,249	(3,249)
Off-balance-sheet aircraft leases (iii)	1,300,590	1,241,783	58,807
Adjusted debt	2,039,638	2,073,744	(34,106)
Total shareholders' equity	1,472,305	1,370,217	102,088
Add: Hedge reserves	5,746	3,353	2,393
Adjusted equity	1,478,051	1,373,570	104,481
Adjusted debt-to-equity (vi)	1.38	1.51	(8.6%)
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	2,039,638	2,073,744	(34,106)
Less: Cash and cash equivalents	(1,408,199)	(1,243,605)	(164,594)
Adjusted net debt	631,439	830,139	(198,700)
Net earnings	242,392	148,702	93,690
Add:			
Net finance costs (iv)	30,509	44,924	(14,415)
Taxes	97,837	59,304	38,533
Depreciation and amortization	185,401	174,751	10,650
Aircraft leasing	173,412	165,571	7,841
Other (v)	5,451	3,567	1,884
EBITDAR	735,002	596,819	138,183
Adjusted net debt to EBITDAR (vi)	0.86	1.39	(38.1%)

(i) As at December 31, 2012, long-term debt includes the current portion of long-term debt of $164,909 (2011 – $158,832) and long-term debt of $574,139 (2011 – $669,880).

(ii) As at December 31, 2012, obligations under finance leases includes the current portion of obligations under finance leases of $nil (2011 – $75) and obligations under finance leases of $nil (2011 – $3,174).

(iii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. As at December 31, 2012, the trailing 12 months of aircraft leasing costs totaled $173,412 (2011 – $165,571).

(iv) As at December 31, 2012, net finance costs includes the trailing 12 months of finance income of $18,391 (2011 – $15,987) and the trailing 12 months of finance costs of $48,900 (2011 – $60,911).

(v) As at December 31, 2012, other includes the trailing 12 months foreign exchange gain of $1,061 (2011 – gain of $2,485) and the trailing 12 months non-operating loss on derivatives of $6,512 (2011 – loss of $6,052).

(vi) As at December 31, 2012 and 2011, the Corporation exceeded its internal targets of an adjusted debt-to-equity measure of no more than 3.00 and an adjusted net debt to EBITDAR measure of no more than 3.00.

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

4. Employee counts and compensation

The Corporation employed 7,742 full-time equivalent employees as at December 31, 2012 (2011 – 7,141). The following table reconciles the Corporation's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

	Note	2012	2011
Salaries and benefits (i)		538,917	481,211
Employee share purchase plan	12	65,439	58,682
Employee profit share (ii)		46,585	23,804
Share-based payment expense	12	12,815	12,553
		663,756	576,250
Presented on the consolidated statement of earnings as follows:			
Airport operations		91,267	83,067
Flight operations and navigational charges		200,883	184,174
Sales and distribution		61,347	57,364
Marketing, general and administration		90,923	75,586
Inflight		122,025	108,483
Maintenance		50,726	43,772
Employee profit share		46,585	23,804
		663,756	576,250

(i) Salaries and benefits expense is classified in the consolidated statement of earnings based on the related nature of the service performed.

(ii) Employee profit share expense is a variable payment based on a percentage of pre-tax earnings available to all employees.

5. Cash and cash equivalents

	December 31 2012	December 31 2011
Cash and cash equivalents (i):		
Bank balances	395,601	337,289
Short-term investments	1,012,598	906,316
	1,408,199	1,243,605

(i) Included in these balances, as at December 31, 2012, the Corporation has US-dollar cash and cash equivalents totalling US $84,752 (2011 – US $55,357).

6. Restricted cash

	December 31 2012	December 31 2011
Restricted cash:		
Cash held in trust for WestJet Vacations Inc.	43,154	41,438
Security on facilities for letters of guarantee	7,562	6,610
Passenger facility charges	907	293
	51,623	48,341

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

7. Property and equipment

	January 1 2012	Net additions	Depreciation(i)	Transfers	December 31 2012
Aircraft (ii)	1,514,633	96,502	(154,301)	20,554	1,477,388
Ground property and equipment	59,663	7,504	(11,795)	1,743	57,115
Spare engines and rotables	90,416	16,856	(8,240)	2,677	101,709
Deposits on aircraft	110,245	114,084	–	(15,727)	208,602
Buildings	119,236	102	(3,439)	–	115,899
Leasehold improvements	11,355	799	(1,429)	277	11,002
Assets under finance leases	3,105	(2,969)	(136)	–	–
Assets under development	2,574	20,834	–	(9,524)	13,884
	1,911,227	253,712	(179,340)	–	1,985,599

	January 1 2011	Net additions	Depreciation(i)	Transfers	December 31 2011
Aircraft (ii)	1,616,263	32,164	(149,021)	15,227	1,514,633
Ground property and equipment	60,298	9,669	(10,843)	539	59,663
Spare engines and rotables	72,952	18,904	(6,305)	4,865	90,416
Deposits on aircraft	98,344	23,880	–	(11,979)	110,245
Buildings	122,662	6	(3,432)	–	119,236
Leasehold improvements	6,617	2,648	(761)	2,851	11,355
Assets under finance leases	3,243	–	(138)	–	3,105
Assets under development	9,143	4,934	–	(11,503)	2,574
	1,989,522	92,205	(170,500)	–	1,911,227

(i) For the year ended December 31, 2012, total aircraft depreciation expense was $62,623 (2011 - $61,659) for overhaul components and $91,678 (2011 - $87,362) for aircraft, including live satellite television equipment.

