



**Management's Discussion and Analysis of Financial Results**

**2009**



## Management's Discussion and Analysis of Financial Results 2009

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### Advisories

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 16, 2010, should be read in conjunction with the cautionary statement regarding forward-looking information and statements below, as well as the consolidated financial statements and notes thereto as at and for the years ended December 31, 2009 and 2008. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. Certain prior-period balances in the consolidated financial statements have been reclassified to conform to current period's presentation and policies. References to "WestJet," "the Company," "we," "us" or "our" mean WestJet Airlines Ltd., its subsidiaries, partnership and special-purpose entities, unless the context otherwise requires. Additional information relating to WestJet filed with Canadian securities commissions, including periodic quarterly and annual reports and Annual Information Forms (AIF), is available on SEDAR at [www.sedar.com](http://www.sedar.com) and our website at [www.westjet.com](http://www.westjet.com). An additional advisory with respect to the use of non-GAAP measures is set out on page 52 of this MD&A under the heading "Non-GAAP Measures."

### Cautionary statement regarding forward-looking information and statements

This MD&A offers our assessment of WestJet's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation, including our expectation that seasonal non-stop service will commence to Kindley Field, Bermuda, and Samana, Dominican Republic, in May and June 2010, respectively, referred to under the heading "Overview" on page 6; our expectation that our new reservation system will ensure we can properly support our evolving business model and will enhance our ancillary revenue opportunities and airline partnerships, referred to under the headings "Fourth Quarter" on page 10 and "Outlook" on page 50; our belief that we are well on our way back to delivering the world-class guest experience our guests deserve and have come to expect, referred to under the heading "Fourth Quarter" on page 10; our expectation that the new WestJet Vacations Softvoyage reservation system will allow WestJet Vacations to successfully expand its sales and distribution channels and that WestJet Vacations will be a key contributor to the future success of our airline, referred to under the heading "Results of Operations – Revenue" on page 13; our hedging expectations and the intent to hedge anticipated jet fuel purchases, referred to under the heading "Results of Operations – Aircraft Fuel" on page 16; our sensitivity to changes in crude oil and fuel pricing, referred to under the heading "Results of Operations – Aircraft Fuel" on page 16; our expectation that aircraft maintenance costs will increase as our fleet ages, referred to under the heading "Results of Operations – Maintenance" on page 19; our sensitivity to the change in the value of the Canadian dollar versus the US dollar, referred to under the heading "Results of Operations – Foreign Exchange" on page 22; our expected effective tax rate for 2010, referred to under the heading "Results of Operations – Income Taxes" on page 23; our future aircraft deliveries, referred to under the heading "Capital Resources" on page 28; our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flows, referred to under the heading "Liquidity and Capital Resources – Contingencies" on page 28; our assessment of the impact of the transition to International Financial Reporting Standards (IFRS), referred to under the heading "Accounting – Future Accounting Policy Changes" on page 44; our belief that we will approach 2010 the same way we approached 2009, referred to under the heading "Outlook" on page 50; our plan that, as we head into 2010, we can leverage some of our new initiatives, referred to under the heading "Outlook" on page 50; our expectation that the first quarter of 2010 should benefit from our recent expansion in the transborder and international market, referred to under the heading "Outlook" on page 50; our expected first-quarter and full-year capacity increases for 2010, referred to under the heading "Outlook" on page 50; our expectation that we will not see the same substantial relief on costs in 2010 as we did in 2009, referred to under the heading "Outlook" on page 50; our expected fuel costs per litre, referred to under the heading "Outlook" on page 50; our expectation of the impact that settlements of fuel hedging contracts will have on our fuel costs per litre, referred to under the heading "Outlook" on page 50; our expectation of total capital expenditures for 2010, with the majority of the spending related to aircraft deposits and rotables, referred to under the heading "Outlook" on page 50; our belief that, as we move forward into 2010, it is unclear whether or not the initial indications of economic improvement are here to stay, referred to under the heading



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"Outlook" on page 50; our belief that we will continue to see pressure on yield in the first quarter, as first quarter RASM appears to be tracking to year-over-year declines of less than five per cent, referred to under the heading "Outlook" on page 50; our belief that 2009 demonstrated our ability to survive extreme challenges, referred to under the heading "Outlook" on page 50; our expectation that our strong balance sheet and low-cost structure will help us successfully navigate through 2010, referred to under the heading "Outlook" on page 50; our expectation that we are prepared if the recovery is long and drawn out, referred to under the heading "Outlook" on page 50; and our expectation that our WestJetters are committed to the continued growth and success of our airline, and our belief that they will make the best of 2010, referred to under the heading "Outlook" on page 50. These forward-looking statements typically contain the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should," "potential," "plan" or other similar terms.

Readers are cautioned that our expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. With respect to forward-looking statements contained within this MD&A, we have made the following key assumptions:

- our expectation that seasonal non-stop service will commence to Kindley Field, Bermuda, and Samana, Dominican Republic, in May and June 2010, respectively, was based on our current and forecasted commercial schedule;
- our expectation that our new reservation system will ensure we can properly support our evolving business model and will enhance our ancillary revenue opportunities and airline partnerships was based on the functionalities and technical requirements of the new system;
- our belief that we are well on our way back to delivering the world-class guest experience our guests deserve and have come to expect was based on our current experiences and certain key performance measures with respect to the new reservation system;
- our expectation that the new WestJet Vacations Softvoyage reservation system will allow WestJet Vacations to successfully expand its sales and distribution channels was based on the functionalities and technical requirements of the new system;
- our expectation that WestJet Vacations will be a key contributor to the future success of our airline was based on our current strategic plan and forecast;
- our hedging expectations and intent to hedge anticipated jet fuel purchases was based on our current approved hedging strategy;
- our sensitivity to changes in crude oil and fuel pricing was based on our fuel consumption for our existing schedule and historical fuel burn, as well as a Canadian-US dollar exchange rate similar to the current market rate;
- our expectation that aircraft maintenance costs will increase as our fleet ages was based on requirements specified in our maintenance program and the number of aircraft off warranty;
- our sensitivity to the change in the value of the Canadian dollar versus the US dollar was based on forecasted US-dollar spend for 2010, excluding a percentage of aircraft leasing expense hedged under foreign exchange forward contracts and option arrangements, as well as the exchange rate for the Canadian dollar similar to the current market rate;
- our expected effective tax rate for 2010 was based on forecasted financial information, tax rates based on current legislation and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- our expectation of future aircraft deliveries was based on an aircraft delivery schedule from Boeing;
- our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flows was based on a review of current legal proceedings by management and legal counsel;
- our assessment of the impact of transition to IFRS was based on standards adopted by the International Accounting Standards Board thus far and our initial assessment of Canadian GAAP and IFRS differences;



