PUBLIC

CT-2010-010

THE COMPETITION TRIBUNAL

IN THE MATTER OF the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

AND IN THE MATTER OF an application by the Commissioner of Competition pursuant to section 76 of the *Competition Act*;

AND IN THE MATTER OF certain agreements or arrangements implemented or enforced by Visa Canada Corporation and MasterCard International Incorporated.

BETWEEN:

COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE
RECEIVED / REÇU
April 27, 2012
REGISTRAR / REGISTRAIRE
OTTAWA, ONT. by / par C. Fortin doc. no 226

THE COMMISSIONER OF COMPETITION

Applicant

- and -

VISA CANADA CORPORATION and MASTERCARD INTERNATIONAL INCORPORATED

Respondents

- and –

CANADIAN BANKERS ASSOCIATIONS and THE TORONTO-DOMINION BANK

Intervenors

WITNESS STATEMENT OF CANDICE LI

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1. I am the Vice President, Treasurer of WestJet Airlines, Ltd. ("WestJet"), a position I have held since March 2008.

2. WestJet is Canada's leading low-cost airline, providing affordable air transportation to more than 70 destinations in Canada, the United States, Mexico and the Caribbean. In 2011, WestJet served over 16 million segment guests and employed over 7,000 full-time-equivalent employees.

Background

3. I have over 14 years of experience in finance and accounting. Prior to joining WestJet, I spent approximately five years in various positions, including as the Global SOx Program Manager, a Divisional Controller and a Senior Internal Auditor at National Semiconductor Corporation in Santa Clara, California. Before that, I held positions that progressed from Associate to Experienced Senior Associate at PricewaterhouseCoopers LLP. I hold a Bachelor of Commerce degree from the University of Calgary, as well as Chartered Accountant (Canada) and Certified Public Accountant (U.S.) designations.

4. I joined WestJet in January 2006 as the Director of Audit and Advisory Services and became Vice President, Treasury in March 2008. In this position, I am responsible for the design of WestJet's overall capital structure and oversee a breadth of corporate functions that include corporate finance, treasury operations, financial risk management, cash and investment management, aircraft procurement, insurance, taxation and investor relations. Included in treasury operations is the management of various banking relationships and processes, including WestJet's credit card acquirer relationship and the related credit card processing, chargeback and reconciliation processes.

Description of WestJet's Operations

5. WestJet was founded in February 1996 in Calgary, Alberta. WestJet flies an average of 425 flights everyday to 31 destinations across Canada and 45 destinations in the United States, Mexico and the Caribbean using a fleet of 98 Boeing 737 aircraft. WestJet's revenues in 2011 were approximately $3.1 billion, including revenues earned by WestJet's wholly-owned subsidiary, WestJet Vacations, a significant Canadian tour operator. Further information regarding the operations of WestJet may be found in its 2010 Annual Report, 2011 Management Discussion and Analyses and 2011 Consolidated Financial Statements, copies of which are attached to this witness statement as Exhibits "A", "B" and "C", respectively.

6. The airline industry is competitive. WestJet competes with a number of Canadian airlines, as well as numerous U.S. carriers and seasonal charter services. As WestJet seeks to differentiate itself by being Canada's leading low-cost airline, controlling costs remains a key priority for WestJet, which is constantly searching for ways to maintain its low-cost advantage.

7. Tickets for air travel on WestJet are primarily purchased online via WestJet's website "westjet.com", or from authorized third party travel agencies (such as Carlson Wagonlit, Expedia and Travelocity) using Global Distribution Systems ("GDS") (i.e. Amadeus, Galileo, or Sabre). Purchases can also be made by telephone through the WestJet call centre, in person at WestJet ticket counters at airports or from authorized third party travel agencies. In 2011, [redacted] of WestJet's sales were completed through WestJet's website, [redacted] through a GDS, [redacted] through WestJet's call center and ticket counters, and the remaining [redacted] through partner direct connections (AirMiles and Thomas Cook).

Payment Methods Accepted by WestJet

8. WestJet accepts Visa, MasterCard and American Express credit cards, as well as Universal Air Travel Plan corporate cards ("UATP"). UATP is a payment network owned by 17 airlines. Payments made using UATP represent an immaterial amount of WestJet's total

sales. [redacted] WestJet also accepts Visa debit.

9. In addition to credit cards and Visa debit, cash and Interac debit may be used for in-person transactions at a WestJet airport ticket counter. WestJet does not accept personal cheques as a method of payment.

10. For onboard flight purchases, WestJet accepts Visa, MasterCard and American Express credit cards. Vouchers for onboard purchases can also be purchased in advance from WestJet check-in counters, using any payment method accepted by WestJet.