(ii) Aircraft includes (a) aircraft (b) engine, airframe and landing gear overhauls, and (c) live satellite television equipment.

December 31, 2012	Cost	Accumulated depreciation	Net book value
Aircraft	2,605,277	(1,127,889)	1,477,388
Ground property and equipment	136,167	(79,052)	57,115
Spare engines and rotables	146,422	(44,713)	101,709
Deposits on aircraft	208,602	–	208,602
Buildings	135,924	(20,025)	115,899
Leasehold improvements	16,538	(5,536)	11,002
Assets under finance leases	821	(821)	–
Assets under development	13,884	–	13,884
	3,263,635	(1,278,036)	1,985,599

December 31, 2011	Cost	Accumulated depreciation	Net book value
Aircraft	2,510,811	(996,178)	1,514,633
Ground property and equipment	130,543	(70,880)	59,663
Spare engines and rotables	130,675	(40,259)	90,416
Deposits on aircraft	110,245	–	110,245
Buildings	135,822	(16,586)	119,236
Leasehold improvements	15,462	(4,107)	11,355
Assets under finance leases	4,221	(1,116)	3,105
Assets under development	2,574	–	2,574
	3,040,353	(1,129,126)	1,911,227

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was $1,380,412 as at December 31, 2012 (2011 – $1,403,422).

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

8. Intangible assets

	January 1 2012	Net additions	Amortization	Transfers	December 31 2012
Software	15,136	3,985	(5,540)	5,389	18,970
Landing Rights	17,782	–	(521)	–	17,261
Other	–	4,956	–	–	4,956
Assets under development	875	14,135	–	(5,389)	9,621
	33,793	23,076	(6,061)	–	50,808

	January 1 2011	Net additions	Amortization	Transfers	December 31 2011
Software	10,867	2,779	(4,251)	5,741	15,136
Landing Rights	–	17,782	–	–	17,782
Other	–	–	–	–	–
Assets under development	2,151	4,465	–	(5,741)	875
	13,018	25,026	(4,251)	–	33,793

December 31, 2012	Cost	Accumulated amortization	Net book value
Software	54,519	(35,549)	18,970
Landing Rights	17,782	(521)	17,261
Other	4,956	–	4,956
Assets under development	9,621	–	9,621
	86,878	(36,070)	50,808

December 31, 2011	Cost	Accumulated amortization	Net book value
Software	45,145	(30,009)	15,136
Landing Rights	17,782	–	17,782
Other	–	–	–
Assets under development	875	–	875
	63,802	(30,009)	33,793

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

9. Maintenance provisions and reserves

The Corporation's operating aircraft lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The maintenance provision liability represents the present value of the expected future cost. A maintenance expense is recognized over the term of the provision based on aircraft usage and the passage of time, while the unwinding of the present value discount is recognized as a finance cost. The majority of the Corporation's maintenance provision liabilities are recognized and settled in US dollars. Where applicable, all amounts have been converted to Canadian dollars at the period end foreign exchange rate.

	2012	2011
Opening balance	151,890	125,578
Additions	33,502	27,758
Change in estimate (i)	(3,866)	8,675
Foreign exchange	(3,479)	2,775
Accretion (ii)	2,013	5,078
Settled	(269)	(17,974)
Ending balance	179,791	151,890
Current portion	(34,135)	(245)
Long-term portion	145,656	151,645

(i) Reflects changes to the timing and scope of maintenance activities and the discount rate used to present value the liability.

(ii) At December 31, 2012, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.16% to reflect the weighted average remaining term of approximately 38 months until cash outflow.

A certain number of operating aircraft leases also require the Corporation to pay a maintenance reserve to the lessor. Maintenance reserves are either refunded when qualifying maintenance is performed or offset against end of lease obligations for returning leased aircraft in a specified operating condition. Where the amount of maintenance reserves paid exceeds the estimated amount recoverable from the lessor, the non-recoverable amount is recorded as maintenance expense in the period it is incurred. The Corporation's maintenance reserves are recognized and settled in US dollars. Where applicable, all amounts have been converted to Canadian dollars at the period end foreign exchange rate.

As at December 31, 2012, the current portion of maintenance reserves included in prepaid expenses, deposits and other is $32,586 (2011 – $nil) and the long-term portion of maintenance reserves included in other assets is $21,277 (2011 – $49,655).

10. Long-term debt

	December 31 2012	December 31 2011
Term loans – purchased aircraft (i)	669,859	828,104
Term loans – purchased aircraft (ii)	69,154	–
Term loan – Calgary hangar facility (iii)	35	608
	739,048	828,712
Current portion	(164,909)	(158,832)
	574,139	669,880

(i) 52 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totalling $40,676, at an effective weighted average fixed rate of 5.96%, maturing between 2014 and 2020. These facilities are guaranteed by Export-Import Bank of the United States (Ex-Im Bank) and secured by one 800-series aircraft, 38 700-series aircraft and 13 600-series aircraft.

(ii) Two individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totalling $1,613, in addition to a floating rate of interest at the three month Canadian Dealer Offered Rate plus 75 basis points, with an effective weighted average floating interest rate of 3.17% at December 31, 2012, maturing in 2024. The facility is guaranteed by Ex-Im Bank and secured by two 800-series aircraft.