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

Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur or, if any of them do, what benefits or costs we will derive from them. By their nature, forward-looking statements are subject to numerous risks and uncertainties including, but not limited to, the impact of general economic conditions, changing domestic and international industry conditions, volatility of fuel prices, terrorism, pandemics, currency fluctuations, interest rates, competition from other industry participants (including new entrants and generally as to capacity fluctuations and the pricing environment), labour matters, government regulation, stock-market volatility, the ability to access sufficient capital from internal and external sources and additional risk factors discussed in our AIF and other documents we file from time to time with securities regulatory authorities, which are available through the Internet on SEDAR at [www.sedar.com](http://www.sedar.com) or, upon request, without charge from us. Additionally, risks and uncertainties are discussed in detail on page 29 of this MD&A.

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



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### 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 revenues divided by available seat miles.

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

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

Utilization: Operating hours per day per operating aircraft.



## OVERVIEW

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

### 2009 Highlights

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

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

Due to a change in accounting policy during 2009, retrospective restatement of prior periods was required. This change has been denoted throughout this MD&A. Please refer to Accounting – Change in Accounting Policies on page 42 of this MD&A, as well as note 2, change in accounting policies, to the consolidated financial statements and notes for the years ended December 31, 2009 and 2008, for further disclosure.



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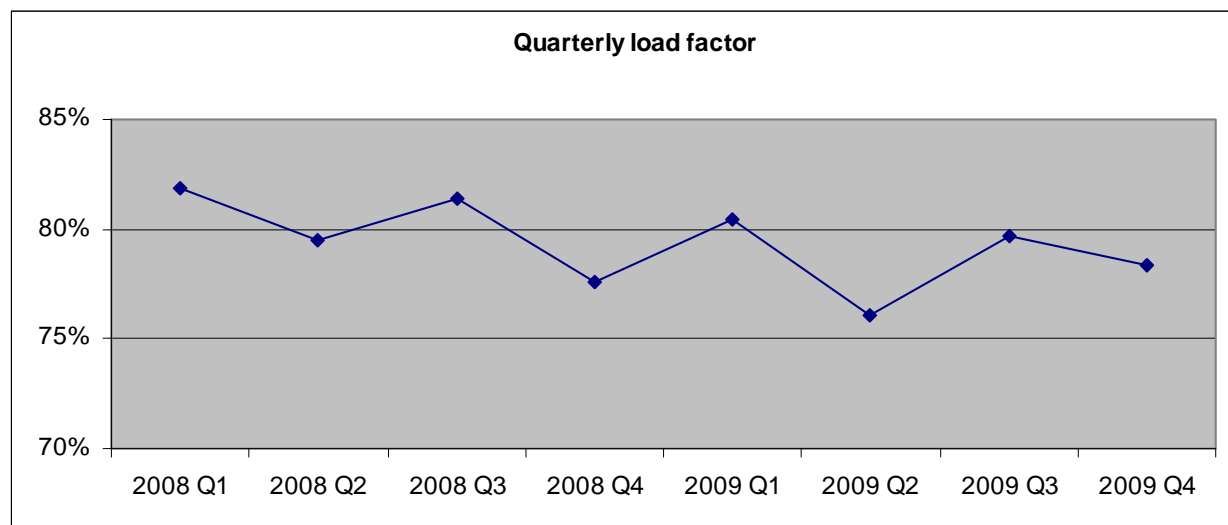
Please refer to page 52 of this MD&A for a reconciliation of non-GAAP measures, including CASM, excluding fuel and employee profit share, net earnings and diluted earnings per share adjusted for the impact of the non-recurring net future income tax reduction in the fourth quarter of 2009, to the nearest measure under Canadian GAAP.

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

\* Restated

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

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





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

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

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

We maintained one of the strongest balance sheets in the North American airline industry during 2009, as evidenced by our significant cash balance of \$1,005.2 million as at December 31, 2009, an increase of 22.6 per cent from December 31, 2008. The increase in our cash position was a result of positive cash flow from operations and the completion of an equity offering of 15,398,500 voting shares during 2009, for net proceeds of \$165.0 million. Our current ratio, defined as current assets over current liabilities, improved to 1.48 compared to 1.24 as at December 31, 2008, and our adjusted debt-to-equity ratio improved by 20.1 per cent to 1.43, from 1.79 as at December 31, 2008. Similarly, our adjusted net debt to earnings before interest, taxes, depreciation, aircraft rent and other items (EBITDAR) ratio improved by 3.9 per cent to 2.20 as compared to 2.29 as at December 31, 2008. Please refer to page 52 of this MD&A for a reconciliation of the non-GAAP measures listed above, including our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios, to the nearest measure under Canadian GAAP.

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



## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

### Annual audited financial information

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

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

### Quarterly unaudited financial information

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

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

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

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



## FOURTH QUARTER

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

### Quarterly highlights

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

Please refer to page 52 of this MD&A for a reconciliation of non-GAAP measures, including CASM, excluding fuel and employee profit share, net earnings and diluted earnings per share adjusted for the impact of the non-recurring net future income tax reduction in the fourth quarter of 2009, to the nearest measure under Canadian GAAP.