11. In 2011, approximately [redacted] of WestJet's total sales volume [redacted] for WestJet Vacations) was made using credit cards. Of that, Visa accounted for approximately [redacted] MasterCard accounted for approximately [redacted] and American Express accounted for approximately [redacted]

12. Cash and Interac debit each accounted for [redacted] of WestJet's 2011 total sales volume. WestJet began accepting Visa debit on December 9, 2011, and Visa debit transactions for the period from December 9, 2011 through December 31, 2011 totalled [redacted]

13. Credit cards represent the most expensive form of payment accepted by WestJet, followed by Visa debit, Interac debit and cash.

14. The fees paid on credit card transactions ("Card Acceptance Fees") represent a significant operating cost to WestJet. In 2011, Card Acceptance Fees amounted to approximately [redacted] million, representing over [redacted] of total revenues. This includes the Card Acceptance Fees for all Visa, MasterCard and American Express transactions accepted by WestJet in 2011.

15. For Visa and MasterCard transactions, the Card Acceptance Fees are made up of the fees paid to Visa and MasterCard ("Network Fees"), the fee that is paid to issuers of

credit cards ("Interchange Fees"), and the processing fees paid to [redacted] WestJet's payment acquirer/credit card processer (the "Acquirer Service Fee").

16. In 2011, WestJet's Card Acceptance Fees were, on average, [redacted] of the transaction value for Visa transactions and [redacted] of the transaction value for MasterCard transactions, [redacted] In comparison, WestJet pays [redacted] to process each Visa debit transaction and [redacted] to process each Interac debit transaction.

17. WestJet partnered with MasterCard and the Royal Bank of Canada in 2009 to offer two co-branded credit cards, the WestJet RBC World MasterCard and the WestJet RBC MasterCard, which are "premium" and standard credit card, respectively. WestJet had similar co-branding agreements in place with the Bank of Montreal ("BMO") between 2002 and 2009 for the BMO Mosaic MasterCard. WestJet's relationship with BMO was terminated in 2009. [redacted]

18. There is a significant variation in Card Acceptance Fees depending upon the type of credit card presented by the customer for payment. Under the standard "card not present" rates published by Visa, the Interchange Fee charged as a component of the overall card acceptance cost is 2.0% for corporate or other commercial credit cards, 1.85% for "premium" Visa credit cards (such as the Visa Infinite cards) and 1.65% for standard Visa credit cards (such as Classic, Gold and Platinum cards). Similarly, under the standard "card not present" rates published by MasterCard, Interchange fees for MasterCard's premium high

spend cards (such as the World Elite card) are 2.65%, as compared to the "core" credit cards, which command an Interchange Fee of 1.72%.

19. [redacted]

Relationship with our Acquirer

20. WestJet's Acquirer is [redacted] a leading provider of e-commerce and payment processing services, including acquiring services. As an Acquirer, [redacted] supplies the infrastructure and services necessary for WestJet to accept credit cards as a form of payment from customers, including access to the Visa and MasterCard credit card networks, facilitation of authorization requests for credit card transactions and settlement of payment. A copy of WestJet's agreement with [redacted] (the "Merchant Agreement") is attached to this witness statement as Exhibit "D".

21. [redacted]

22. Of the [redacted] of Card Acceptance Fees paid by WestJet in 2011, Interchange Fees accounted for [redacted] Network Fees accounted for [redacted] and Acquirer Service

Fees accounted for [redacted] To the best of WestJet's knowledge, Interchange Fees are set by Visa and MasterCard, and are non-negotiable by the merchant, except where certain limited opportunities exist, such as the issuance of a co-branded credit card.

<u>The Increasing Cost of Credit Card Acceptance</u>

23. WestJet has a separate relationship with its Acquirer and is able to put credit card processing services up for competitive bidding and negotiate the Acquirer Service Fees. In contrast, WestJet has no ability to negotiate the level of the Interchange Fees retained by Issuers or the Network Fees retained by Visa or MasterCard. Similarly, WestJet has no ability to affect the terms and conditions upon which Visa and MasterCard offer their credit cards, as certain rules that are established by Visa and MasterCard are required to be incorporated into its Merchant Agreement (the "Merchant Rules").

24. Interchange Fees and Network Fees are determined by Visa and MasterCard and passed on to WestJet by its Acquirer. In almost every other aspect of its business, WestJet can negotiate with suppliers to secure discounts and create fair, balanced business relationships. However, this is not the case with respect to the acceptance of credit cards.