(iii) 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 3.50% as at December 31, 2012, with a final repayment of $35 in January 2013, secured by the Calgary hangar facility.

Future scheduled repayments of long-term debt as at December 31, 2012 are as follows:

Within 1 year	164,909
1 – 3 years	302,021
3 – 5 years	172,671
Over 5 years	99,447
	739,048

There are no financial covenant compliance requirements for the facilities guaranteed by the Ex-Im Bank related to aircraft purchases.

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

11. Income taxes

(a) Reconciliation of total tax expense

The effective rate on the Corporation's earnings before income tax differs from the expected amount that would arise using the combined Canadian federal and provincial statutory income tax rates. A reconciliation of the difference is as follows:

	2012	2011
Earnings before income tax	340,229	208,006
Combined Canadian federal and provincial income tax rate	25.95%	27.26%
Expected income tax provision	88,289	56,702
Add (deduct):		
Non-deductible expenses	3,709	3,344
Non-deductible share-based payment expense	2,978	3,430
Effect of tax rate changes	4,426	(4,539)
Other	(1,565)	367
Actual income tax provision	97,837	59,304
Effective tax rate	28.76%	28.51%

The effective tax rate for the year ended December 31, 2012 is similar to the prior year. As earnings increase, the impact of relatively fixed permanent differences on the overall effective tax rate is less pronounced, resulting in a corresponding decrease in the effective tax rate. However, this decrease was more than offset by an increase due to enacted tax rate changes in certain Canadian provincial jurisdictions for current and future years.

(b) Deferred tax

Components of the net deferred tax liability are as follows:

	December 31 2012	December 31 2011
Deferred tax liability:		
Property and equipment	(262,219)	(278,003)
Deferred partnership income	(101,352)	(67,473)
Net unrealized gain on derivatives designated in a hedging relationship	–	(1,062)
Deferred tax asset:		
Share issue costs	373	747
Net unrealized loss on derivatives designated in a hedging relationship	253	–
Non-capital losses(i)	752	7,348
Credit carry forwards(ii)	5,445	11,987
	(356,748)	(326,456)

(i) Non-capital losses will begin to expire in 2030.

(ii) Credit carry forwards recognized for unused corporate minimum tax credits will begin to expire in 2028.

12. 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 beneficially 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 beneficially 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, including securities currently convertible into such a share and currently exercisable options and rights to acquire such shares (or any higher 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 exceeds 25% (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes cast that may be cast at such meeting.

If either of the thresholds described in the paragraph above is surpassed at any time, the vote attached to each variable voting share will decrease automatically and without further act or formality to equal the maximum permitted vote per variable voting share. In the circumstance described in (i) in the paragraph above, the variable voting shares as a class cannot carry more than 25% (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the aggregate votes attached to all variable voting shares and common voting shares collectively, including securities currently convertible into such a share and currently exercisable options and rights to acquire such shares. In the circumstance described in (ii) in the paragraph above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that can be exercised 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 in 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 attached 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.

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

12. Share capital (continued)

(b) Issued and outstanding

	2012		2011	
	Number	**Amount**	**Number**	**Amount**
Common and variable voting shares:				
Balance, beginning of year	138,280,556	630,408	142,958,414	647,637
Issuance of shares pursuant to compensation plans	890,556	16,251	248,232	5,129
Shares repurchased	(6,914,318)	(31,760)	(4,926,090)	(22,358)
Balance, end of year	132,256,794	614,899	138,280,556	630,408

As at December 31, 2012, the number of common voting shares outstanding was 123,947,500 (2011 – 130,827,446) and the number of variable voting shares was 8,309,294 (2011 – 7,453,110).

On February 7, 2012, the Corporation filed a notice with the TSX to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation was authorized to purchase up to 6,914,330 common voting shares and variable voting shares (representing approximately 5% of the Corporation's issued and outstanding shares at the time of the bid) during the period February 10, 2012 to February 9, 2013, or until such time as the bid was completed or terminated at the Corporation's option. Any shares purchased under this bid were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid were cancelled. As of November 26, 2012 the Corporation successfully completed the bid for total consideration of $112,065. The average book value of the shares repurchased of $4.59 per share was charged to share capital with the $80,305 excess of the market price over the average book value, including transaction costs, charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2012, 10,797,269 (2011 – 11,520,284) voting shares were reserved for issuance 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 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 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 voting shares at any time.

Stock options are granted at a price equal to the five day weighted average market value of the Corporation's voting shares preceding the date of grant and vest completely or on a graded basis on the first, second and third anniversary from the date of grant. Stock options expire no later than seven years from the date of grant.

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

12. Share capital (continued)

(c) Stock option plan (continued)

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

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	7,350,756	14.17	8,083,431	14.21
Granted	1,874,467	14.82	1,856,471	14.85
Exercised	(3,498,819)	12.95	(1,033,254)	12.56
Forfeited	(78,520)	14.46	(21,564)	13.36
Expired	(1,796,986)	16.62	(1,534,328)	16.32
Stock options outstanding, end of year	3,850,898	14.45	7,350,756	14.17
Exercisable, end of year	2,141,811	14.05	5,044,598	14.03

Under the terms of the Corporation's stock option plan, with the approval of the Corporation, option holders can either (i) elect to receive shares by delivering cash to the Corporation in the amount of the exercise price 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, 2012, option holders exercised 3,483,587 options (2011 – 1,030,565 options) on a cashless settlement basis and received 707,783 shares (2011 – 170,895 shares). For the year ended December 31, 2012, 15,232 options were exercised on a cash basis and received 15,232 shares (2011 – 2,689 options and 2,689 shares, respectively).