### **Reservation system**

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

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

### **Revenue**

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

### **Expenses**

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



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### *Aircraft fuel*

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

### *Marketing, general and administration*

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

### *Sales and distribution*

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



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### Income taxes

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

## RESULTS OF OPERATIONS

### Revenue

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

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

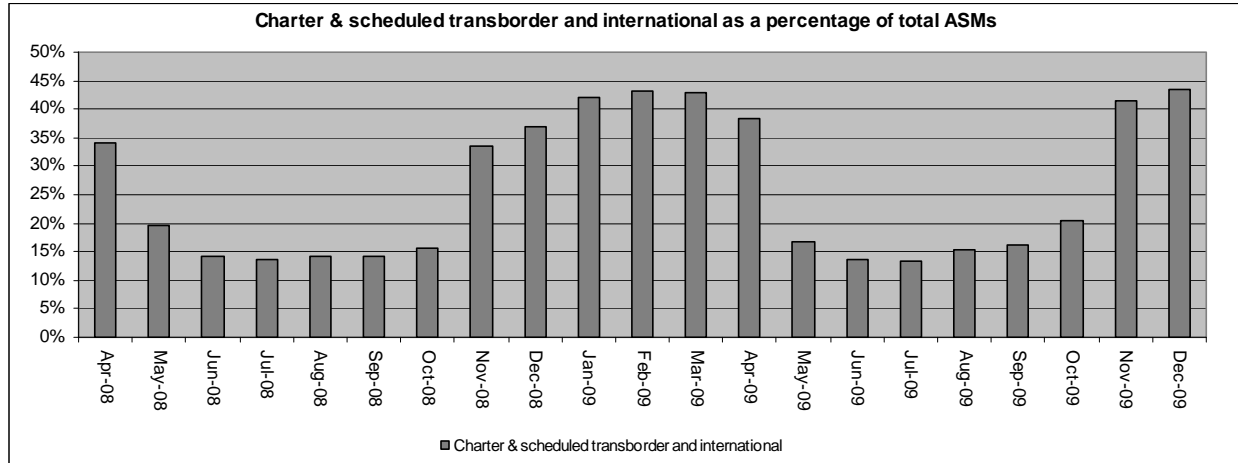
One of our key revenue measurements is RASM, as it takes into consideration load factor and yield. Our RASM decreased by 12.8 per cent to 12.97 cents for 2009, compared to 14.88 cents in 2008. This change was primarily due to a decline in yield of 11.2 per cent for 2009, as well as a slightly lower 2009 load factor. The decrease in yield was attributable to aggressive pricing by the airline industry to stimulate air travel, and, to a lesser extent, the absence of the fuel surcharge in place during a portion of 2008.

During 2009, we reduced our aircraft utilization to optimize our schedule to better match the weakened demand environment. As such, average aircraft utilization decreased by 36 minutes to 11.7 operating hours per day, compared to 12.3 operating hours per day in 2008. The flexibility of our fleet-deployment strategy allows us to react to demand changes by adjusting our schedule for more profitable flying. During the year, we continued with tactical adjustments to our schedule in favour of transborder and international markets, as depicted in the following graph.



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Additionally, we eliminated certain red-eye flights and reduced frequency of flights into a number of less profitable markets during the year. Our lower aircraft utilization negatively impacts CASM and revenue.



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

WestJet Vacations had another great year in 2009, driven largely by the strength of our Las Vegas and Disney markets, as well as the 11 destinations added as part of our winter schedule. In only its third year of operations, WestJet Vacations has become a significant player in the Canadian tour operator industry. It is the number one Canadian provider of hotel rooms into Las Vegas and has been successful in the popular Mexico and Caribbean markets. The new WestJet Vacations reservation system, implemented during the third quarter of 2009, will allow WestJet Vacations to successfully expand its sales and distribution channels. WestJet Vacations has been instrumental to our growth and will be a key contributor to the future success of our airline.

Ancillary revenues, which include service fees, onboard sales and partner and program revenue, provide an opportunity to maximize our profits through the sale of higher-margin goods and services, while also enhancing our overall guest experience. For 2009, ancillary revenues were \$91.7 million, representing a decrease of 4.2 per cent from 2008. Ancillary revenue per guest decreased by 3.5 per cent to \$6.66 per guest in 2009, from \$6.90 in 2008. These declines were attributable mainly to lower revenue due to the termination of our tri-branded BMO Mosaik AIR MILES MasterCard credit card partnership on July 31, 2008, as well as a decrease in certain fee revenues. Subsequent to the cutover to the SabreSonic reservation system in October, certain fees, such as change and cancellation, were temporarily waived in order to accommodate our guests during the adjustment to the new system.



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### Expenses

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

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

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

\*Restated

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

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



### Aircraft fuel

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

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

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

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

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

Our policy for our fuel derivatives is to measure effectiveness based on the change in the intrinsic value of the fuel derivatives versus the change in the intrinsic value of the anticipated jet fuel purchase. We elect to exclude time value from the measurement of effectiveness; accordingly, changes in time value are recognized in non-operating



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income (expense) during the period the change occurs. As a result, a significant portion of the change in fair value of our options may be recorded as ineffective.

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

If the hedging relationship ceases to qualify for cash flow hedge accounting, any change in fair value of the instrument from the point it ceases to qualify is recorded in non-operating income (expense). Amounts previously recorded in AOCL will remain in AOCL until the anticipated jet fuel purchase occurs, at which time, the amount is recorded in net earnings under aircraft fuel operating income (expense). For the years ended December 31, 2009 and 2008, there were no amounts reclassified as the result of transactions no longer expected to occur.

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

The following table displays our fuel costs per litre, including and excluding fuel hedging, for the year ended December 31, 2009. Please refer to page 52 of this MD&A for a discussion on the use of non-GAAP measures, including aircraft fuel expense, excluding hedging, which is reconciled to GAAP in the table below.

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

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



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

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

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

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

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

The fair value of the fuel derivatives designated in an effective hedging relationship is determined using inputs, including quoted forward prices for commodities, foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. The fair value of the fixed swap agreements is estimated by discounting the difference between the contractual strike price and the current forward price. The fair value of the costless collar structures is estimated by the use of a standard option valuation technique. As at December 31, 2009, for the period that we are hedged, the closing forward curve for crude oil ranged from approximately US \$79 to US \$84 (2008 – US \$45 to US \$67) with the average forward foreign exchange rate used in determining the fair value being 1.0536 US dollars to Canadian dollars (2008 – 1.2136).

The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft fuel expense when the underlying jet fuel is consumed during the next 12 months is a loss before tax of \$6.7 million.

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



### **Aircraft leasing**

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

Our aircraft leasing costs per ASM increased by 18.0 per cent in 2009 to 0.59 cents, from 0.50 cents in 2008. The majority of this variance related to incremental leasing costs on the leased aircraft delivered since the end of 2008, as well as a full period of aircraft leasing costs for three leased aircraft delivered during 2008. Additionally, unfavourable foreign exchange movements contributed to approximately 30 per cent of the year-over-year increase. We also have an active foreign exchange hedging program to offset our US-dollar-denominated aircraft lease payments on a portion of our leased aircraft. Please refer to Results of Operations – Foreign Exchange on page 22 of this MD&A for further information.

### **Maintenance**

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



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### Compensation

Our compensation philosophy is designed to align corporate and personal success. We have designed a compensation plan whereby a portion of our expenses are variable and are tied to our financial results. Our compensation strategy encourages employees to become owners in WestJet, which inherently creates a personal vested interest in our financial results and accomplishments.

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

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

#### *Employee share purchase plan (ESPP)*

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



*Employee profit share*

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

*Stock option plan*

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

*Executive share unit (ESU) plan*

We have an equity-based ESU plan, whereby restricted share units (RSU) and performance share units (PSU) may be issued to our senior executive officers. As at December 31, 2009, up to a maximum of 509,841 of our voting shares may be issued under the ESU plan. Each RSU and PSU entitles the senior executive to receive payment upon vesting in the form of voting shares. We determine compensation expense for the RSUs and PSUs based on the fair market value of our voting shares at the time of grant, which is equal to the weighted average trading price of our voting shares for the five trading days immediately preceding the grant date. The RSUs time vest at the end of a three-year period, with compensation expense being recognized in net earnings over the vesting period. PSUs time vest at the end of a three-year term and incorporate performance criteria based on achieving compounded average diluted earnings per share growth rate targets established at the time of grant. For PSUs, compensation expense is recognized in net earnings over the vesting period based on the number of units expected to vest. For the year ended December 31, 2009, \$1.4 million in compensation expense was recognized in relation to the ESU plan, an



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increase from \$0.9 million in compensation expense recognized in 2008. These increases were mainly due to the effect of the new retirement policy, resulting in the accelerated recognition of expense related to RSUs and PSUs for retirement-eligible employees, acceleration of expense due to an executive leaving the Company and additional share unit grants under this plan. Stock-based compensation expense related to the ESU plan is included in marketing, general and administration expense.

### Foreign exchange

Foreign exchange risk is the risk that the fair value of recognized assets and liabilities or future cash flows would fluctuate as a result of changes in foreign exchange rates. We are exposed to foreign currency exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated net monetary assets and certain operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. During the year ended December 31, 2009, the average US-dollar exchange rate was 1.1425 (2008 – 1.0651), with the period-end exchange rate at 1.0510 (2008 – 1.2180).

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

We periodically use financial derivatives to manage our exposure to foreign exchange risk. As at December 31, 2009, we entered into foreign exchange forward contracts for US \$7.3 million per month for the period of February 2010 to October 2010, for a total of US \$65.4 million at a weighted average contract rate of 1.0671 per US dollar to offset a portion of our US-dollar-denominated aircraft lease payments. Upon proper qualification, we designated the forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in AOCL, while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the derivative instrument, the effective gains and losses previously recognized in AOCL are recorded in net earnings as a component of aircraft leasing expense. As at December 31, 2009, no portion of the forward contracts is considered ineffective.

As at December 31, 2009, the estimated fair market value of the foreign exchange forward contracts recorded in prepaid expenses, deposits and other and accounts payable and accrued liabilities is a net loss of \$1.0 million. For the year ended December 31, 2009, we realized a gain before tax on the forward contracts of \$5.6 million (2008 – \$4.6 million), included in net earnings as a deduction to aircraft leasing expense. The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft leasing expense is a loss before tax of \$1.0 million. The fair value of the foreign exchange forward contracts is measured based on the difference



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between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace.

As at December 31, 2009, we entered into a foreign exchange option arrangement for US \$7.3 million at a range of 1.0800 to 1.1500 per US dollar to offset our US-dollar-denominated aircraft lease payments on a portion of our leased aircraft for the month of January 2010. Our foreign exchange option arrangements are not designated as hedges for accounting purposes and are recorded at fair value on the consolidated balance sheet, with changes in fair value recorded in non-operating income (expense). As at December 31, 2009, the estimated fair market value of the option arrangement recorded in accounts payable and accrued liabilities was a loss of \$0.2 million (2008 – gain of \$0.9 million). For the year ended December 31, 2009, we recorded a loss of \$3.8 million (2008 – gain of \$0.9 million), included in non-operating income (expense) on foreign exchange option arrangements.

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

For 2010, including the impact of foreign exchange hedging, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate \$9 million impact on our annual operating costs (approximately \$6 million for fuel and \$3 million related to other US-dollar-denominated expenses).

### **Income taxes**

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

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



## Guest experience

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

### *Key performance indicators*

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

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	Three months ended December 31			Twelve months ended December 31		
	2009	2008	Change	2009	2008	Change
On-time performance	63.8%	68.9%	(5.1 pts.)	78.6%	77.0%	1.6 pts.
Completion rate	99.1%	98.1%	1.0 pts.	98.9%	98.7%	0.2 pts.
Bag ratio	4.36	4.68	6.8%	3.57	4.12	13.3%

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

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

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

## LIQUIDITY AND CAPITAL RESOURCES

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

We completed 2009 with a significant cash and cash equivalents balance of \$1,005.2 million, compared to \$820.2 million as at December 31, 2008. This increase primarily resulted from the completion of an underwritten equity offering for net proceeds of \$165.0 million during the third quarter of 2009. Additionally, we signed and drew upon a 4.315 per cent fixed-rate, five-year term loan, secured by one 800-series aircraft, for a total of US \$32.0 million during the fourth quarter of 2009. Part of our cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2009, was \$286.4 million, as compared to \$251.4 million at December 31, 2008. Typically, we have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions. As at December 31, 2009, we had cash on hand of 3.51 (2008 – 3.26) times the advance ticket sales balance. Additionally, the increase in our working capital ratio to 1.48, from 1.24 as at December 31, 2008, further demonstrates our financial stability and strong financial position. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions. As at December 31, 2009, we have not been required to post collateral with respect to any of our outstanding derivative contracts.