The following table summarizes the options outstanding and exercisable as at December 31, 2012:

	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
11.00–12.50	260,975	0.61	12.48	252,980	12.49
12.51–15.50	3,510,953	4.26	14.48	1,885,458	14.25
15.51–19.99	78,970	6.80	16.92	3,373	18.31
	3,850,898	4.07	14.45	2,141,811	14.05

The fair value of the options is expensed over the service period, with an offsetting entry to equity reserves. 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 equity reserves, is recorded as an increase to share capital.

The fair value of options granted during the years ended December 31, 2012 and 2011, and the assumptions used in their determination are as follows:

	2012	2011
Weighted average fair value per option	3.95	4.30
Weighted average risk-free interest rate	1.4%	2.3%
Weighted average expected volatility	36%	38%
Expected life of options (years)	4.1	4.0
Weighted average dividend yield	1.5%	1.4%

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

12. Share capital (continued)

(d) Key employee and pilot plan

The Corporation has a key employee and pilot (KEP) plan, whereby restricted share units (RSU) are issued to key employees and pilots of the Corporation. The fair market value of the RSUs 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 employee to receive payment upon vesting in the form of voting shares of the Corporation. The Corporation intends to settle all RSUs with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury; however, wholly at its own discretion, the Corporation may settle the units in cash. The RSU's time vest at the end of a two or three-year period, with compensation expense being recognized in net earnings over the service period. As at December 31, 2012, 947,398 (2011 – 979,021) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2012, the Corporation settled 31,610 and 87,058 RSUs with shares issued from treasury and through the open market, respectively.

	2012		2011	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	353,348	13.86	171,129	12.77
Granted	247,676	14.65	201,391	14.77
Units, in lieu of dividends	7,242	16.81	5,308	13.31
Settled	(118,668)	13.09	(18,677)	13.62
Forfeited	(24,181)	13.93	(5,803)	13.48
Units outstanding, end of year	465,417	14.52	353,348	13.86
Vested, end of year	–	–	–	–

(e) Executive share unit plan

The Corporation has an equity-based executive share unit (ESU) plan, whereby RSUs and performance share units (PSU) may be issued to senior executive officers. As at December 31, 2012, 1,023,507 (2011 – 959,425) voting shares of the Corporation were reserved for issuance 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 exercise in the form of voting shares of the Corporation. RSUs time vest over a period of up to three years, with compensation expense being recognized in net earnings over the service period.

Each PSU entitles the senior executive officers to receive payment upon exercise in the form of voting shares of the Corporation. PSUs time vest over a period of up to three years and incorporate performance criteria established at the time of grant. Compensation expense is recognized in net earnings over the service period based on the number of units expected to vest.

	2012				2011			
	RSUs		PSUs		RSUs		PSUs	
	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	201,716	13.94	250,941	13.73	187,875	13.73	199,486	13.90
Granted	95,790	14.44	105,513	14.12	75,213	15.39	91,450	15.44
Settled	(83,338)	12.96	(50,087)	13.28	(55,321)	15.04	–	–
Forfeited	–	–	(51,852)	11.63	(6,051)	15.44	(39,995)	18.49
Units outstanding, end of year	214,168	14.54	254,515	14.41	201,716	13.94	250,941	13.73
Vested, end of year	–	–	–	–	46,902	14.20	50,087	13.28

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

12. Share capital (continued)

(f) Share-based payment expense

The following table summarizes share-based payment expense for the Corporation's equity-based plans:

	2012	2011
Stock option plan	7,033	8,506
Key employee and pilot plan	3,200	2,378
Executive share unit plan	2,582	1,669
Total share-based payment expense	12,815	12,553
Presented on the consolidated statement of earnings as follows:		
Flight operations and navigational charges	7,041	7,511
Marketing, general and administration	5,774	5,042
Total share-based payment expense	12,815	12,553

(g) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for independent members of the Corporation's 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, 2012, 21,162 (2011 – 21,146) DSUs were granted, with $1,080 (2011 – $108) of expense included in marketing, general and administration expense. During the years ended December 31, 2012 and 2011, the Corporation did not settle any DSUs. The carrying amount of the liability, included in trade and other payables, relating to the cash-settled DSUs as at December 31, 2012 is $2,046 (2011 - $966). As at December 31, 2012, 103,296 (2011 – 82,134) DSUs are vested and outstanding. DSUs are redeemable upon the Director's retirement from the Board.

(h) 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. Employees are restricted from transferring, withdrawing or selling these ESPP shares for one year from the date of acquisition. Employees may offer to sell ESPP shares, which have not been held for at least one year, to the Corporation, at a purchase price 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, to a maximum of four times per year.

Under the terms of the ESPP, the Corporation acquires voting shares on behalf of employees through open market purchases.

The Corporation's share of the contributions in 2012 amounted to $65,439 (2011 – $58,682) and is recorded as compensation expense within the related business unit.

13. Dividends

During the year ended December 31, 2012 the Corporation declared quarterly cash dividends of $0.06 per share in the first and second quarters and $0.08 per share in the third and fourth quarters on its common voting shares and variable voting shares. For the year ended December 31, 2012, the Corporation paid dividends totalling $37,549 (2011 – $35,000).