We monitor capital on a number of measures, including adjusted debt-to-equity and adjusted net debt to EBITDAR ratios. Our adjusted debt-to-equity ratio improved by 20.1 per cent to 1.43 as at December 31, 2009, which included \$779.7 million in off-balance-sheet aircraft operating leases. This compared favourably to our adjusted debt-to-equity ratio of 1.79 at December 31, 2008, attributable to the significant increase in shareholders' equity from the issuance of 15,398,500 voting shares under our equity offering. As at December 31, 2009, our adjusted net debt to EBITDAR ratio improved by 3.9 per cent to 2.20, compared to 2.29 as at December 31, 2008, due primarily to the increase in our cash and cash equivalents from the net proceeds of the equity offering. Both of these ratios remain strong, relative to the airline industry, and met our internal targets for December 31, 2009 and 2008, of an adjusted debt-to-equity measure and an adjusted net debt to EBITDAR ratio of no more than 3.00.

### *Operating cash flow*

Our ability to generate positive cash flows from operations has allowed us to meet our working capital requirements throughout the year. During 2009, cash from operations decreased to \$318.7 million compared to \$460.6 million in 2008, representing a decline of 30.8 per cent. This year-over-year decrease related primarily to lower earnings from operations due to the economic recession.



## Management's Discussion and Analysis of Financial Results 2009

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### *Financing cash flow*

During 2009, our financing cash inflows of \$34.7 million consisted primarily of the net proceeds from the equity offering of \$165.0 million and the proceeds from the US \$32.0 million term loan, offset somewhat by \$165.8 million in long-term debt repayments, largely relating to our aircraft. In 2008, our total cash flow used in financing activities was \$115.4 million, consisting primarily of \$179.4 million in long-term debt repayments, \$29.4 million to repurchase shares and \$4.1 million in deposits relating mainly to future leased aircraft. These outflows were partially offset by the issuance of \$101.8 million in long-term debt to finance three new purchased aircraft delivered during 2008.

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

We have grown through aircraft acquisitions financed by low-interest-rate debt supported by the Export-Import Bank of the United States (Ex-Im Bank). The loan guarantees from the U.S. government represent approximately 85 per cent of the purchase price of these aircraft. The cumulative number of aircraft financed with loan guarantees is 52, with an outstanding debt balance of \$1.2 billion associated with those aircraft. All of this debt has been financed in Canadian dollars at fixed interest rates, thus eliminating all future foreign exchange and interest-rate exposure on these US-dollar aircraft purchases.

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

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



## Management's Discussion and Analysis of Financial Results 2009

### *Investing cash flow*

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

### *Contractual obligations and commitments*

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

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

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

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

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

We currently have 33 aircraft under operating leases. We have entered into agreements with independent third parties to lease six additional 737-700 aircraft and five 737-800 aircraft for terms ranging between eight and 10 years, to be delivered throughout 2010 to 2012. Although the current obligations related to our aircraft operating lease agreements are not recognized on our balance sheet, we include these commitments in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios.

We signed a six-year agreement with Bell ExpressVu to provide satellite programming. The agreement commenced in 2004 and can be renewed for an additional four years. During 2009, we amended our agreement with LiveTV to install, maintain and operate live satellite television for all of our aircraft for a term of 10 years. The minimum commitment amounts associated with these agreements have been included in the operating leases and commitments caption in the table above.

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



## Management's Discussion and Analysis of Financial Results 2009

### Capital resources

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

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

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

Commencing in the third quarter of 2009, we have available a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available for up to a maximum of \$85 million and is secured by our Campus facility. The line of credit bears interest at prime plus 0.50 per cent per annum, or a bankers acceptance rate at 2.0 per cent annual stamping fee, and is available for general corporate expenditures and working capital purposes. We are required to pay a standby fee of 15 basis points, based on the average unused portion of the line of credit for the previous quarter, payable quarterly. As at December 31, 2009, no amounts were drawn on this facility.

### Contingencies

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



## Share capital

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

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

## Related-party transactions

We have debt financing and investments in short-term deposits with a financial institution that is related through two common directors, one of whom is also the president of the financial institution. As at December 31, 2009, total long-term debt includes an amount of \$6.4 million (2008 – \$7.3 million) due to the financial institution. Included in cash and cash equivalents, as at December 31, 2009, are short-term investments of \$143.3 million (2008 – \$96.5 million) owing from the financial institution. In 2008, we signed a three-year revolving operating line of credit agreement with a banking syndicate, of which one of the members is the related-party financial institution. These transactions occurred in the normal course of operations on terms consistent with those offered to arm's-length parties and are measured at the exchange amount.

## RISKS AND UNCERTAINTIES

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

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

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



## Management's Discussion and Analysis of Financial Results 2009

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

We carry insurance with comparable coverage to other scheduled airlines operating in the North American market. While we believe our insurance is adequate, there can be no assurance that such coverage will fully protect us against all losses that we might sustain, which could have a material adverse effect on our results of operations. There is no assurance that we will be able to obtain insurance on the same terms as we have in the past.

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

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

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

Fuel price volatility continues to represent a significant risk, as the cost of fuel has been at historically elevated levels throughout the past few years, and is largely unpredictable. Fuel prices are impacted by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity and global demand and supply. A small change in the price of fuel can significantly affect profitability. Our ability to react to fuel price volatility may be delayed and affected by factors outside our control.

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

In the event of a fuel supply shortage or significantly higher fuel prices, a curtailment of scheduled service could result. A significant increase in the price of aircraft fuel could result in a disproportionately higher increase in our average total costs in comparison to our competitors, if they are using more effective hedging programs.



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

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

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

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

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

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

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



## **Management's Discussion and Analysis of Financial Results 2009**

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

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

We depend on automated systems to operate our business and support our initiatives, including our computerized airline reservation systems, telecommunication systems, aircraft maintenance system and website. Our website and reservation systems must be able to accommodate a high volume of traffic and deliver important and accurate flight information. Any disruption in these systems could result in the loss of important data, reallocation of personnel, failure to meet critical deadlines and increased expenses, and could generally harm our business.

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

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

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



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

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

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

The increase in security measures and clearance times required for guest travel, as we experienced in 2009, could have a material adverse effect on guest demand and the number of guests we carry. A reduction in guest numbers could have a negative impact on our revenues and results of operations.

**We are dependent on single aircraft and engine suppliers. Any interruption in the provision of goods and services from these suppliers, or other significant third party suppliers, as well as mechanical or regulatory issues associated with their equipment could have a material adverse effect on our business, operating results and financial condition.**

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

We are dependent on Boeing as our sole supplier for aircraft and many of our aircraft parts. If we were unable to acquire additional aircraft from Boeing, or Boeing were unable or unwilling to provide adequate support for its products, our operations would be materially adversely affected. If Boeing was unable to adhere to its contractual obligations in meeting scheduled delivery dates for our owned and leased aircraft, we would be required to find another supplier for aircraft to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs, and, additionally, aircraft may not be available at similar prices or received during the same scheduled delivery dates, which could adversely affect our business, operating results and financial condition. In addition, we would be materially adversely affected in the event of a mechanical or regulatory issue associated with the Boeing Next-Generation 737 aircraft type, including negative perceptions from the travelling community.