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

14. Earnings per share

The following reflects the share data used in the computation of basic and diluted earnings per share:

	2012	2011
Weighted average number of shares outstanding – basic	135,174,285	139,902,637
Effect of dilution		
Employee stock options	235,207	332,489
Key employee and pilot - Restricted share units	329,997	226,704
Executive - Restricted share units	128,280	126,742
Executive - Performance share units	96,349	50,087
Weighted average number of shares outstanding – diluted	135,964,118	140,638,659

For the year ended December 31, 2012, 734,448 employee stock options (2011 – 3,646,624) and 8,932 (2011 – nil) restricted share units were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

There have been no other transactions involving shares between the reporting date and the date of completion of these statements.

15. Finance income and cost

	2012	2011
Finance income:		
Interest on cash and cash equivalents	18,391	15,987

	Note	2012	2011
Finance cost:			
Interest on term loans and finance leases		46,887	55,833
Accretion on aircraft lease return obligations	9	2,013	5,078
		48,900	60,911

16. 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, restricted cash, accounts receivable, derivative instruments designated and not designated in an effective hedging relationship, certain interest-bearing deposits, accounts payable and accrued liabilities, long-term debt and obligations under finance leases. The following tables set out the Corporation's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at December 31, 2012 and 2011:

	Fair value		Amortized cost		Total	
December 31, 2012	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents (i)	1,459,822	–	–	–	1,459,822	1,459,822
Accounts receivable	–	–	37,576	–	37,576	37,576
Foreign exchange derivatives (ii)	–	(98)	–	–	(98)	(98)
Interest rate derivatives (iv)	–	(879)	–	–	(879)	(879)
Deposits (v)	31,088	–	–	–	31,088	31,088
Accounts payable and accrued liabilities (vi)	–	–	–	(417,377)	(417,377)	(417,377)
Long-term debt (vii)	–	–	–	(739,048)	(739,048)	(810,640)
	1,490,910	(977)	37,576	(1,156,425)	371,084	299,492

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

16. Financial instruments and risk management (continued)

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

	Fair value		Amortized cost		Total	
December 31, 2011	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents (i)	1,291,946	–	–	–	1,291,946	1,291,946
Accounts receivable	–	–	34,122	–	34,122	34,122
Foreign exchange derivatives (ii)	–	4,662	–	–	4,662	4,662
Fuel derivatives (iii)	–	7,611	–	–	7,611	7,611
Interest rate derivative (iv)	–	(532)	–	–	(532)	(532)
Deposits (v)	28,386	–	–	–	28,386	28,386
Accounts payable and accrued liabilities (vi)	–	–	–	(284,902)	(284,902)	(284,902)
Long-term debt (vii)	–	–	–	(828,712)	(828,712)	(937,336)
Obligations under finance leases (viii)	–	–	–	(3,249)	(3,249)	(3,249)
	1,320,332	11,741	34,122	(1,116,863)	249,332	140,708

(i) Includes restricted cash of $51,623 (2011 – $48,341).

(ii) Includes $800 (2011 – $4,662) classified in prepaid expenses, deposits and other, and $898 (2011 – $nil) classified in accounts payable and accrued liabilities.

(iii) At December 31, 2011 $7,611 was classified in prepaid expenses, deposits and other.

(iv) Includes current portion of interest rate derivatives of $611 (2011 - $112) included in accounts payable and accrued liabilities and long-term portion of interest rate derivatives of $268 (2011 - $420) included in other long-term liabilities.

(v) Includes $19,241 (2011 – $16,278) classified in prepaid expenses, deposits and other, and $11,847 (2011 – $12,108) classified in other assets.

(vi) Excludes deferred WestJet Rewards Program revenue of $41,117 (2011 – $22,020), foreign exchange derivative liabilities of $898 (2011 – $nil), and interest rate derivative liabilities of $611 (2011 – $112).

(vii) Includes current portion of long-term debt of $164,909 (2011 – $158,832) and long-term debt of $574,139 (2011 – $669,880).

(viii) Includes current portion of obligations under finance leases of $nil (2011 – $75) and obligations under finance leases of $nil (2011 – $3,174).

The following items shown in the consolidated statement of financial position as at December 31, 2012 and 2011, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The fair value of the financial assets and liabilities at December 31, 2012, using level 3 inputs, was $nil (2011 – $nil).

December 31, 2012	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	1,459,822	–	1,459,822
Foreign exchange derivatives	–	(98)	(98)
Interest rate derivatives	–	(879)	(879)
Deposits	31,088	–	31,088
	1,490,910	(977)	1,489,933

December 31, 2011	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	1,291,946	–	1,291,946
Foreign exchange derivatives	–	4,662	4,662
Fuel derivatives	–	7,611	7,611
Interest rate derivatives	–	(532)	(532)
Deposits	28,386	–	28,386
	1,320,332	11,741	1,332,073

During the years ended December 31, 2012 and 2011, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

16. Financial instruments and risk management (continued)

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

Cash and cash equivalents: Consist of bank balances and short-term investments, primarily highly liquid instruments, with terms up to 92 days. Classified in level 1, as measurement inputs are derived from observable, unadjusted quoted prices in active markets. Interest income is recorded in the consolidated statement of earnings as finance income. Due to their short-term nature, the carrying value of cash and cash equivalents approximates their fair value.