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



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

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

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

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

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

We are exposed to fluctuations in the US-dollar exchange rate relating to the purchases of the remaining 38 737 aircraft. Historically the purchase of our aircraft is financed by funds drawn in Canadian dollars; however, the aircraft are paid for in US funds at the date of each aircraft delivery. As a result, we are exposed to foreign currency fluctuations prior to each delivery date. In July 2008, we took delivery of the final aircraft under our previous facility with Ex-Im Bank, which was subsequently closed. We have yet to pursue financing agreements for our remaining 38 aircraft, as our next purchased aircraft delivery is not expected until January 2011. There is no guarantee we will be able to secure similar financing arrangements for the remaining 38 purchased aircraft to be delivered in 2011 to 2016.

We are also exposed to general market fluctuations of interest rates, as we have future aircraft purchase commitments that will be financed at prevailing market rates.

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

After the terrorist attacks of September 11, 2001, the airline industry experienced a substantial decline in guest traffic and revenue, and increased security and insurance costs. In late 2009, certain incidents again heightened the concern regarding terrorist attacks. The heightened concern over potential terrorist attacks could cause a further decrease in guest traffic and yields, and increase security measures and related costs for the airline industry generally. Additional terrorist attacks would likely have a further significant negative impact on our business and the airline industry. Should such an attack occur in Canada, the adverse impact could be very significant.

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

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

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

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

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

**Governmental fee increases discourage air travel.**

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

All commercial service airports in Canada are regulated by the federal government. Airport authorities continue to implement or increase various user fees that impact travel costs for guests, including landing fees for airlines and airport improvement fees. Airport authorities generally have the unilateral discretion to implement and adjust such fees. The combined increased fees, and increases in rents under various lease agreements between airport authorities and the Government of Canada, which in many instances are passed on to air carriers and air travellers, may negatively impact travel, in particular, discretionary travel.



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

The average age of our fleet as at December 31, 2009, was 4.4 years. These aircraft require less maintenance now than they will in the future. We have incurred lower maintenance expenses on these aircraft because most of the parts on these aircraft are under multi-year warranties. Our maintenance costs will increase as our fleet ages and warranties expire. At December 31, 2009, 51 owned aircraft have come off warranty, with an additional 12 coming off warranty in 2010.

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

Our strong corporate culture is one of our fundamental competitive advantages. We strive to maintain an innovative culture where all employees are committed to, and passionately pursue, our values, mission and vision. We also foster a unique culture of caring and compassion for our guests and fellow employees that sets us apart from our competitors. The failure to maintain our unique corporate culture or guest experience could adversely affect our business and financial results.

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

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

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

Please refer to Accounting – Financial Instruments and Risk Management on page 37 of this MD&A for a further discussion on risks.



## ACCOUNTING

### Financial instruments and risk management

Our financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives both designated and not designated in an effective hedging relationship, deposits, accounts payable and accrued liabilities, long-term debt and capital lease obligations.

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

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

#### *Fuel risk*

The airline industry is inherently dependent upon jet fuel to operate and, therefore, we are exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. To provide management with reasonable foresight and predictability into operations and future cash flows, we periodically use short-term and long-term financial derivatives. Upon proper qualification, we designate our fuel derivatives as cash flow hedges for accounting purposes. For a discussion of the nature and extent of our use of fuel derivatives for the years ended December 31, 2009 and 2008, including the business purposes they serve; risk management activities; the financial statement classification and amounts of income, expense, gains and losses associated with the instruments; and the significant assumptions made in determining their fair value, please refer to Results of Operations – Aircraft Fuel on page 16 of this MD&A.

#### *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value of recognized assets and liabilities or future cash flows would fluctuate as a result of changes in foreign exchange rates. We are exposed to foreign exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated net monetary assets and our operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. To manage our exposure, we periodically use financial derivative instruments, including US-dollar foreign exchange forward contracts and option arrangements. Upon proper qualification, we designate our foreign exchange forward contracts as cash flow hedges for accounting purposes. For a discussion of the nature and extent of our use of US-dollar foreign exchange forward contracts and option arrangements, including the business purposes they serve; risk management activities; the financial statement classification and amounts of income, expense, gains and losses



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associated with the instruments; and the significant assumptions made in determining their fair value, please refer to Results of Operations – Foreign Exchange on page 22 of this MD&A.

### *Interest rate risk*

Interest rate risk is the risk that the value of financial assets and liabilities or future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on short-term investments included in our cash and cash equivalents balance. We are also exposed to interest rate fluctuations on our deposits that relate to purchased aircraft and airport operations, which, as at December 31, 2009, totalled \$27.3 million (2008 – \$24.3 million). The fixed-rate nature of the majority of our long-term debt reduces the risk of interest rate fluctuations over the term of the outstanding debt. Additionally, we are exposed to interest rate fluctuations on our variable-rate long-term debt, which, as at December 31, 2009, totalled \$8.6 million (2008 – \$11.2 million) or 0.7 per cent (2008 – 0.8 per cent) of our total long-term debt.

### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2009, our credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, accounts receivable, deposits, as well as the fair value of derivative financial assets. Cash and cash equivalents consist of bank balances and short-term investments with terms of up to one year, with the majority less than 91 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions. Furthermore, we manage our exposure risk by assessing the financial strength of our counterparties and by limiting the total exposure to any one individual counterparty. As at December 31, 2009, we had a total principal amount invested of \$813.2 million (2008 – \$692.2 million) in Canadian-dollar short-term investments with terms ranging between five and 365 days, and a total of US \$nil (2008 – US \$23.8 million) invested in US-dollar short-term investments. We perform an ongoing review to evaluate our risk associated with cash and cash equivalent counterparties. As at December 31, 2009, we do not expect any counterparties to fail to meet their obligations.