Foreign exchange derivatives: Foreign exchange derivatives consist of forward contracts. 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. Classified in level 2, as the significant measurement inputs used in the valuation models are observable in active markets. At December 31, 2012, the weighted average contracted rate on the forward contracts was 1.0001 (2011 – 0.9914) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 0.9995 (2011 – 1.0201) Canadian dollars to one US dollar.

Fuel derivatives: Fuel derivatives consist of call option contracts. At December 31, 2012, the Corporation does not have any fuel derivative contracts outstanding. The fair value of fuel derivatives are estimated by the use of a standard option valuation technique using inputs, including quoted forward prices for commodities, quoted volatility curves, foreign exchange rates and interest rates, which can be observed in the marketplace. These instruments are classified in level 2, as the significant measurement inputs are observable in an active market. At December 31, 2011 the closing forward curve for crude oil averaged approximately US $99 per barrel with the average forward foreign exchange rate used in determining the fair value being 0.9755 Canadian dollars to one US dollar.

Interest rate derivatives: Interest rate derivatives consist of swap contracts that exchange a floating rate of interest with a fixed rate of interest. The fair value of the interest rate swaps is determined by measuring the difference between the fixed contracted rate and the forward curve for the applicable floating interest rates obtained from the counterparty. Classified in level 2, as the significant measurement inputs used in the valuation models, such as forward interest rate curves, are observable in active markets. At December 31, 2012, the Corporation's swap contracts have a weighted average fixed interest rate of 2.19% (2011 – 2.19%). The closing weighted average forward interest rate curve of the three month Canadian Dealer Offered Rate over the term of the debt is 2.01% (2011 – 2.06%).

Deposits: Relate to purchased aircraft and airport operations and earn a floating market rate of interest. Classified in level 1 as the measurement inputs are unadjusted, observable inputs in an active market.

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 the current financing arrangements at discount rates presently available to the Corporation for loans with similar terms and remaining maturities. At December 31, 2012, the rates used in determining the fair value ranged from 1.52% to 1.72% (2011 – 1.28% to 1.61%). The fair value of the Corporation's floating rate debt approximates its carrying value.

(b) Risk management related to financial instruments

The Corporation is exposed to market, credit and liquidity risks associated with its financial assets and liabilities. From time to time, the Corporation will use various financial derivatives to reduce 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.

The Corporation's Board of Directors has responsibility for the establishment and approval of the Corporation's overall risk management policies, including those related to financial instruments. Management performs continuous assessments so that all significant risks related to financial instruments are reviewed and addressed in light of changes to market conditions and the Corporation's operating activities.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Corporation's significant market risks relate to fuel price risk, foreign exchange risk and interest rate risk.

(i) Fuel price 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, 2012, aircraft fuel expense represented approximately 33% (2011 – 33%) of the Corporation's total operating expenses.

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

16. Financial instruments and risk management (continued)

(b) Risk management related to financial instruments (continued)

Market Risk (continued)

(i) Fuel price risk (continued)

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. During 2012, the Corporation ceased its fuel hedging program. For the year ended December 31, 2012, the Corporation did not enter into any additional fuel hedging contracts. Previously, upon proper qualification, the Corporation accounted for its fuel derivatives as cash flow hedges.

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

	Statement presentation	December 31 2012	December 31 2011
Receivable from counterparties	Accounts receivable	–	27
Fair value	Prepaid expenses, deposits and other	–	7,611

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

	Statement presentation	2012	2011
Realized gain	Aircraft fuel	–	2,656
Non-operating loss	Loss on fuel derivatives	(6,512)	(6,052)

During the year ended December 31, 2012, the Corporation cash settled fuel derivatives in its favour of $168 (2011 – $2,732).

(ii) Foreign exchange risk

The Corporation is exposed to foreign exchange risks arising from fluctuations in exchange rates on its US-dollar-denominated monetary assets and liabilities and its US dollar operating expenditures, mainly aircraft fuel, aircraft leasing expense, and certain maintenance and airport operations costs.

US dollar monetary assets and liabilities

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 monetary assets and liabilities. As at December 31, 2012, US-dollar-denominated net monetary liabilities totaled approximately US $11,514 (2011 – US $21,528).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar as at December 31, 2012, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2012, by $82 (2011 – $154), as a result of the Corporation's US-dollar-denominated net monetary liability balance.

US dollar aircraft leasing costs

As at December 31, 2012 the Corporation has entered into foreign exchange forward contracts for an average of US $13,534 (2011 – US $13,367) per month for the period of January to December 2013 for a total of US $162,405 (2011 – US $160,400) at a weighted average contract price of 1.0001 Canadian dollars to one US dollar to offset a portion of its US-dollar-denominated aircraft lease payments. As at December 31, 2012, no portion of the forward contracts was considered ineffective.

Upon proper qualification, the Corporation accounts for its foreign exchange derivatives as cash flow hedges.

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

16. Financial instruments and risk management (continued)

(b) Risk management related to financial instruments (continued)

Market Risk (continued)

(ii) Foreign exchange risk (continued)

The following table presents the financial impact and statement presentation of the Corporation's foreign exchange derivatives on the consolidated statement of financial position:

	Statement presentation	December 31 2012	December 31 2011
Fair value	Prepaid expenses, deposits and other	800	4,662
Fair value	Accounts payable and accrued liabilities	(898)	–
Unrealized gain (loss)	Hedge reserves – before tax impact	(98)	4,662

The following table presents the financial impact and statement presentation of the Corporation's foreign exchange derivatives on the consolidated statement of earnings:

	Statement presentation	2012	2011
Realized gain (loss)	Aircraft leasing	1,245	(4,840)

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2012, would impact OCI, net of taxes, by $1,157 (2011 – $1,192) as a result of the Corporation's foreign exchange derivatives.

(iii) Interest rate risk

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

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 an approximate impact on net earnings of $4,956 (2011 – $4,375) as a result of the Corporation's short-term investment activities.

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, 2012, totaled $31,088 (2011 – $28,386). A reasonable change in market interest rates as at December 31, 2012, would not have significantly impacted the Corporation's net earnings due to the small size of these deposits.

Long-term debt

The Corporation is exposed to interest rate risks arising from fluctuations in market interest rates on its variable rate debt. The fixed-rate nature of the majority of the Corporation's long-term debt mitigates the impact 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, 2012, would not impact net earnings.

At December 31, 2012, the Corporation had two interest rate swap contracts outstanding with a 12 year term to fix the interest rate two variable interest rate term loans at 2.89% and 2.99%, respectively, inclusive of a 75 basis point spread. The term loans were used to finance the purchase of two aircraft in 2012.

Upon proper qualification, the Corporation accounts for its interest rate swap derivatives as cash flow hedges.

The following table presents the financial impact and statement presentation of the Corporation's interest rate derivatives on the condensed consolidated statement of financial position:

	Statement presentation	December 31 2012	December 31 2011
Fair value	Accounts payable and accrued liabilities	611	112
Fair value	Other long-term liabilities	268	420
Unrealized loss	Hedge reserves (before tax impact)	(879)	(532)

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

16. Financial instruments and risk management (continued)

(b) Risk management related to financial instruments (continued)

Market Risk (continued)

(iii) Interest rate risk (continued)

The following table presents the financial impact and statement presentation of the Corporation's interest rate derivatives on the condensed consolidated statement of earnings:

	Statement presentation	2012	2011
Realized loss	Finance costs	(418)	–

A reasonable change in market interest rates at December 31, 2012 would not significantly impact the earnings or equity of the Corporation due to the insignificant fair value balance of the interest rate derivatives.

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, 2012, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, deposits and the fair value of derivative financial assets.

The Corporation's maximum exposure to credit risk is represented by the balances in the aforementioned accounts:

	December 31, 2012	December 31, 2011
Cash and cash equivalents (i)	1,408,199	1,243,605
Restricted cash(i)	51,623	48,341
Accounts receivable (ii)	37,576	34,122
Deposits (iii)	31,088	28,386
Derivative financial assets (iv)	800	12,273

(i) Consist of bank balances and short-term investments with terms of up to 92 days. Credit risk associated with cash and cash equivalents and restricted cash is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions, some with provincial-government-backed guarantees. The Corporation manages its exposure by assessing the financial strength of its counterparties and by limiting the total exposure to any one individual counterparty.

(ii) All significant counterparties, both current and new, are reviewed and approved for credit on a regular basis under the Corporation's credit management policies. The Corporation does not hold any collateral as security, however, in some cases the Corporation requires guaranteed letters of credit with certain of its counterparties. Trade receivables are generally settled within 30 to 60 days. Industry receivables are generally settled in less than 30 days.

(iii) 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 and size of the counterparty.

(iv) Derivative financial assets consist of foreign exchange forward contracts. The Corporation reviews the size and credit rating of both current and any new counterparties in addition to limiting the total exposure to any one counterparty.

There were no new bad debts recorded for the year ended December 31, 2012 and 2011.

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

16. Financial instruments and risk management (continued)

(b) Risk management related to financial instruments (continued)

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, 2012. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date, and includes both principal and interest cash flows for long-term debt.

	Total	Within 1 year	1–3 years	3–5 years	Over 5 years
Accounts payable and accrued liabilities(i)	417,377	417,377	–	–	–
Derivative financial liabilities(ii)	1,777	1,509	758	169	(659)
Long-term debt	853,163	203,381	350,222	192,563	106,997
	1,272,317	622,267	350,980	192,732	106,338

(i) Excludes deferred WestJet Rewards liability of $41,117, foreign exchange derivative liabilities of $898 and interest rate derivative liabilities of $611.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of $898 and net interest rate derivative contracts of $879. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2012, net long-term interest rate derivative liabilities were $268, with $927 in a liability position and $659 in an asset position.

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, 2012 was $480,947 (2011 – $432,186). 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, 2012 the Corporation had cash and cash equivalents on hand of 2.93 times (2011 – 2.88) 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, 2012, the Corporation's current ratio was 1.38 (2011 – 1.51). As at December 31, 2012, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.

17. Commitments

(a) Purchased aircraft and spare engines

As at December 31, 2012, the Corporation is committed to purchase 30 737-700 and five 737-800 aircraft for delivery between 2013 and 2018, as well as 20 Q400 NextGen aircraft for delivery between 2013 and 2016. The Corporation is also committed to purchase four spare engines for delivery between 2013 and 2015.

The remaining estimated amounts to be paid in deposits and purchase prices for the 55 aircraft and four spare engines are presented in the table below. Where applicable, US dollar commitments are translated at the period end foreign exchange rate.