Generally, our accounts receivable are the result of tickets sold to individual guests through the use of travel agents and other airlines. Purchase limits are established for each agent and, in some cases, when deemed necessary, a letter of credit is obtained. As at December 31, 2009, \$10.4 million (2008 – \$7.4 million) is receivable from travel agents and other airlines. These receivables are short-term in nature, generally being settled within four weeks from the date of booking. As at December 31, 2009, \$0.6 million (2008 – \$0.7 million) of the balance receivable is covered by letters of credit. As at December 31, 2009, we determined that \$2.4 million of our accounts receivable relating to our cargo operations was doubtful, as amounts receivable are in dispute with the counterparty. Accordingly, we have recorded a bad debt provision for the amount.

We recognize that we are subject to credit risk arising from derivative transactions that are in an asset position at the balance sheet date. We carefully monitor this risk by closely considering the size, credit rating and diversification of the counterparty. As at December 31, 2009, fuel derivatives of \$0.1 million and foreign exchange derivatives of \$0.2



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million outstanding with one of our counterparties were in an asset position. We do not expect this counterparty to fail to meet its obligations.

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

### *Liquidity risk*

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We maintain a strong liquidity position and sufficient financial resources to meet our obligations as they fall due.

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

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

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

A portion of our cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2009, was \$286.4 million (2008 – \$251.4 million). Typically, we have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions. As at December 31, 2009, we had cash on hand of 3.51 (2008 – 3.26) times the advance ticket sales balance. We aim to maintain a current ratio of at least 1.00. As at December 31, 2009, our current ratio was 1.48 (2008 – 1.24). As at December 31, 2009, we have not been required to post collateral with respect to any of our outstanding derivative contracts.

### *Fair value of financial instruments*

Fair value represents a point-in-time estimate. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities included in the balance sheet approximate their fair values due to the short-term nature of the instruments. The fair value of deposits, which relate to purchased aircraft and airport operations, approximates their carrying amounts as they are at a floating market rate of interest. At December 31, 2009, the fair value of our fixed-rate long-term debt was approximately \$1,323.1 million (2008 –



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\$1,515.5 million). The fair value of our fixed-rate long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates obtained from the lender, which represent borrowing rates presently available to us for loans with similar terms and remaining maturities. As at December 31, 2009, rates used in determining the fair value ranged from 2.28 per cent to 3.27 per cent (2008 – 2.08 per cent to 2.58 per cent). The fair value of our variable-rate long-term debt approximates its carrying value as it is at a floating market rate of interest. Please refer to Results of Operations – Aircraft Fuel and Results of Operations – Foreign Exchange on pages 16 and 22, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of derivatives both designated and not designated in an effective hedging relationship.

### **Critical accounting estimates**

Our significant accounting policies are described in note 1 to our consolidated financial statements. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions regarding significant items that affect the amounts reported in the consolidated financial statements and accompanying notes. Changes in facts and circumstances may result in revised estimates, and actual results may differ from these estimates.

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

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

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

In estimating the lives and expected residual values of our property and equipment and intangible assets, we rely on third party industry market valuations, recommendations from Boeing and actual experience with the asset. Revisions to the estimates for our fleet can be caused by changes in the utilization of the aircraft or changing market prices of used aircraft of the same type.

We provide for asset retirement obligations to return leased aircraft to certain standard conditions as specified within our lease agreements.

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

#### *Non-refundable guest credits*

We make estimates in accounting for our liability related to certain types of non-refundable guest credits. We issue future travel credits to guests for flight changes and cancellations, as well as for gift certificates. Where appropriate, future travel credits are also issued for flight delays, missing baggage and other inconveniences. All credits are non-refundable and expire based on the nature of the credit, except for gift certificates, which do not contain an expiry



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date. We record a liability depending on the nature of the credit at either the full value or at the incremental cost of a one-way flight in the period the credit is issued. The utilization of guest credits is recorded as revenue when the guest has flown or upon expiry.

### *Future income tax*

We use the asset and liability method of accounting for future income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liabilities may change.

### *Stock-based compensation expense*

Grants under our stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity, the fair value of the option or unit is determined on the grant date using a valuation model and recorded as compensation expense over the period that the stock option or unit vests, with a corresponding increase to contributed surplus. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, and the fair value of our other equity-based share unit plans is determined based on the market value of our common shares on the date of the grant. Upon the exercise of stock options or units, consideration received, together with amounts previously recorded in contributed surplus, are recorded as an increase in share capital. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of somewhat subjective assumptions, including expected share price volatility.

### *Valuation of derivative financial instruments*

The fair values of derivative financial instruments are calculated on the basis of information available at the balance sheet date. The fair value of the foreign exchange forward contracts is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace. The fair value of the foreign exchange option arrangements is determined through a standard option valuation technique used by the counterparty based on inputs, including foreign exchange rates, interest rates and volatilities.

The fair value of the fuel derivatives designated in an effective hedging relationship is determined using inputs, including quoted forward prices for commodities, foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. The fair value of the fixed swap agreements is estimated by discounting the



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difference between the contractual strike price and the current forward price. The fair value of the costless collar structures is estimated by the use of a standard option valuation technique.

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

### Change in accounting policies

#### *Goodwill and intangible assets*

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

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

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



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

### *Business combinations*

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

### *Consolidated statements and non-controlling interests*

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

### *Financial instruments*

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

## Future accounting policy changes

### *IFRS*

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

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

We have an IFRS transition plan that includes a timetable for assessing the impact on systems, internal controls over financial reporting (ICFR) and business activities. Our IFRS conversion project consists of three phases: Diagnostic, Solution Development, and Implementation and Execution. We have completed the Diagnostic phase, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS, and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to us.

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

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

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Please see the table below for certain elements of our IFRS transition plan and an assessment of progress towards achieving these milestones. Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating these key milestones and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes to the transition plan being communicated here.