Within 1 year	354,254
1 – 3 years	769,472
3 – 5 years	622,825
Over 5 years	129,135
	1,875,686

(b) Operating leases and commitments

The Corporation has entered into operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming. At December 31, 2012 the future payments under operating leases and commitments are presented in the table below. Where applicable, US dollar commitments are translated at the period end foreign exchange rate.

Within 1 year	228,058
1 – 3 years	358,509
3 – 5 years	206,690
Over 5 years	163,320
	956,577

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

17. Commitments (continued)

(c) Letters of guarantee

As at December 31, 2012, the Corporation has a revolving letter of credit facility with a Canadian charter bank totalling $30,000 (2011 – $30,000). The facility requires funds to be assigned and held in cash security for the full value of letters of guarantee issued by the Corporation. At December 31, 2012, $7,562 (2011 – $6,610) letters of guarantee were issued under the facility by assigning restricted cash of $7,562 (2011 – $6,610).

18. Related parties

(a) Subsidiaries and partnership

The consolidated financial statements of WestJet Airlines Ltd., the parent company, include the accounts of the Corporation and its following four directly wholly-owned subsidiaries incorporated in Canada, as well as an indirectly wholly-owned Alberta partnership:

WestJet Investment Corp.
WestJet Operations Corp.
WestJet Vacations Inc.
WestJet Encore Ltd.
WestJet, An Alberta Partnership

WestJet, An Alberta Partnership is the primary operating entity of the Corporation.

The Corporation utilizes six special purpose entities (SPEs) to facilitate the financing of aircraft. The Corporation has no equity ownership in the SPEs, however, the substance of the relationship between the Corporation and the SPEs indicates that they are controlled by the Corporation. Accordingly, the accounts of the SPEs have been consolidated in the Corporation's financial statements and all intercompany balances and transactions have been eliminated.

(b) Key management personnel

The Corporation has defined key management personnel as Senior Executive Officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2012 and 2011.

	2012	2011
Short-term fees and other short-term benefits	3,678	4,401
Termination and post-employment benefits	–	1,116
Share-based payment expense (i)	4,648	3,293
	8,326	8,810

(i) Includes amounts expensed pursuant to the stock option plan, executive share unit plan, deferred share unit plan and employee share purchase plan.

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

19. Additional financial information

(a) Assets

	Note	December 31 2012	December 31 2011
Accounts receivable:			
Trade and industry (i)		37,633	34,858
Other		2,311	1,632
Allowance (ii)		(2,368)	(2,368)
		37,576	34,122
Prepaid expenses, deposits and other:			
Prepaid expenses (iii)		35,608	27,288
Short-term deposits (iv)		32,756	27,322
Maintenance reserves – current portion	9	32,586	–
Derivatives	16	800	12,273
Other		52	53
		101,802	66,936
Inventory:			
Fuel		23,101	21,479
Aircraft expendables		8,982	7,525
De-icing fluid		427	240
Other		3,085	2,451
		35,595	31,695
Other Assets:			
Aircraft deposits (v)		44,540	45,515
Maintenance reserves – long term	9	21,277	49,655
Other (vi)		9,596	8,789
		75,413	103,959

(i) Trade receivables include receivables relating to airport operations, fuel rebates, marketing programs and ancillary revenue products and services. Industry receivables include receivables relating to air travel, vacation packages, travel agents, interline agreements with other airlines and partnerships. All significant counterparties are reviewed and approved for credit on a regular basis. Trade receivables are generally settled in 30 to 60 days. Industry receivables are generally settled in less than 30 days.

(ii) The Corporation recorded a bad debt provision in 2009 in relation to its cargo operations. There were no new provisions recorded in 2012 or 2011.

(iii) Includes prepaid expenses for insurance, vacation package vendors and other operating costs

(iv) Includes deposits relating to aircraft fuel, airport operations, deposits on leased aircraft and other operating costs.

(v) Includes long-term deposits with lessors for leased aircraft.

(vi) Includes long-term deposits for airport operations.

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

19. Additional financial information (continued)

(b) Liabilities

	Note	December 31 2012	December 31 2011
Accounts payable and accrued liabilities:			
Trade and industry		281,574	244,822
Taxes payable		101,379	23,433
WestJet Rewards		41,117	22,020
Derivatives	16	1,509	112
Other		34,424	16,722
		460,003	307,109
Other current liabilities:			
Advanced ticket sales		480,947	432,186
Non-refundable guest credits		47,859	43,485
Other liabilities:			
Deferred contract incentives (i)		9,646	10,029
Derivatives	16	268	420
		9,914	10,449

(i) Deferred contract incentives relate to discounts received on aircraft related items as well as the net effect of rent free periods and cost escalations on land leases. Incentives, rent free periods and costs escalations are amortized over the terms of the related contracts.

20. Subsequent events

(a) Aircraft Financing

Subsequent to year end, on February 5, 2013, the Corporation signed an $820 million commitment letter with Export Development Canada (EDC) pursuant to which EDC will make available to WestJet Encore financing support for the purchase of the Bombardier Q400s. The Corporation will be charged a non-refundable commitment fee of 0.2% per annum on the remaining undisbursed portion of the commitment, commencing on the date of the letter. Availability of any undrawn amount will expire at the end of 2018. The available amount for each aircraft would be up to 80% of the delivery price with a term to maturity of 12 years, payable in quarterly installments.