Key activity	Key milestones	Status
<b>Financial statement preparation</b>		
<ul style="list-style-type: none"> <li>▪ Identify differences in Canadian GAAP/IFRS accounting policies</li> <li>▪ Select ongoing IFRS policies</li> <li>▪ Select IFRS 1 choices</li> <li>▪ Develop financial statement format</li> <li>▪ Quantify effects of change in initial IFRS disclosure and 2010 comparative financial statements</li> </ul>	<p>Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur in early 2010.</p> <p>Development of draft financial statement format to occur during the first half of 2010.</p>	<p>Completed the IFRS Diagnostic phase during 2008, which involved a high-level review of the major differences between Canadian GAAP and IFRS.</p> <p>The Solution Development phase is substantially complete, and we have commenced the Implementation and Execution phase as previously discussed.</p>
<b>Training</b>		
<p>Define and introduce appropriate level of IFRS expertise for each of the following:</p> <ul style="list-style-type: none"> <li>▪ Finance Department</li> <li>▪ Audit Committee</li> </ul>	<p>Training for the Finance Department to occur throughout 2010.</p> <p>Regular Audit Committee updates are provided once per quarter.</p>	<p>Project team expert resources and our external advisor have been identified to provide insights and training. Training for project team members is occurring throughout the project, and a detailed training plan is being created for the Finance Department and other departments as needed.</p>
<b>Information technology (IT) infrastructure</b>		
<p>Confirm that business processes and systems are IFRS compliant, including:</p> <ul style="list-style-type: none"> <li>▪ Program upgrades (including any interfaces) and changes</li> <li>▪ Gathering data for disclosures</li> </ul>	<p>Confirm that systems can address 2010 dual reporting requirements in the fourth quarter of 2009.</p> <p>Confirm that business processes and systems are IFRS compliant throughout the project.</p>	<p>Proof of concept for dual reporting during 2010 has been completed, with testing and implementation occurring throughout 2010. Based on the work to date, there does not appear to be any significant IT issues that cannot be addressed by our current systems.</p> <p>Currently reviewing options to address business process changes. Workshops have commenced to discuss key business process and IT changes.</p>
<b>Control environment</b>		
<ul style="list-style-type: none"> <li>▪ For all accounting policy changes identified, assess control design and effectiveness implications</li> <li>▪ Implement appropriate changes</li> </ul>	<p>All key IFRS control design and effectiveness implications are being assessed as part of the key IFRS differences and accounting policy choices through to the end of 2010.</p>	<p>Analysis of control requirements is underway in conjunction with review of accounting issues and policies. Internal Audit has been involved in the project plan to integrate any ICFR requirements.</p>



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### External communications

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Assess the effects of key IFRS-related accounting policy and financial statement changes on external communications, in particular:

- Confirm 2011 investor communications are IFRS compliant regarding guidance and financial impact
- Monitor external communications package
- Confirm investor relations process can respond to IFRS-related queries

Analyze and publish the effect of IFRS on the financial statements throughout the project.

IFRS disclosure will be updated throughout the project.

Investor Relations is represented on the IFRS Steering Committee. An investor relations communications strategy is currently being formulated.

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The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. We continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of our adoption of IFRS.

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

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

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

the depreciation of the major overhaul component over the period to the next overhaul is expected to reduce the carrying value of property and equipment and opening retained earnings on transition.

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

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

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

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

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

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

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



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then be recognized as a deduction to net earnings over the remaining terms of the long-term debt using the effective interest method.

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

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

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

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

### Disclosure controls and procedures

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

An evaluation of the effectiveness of the design and operation of our DC&P was conducted, as at December 31, 2009, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2009, our DC&P, as defined by the CSA in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to provide reasonable assurance that information required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.



### **Internal controls over financial reporting**

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

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

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

Management, under the supervision of the CEO and the CFO, has evaluated the effectiveness of our ICFR using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has concluded that as at December 31, 2009, the design and operating effectiveness of our ICFR was effective to provide reasonable assurance regarding the reliability of financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP.

### **Changes in internal controls over financial reporting**

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

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

Management has designed and implemented controls to ensure that all reservation and revenue accounting transactions have received the relevant designation requirements; a reasonable methodology has been established to determine the effectiveness of the reservation and revenue accounting systems; all related transactions have been accurately measured, reviewed and recorded; and all relevant presentation and disclosure requirements have been included in the financial statements in accordance with Canadian GAAP.



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Other than as described previously, there have not been any other changes in our ICFR, during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our ICFR.

### OUTLOOK

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

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

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

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

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

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



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per cent and have a weighted average call price of CAD \$111 per barrel and a weighted average put price of CAD \$78 per barrel. The settlements of these hedging contracts are anticipated to add between \$0.01 and \$0.02 per litre to our cost of fuel.

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

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

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



## NON-GAAP MEASURES

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

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

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

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

Adjusted net debt: Adjusted debt less cash and cash equivalents. This measure is used in the calculation of adjusted net debt to EBITDAR, as defined below.

EBITDAR: Earnings before interest, taxes, depreciation, aircraft rent and other items, such as asset impairments, gains and losses on derivatives and foreign exchange gains or losses. EBITDAR is a non-GAAP measure commonly used in the airline industry to evaluate results by excluding differences in the method in which an airline finances its aircraft.

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

Aircraft fuel expense, excluding hedging: As presented in the non-GAAP measures to GAAP reconciliation on page 17 of this MD&A under the heading Results of Operations – Aircraft Fuel, we believe it is useful to reflect aircraft fuel expense excluding hedging, which excludes the effective portion of realized losses on fuel derivatives and ineffectiveness. Since fuel expense is highly volatile, we believe presenting the cost of fuel, both including and excluding the effects of hedging, is useful to a reader. This reconciliation table has not been repeated in this section.



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### Reconciliation of non-GAAP measures to GAAP

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

- (i) As at December 31, 2009, long-term debt includes the current portion of long-term debt of \$171,223 (2008 – \$165,721) and long-term debt of \$1,048,554 (2008 – \$1,186,182).
- (ii) As at December 31, 2009, obligations under capital lease includes the current portion of obligations under capital lease of \$744 (2008 – \$395) and obligations under capital lease of \$3,358 (2008 – \$713).
- (iii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing twelve months of aircraft leasing expense by 7.5. As at December 31, 2009, the trailing twelve months of aircraft leasing costs totalled \$103,954 (2008 – \$86,050).
- (iv) The trailing twelve months are used in the calculation of EBITDAR.
- (v) As at December 31, 2009, net interest includes the trailing twelve months of interest income of \$5,601 (2008 – \$25,485) and the trailing twelve months of interest expense of \$67,706 (2008 – \$76,078).
- (vi) As at December 31, 2009, other includes the trailing twelve months foreign exchange loss of \$12,306 (2008 – gain of \$30,587) and the trailing twelve months non-operating gain on derivatives of \$1,828 (2008 – loss of \$17,331).



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