25. Card Acceptance Fees paid by WestJet have increased considerably in recent years, due both to higher Interchange Fees and the introduction and increased penetration of "premium" credit cards, which have higher Interchange Fees than standard credit cards. The average Card Acceptance Fees paid by WestJet increased from [redacted] in 2007 to [redacted] in 2011 on Visa credit card transactions and changed from [redacted] in 2007 to [redacted] in 2011 on MasterCard credit card transaction. [redacted]

26. WestJet has no ability to determine with a high level of precision, in advance of receiving its monthly invoice from [redacted] the cost of credit card acceptance, as the fees

associated with specific credit cards are not known by WestJet at the point of interaction. This has become a cost-management problem since 2009, when a large volume of "premium" credit cards were pushed into the market by Visa and MasterCard.

27. In December 2011, "premium" and corporate credit cards (bearing the highest level of interchange) accounted for [redacted] and [redacted] of WestJet's total Visa transactions respectively, and [redacted] and [redacted] of WestJet's total MasterCard transactions respectively. In December 2011, [redacted] of WestJet's credit card transactions were subject to Interchange Fees that exceeded the basic rate. Because "premium" credit cards have higher Interchange Fees, as the share of consumers using "premium" cards increases, so do WestJet's overall Card Acceptance Fees.

28. Despite paying additional costs, WestJet sees no additional benefit from "premium" cards. While "premium" cardholders may spend more than other cardholders, this is purely a function of their higher income. I do not believe that the possession of a "premium" card influences a customer's decision to travel. In the absence of "premium" cards, I believe that WestJet's customers would spend just as much at WestJet as they do today.

29. The increased cost of Card Acceptance Fees are either passed on to all of WestJet's customers in the form of higher prices or absorbed by WestJet, adversely affecting WestJet's operating profits.

<u>The Merchant Rules</u>

30. WestJet is unable to control the cost of credit card acceptance using currently available tools. There are a number of non-negotiable clauses in WestJet's [redacted] including the requirement to pay the Interchange Fees set by Visa/MasterCard, which, as discussed above, may increase or decrease at any time. [redacted] WestJet is also bound by certain rules implemented by Visa and MasterCard (the "Merchant Rules") that substantially undermine WestJet's leverage in

negotiations with Visa and MasterCard and frustrate any strategy to effectively mitigate Card Acceptance Fees.

31. The Merchant Rules include the following:

(a) merchants must honour all Visa/MasterCard cards without discrimination when properly presented for payment ("Honour All Cards Rule");

(b) merchants must not engage in any acceptance practice that discriminates against or discourages the use of Visa/MasterCard in favour of any other acceptance brand ("No Discrimination Rule"); and

(c) merchants must not apply a surcharge for customers that elect to use Visa or MasterCard credit cards ("No Surcharge Rule").

32. As a low-cost airline, WestJet is adopting a "user pay" model, where customers pay only for the services they consume. Additional services, such as extra luggage, onboard food, alcoholic drinks or advance seat selection, can be purchased for a reasonable fee by those customers who are interested in these services. Those customers who do not wish these optional services receive the benefit of lower prices. For example, customers that travel with only one item of checked luggage do not have to pay a price that includes the extra costs associated with a second bag.

33. The same "user pay" model should be applied to the payment methods chosen by customers of WestJet. Customers that use credit cards to pay for flights on WestJet, particularly those using "premium" credit cards, impose additional costs on WestJet. However, as a result of the Merchant Rules, "premium" credit card customers do not face the total cost of their choice of payment. The Merchant Rules prevent WestJet from applying an extra charge to those customers who use higher-cost credit cards. As a result of the Merchant Rules, customers using lower-cost payment methods are subsidizing the higher costs associated with "premium" cardholders.

34. A "user pay" model is an obvious, practical and intuitive means to ensure that those customers using credit cards with higher Card Acceptance Fees are also those to whom the costs are attributed.

35. If the Merchant Rules were modified or removed so as to allow a surcharge to be applied to credit cards and if Card Acceptance Fees were not reduced, WestJet would seriously consider assessing reasonable user fees for payments made using credit cards. [redacted]

36. Increased transparency of Card Acceptance Fees and the ability to differentiate by card brand, Issuer and card type, along with the ability to surcharge and refuse to accept certain credit cards, would provide WestJet with some ability to manage the cost of credit card acceptance and to exercise some measure of payment-for-value – i.e. the ability to determine what value different card characteristics bring to WestJet and what it would be willing to pay for those characteristics based on the value those characteristics bring to its business.

37. [redacted]

<u>The Ineffectiveness of Discounting</u>

38. The Merchant Rules do permit WestJet to discount for cash and, following the introduction of the voluntary *Code of Conduct for the Debit and Credit Card Industry*, other lower-cost forms of payment like Interac debit. However, discounting is impractical in WestJet's line of business.

39. In order to discount, WestJet would need to first inflate the advertised price to a price that would include the maximum possible surcharge applied (i.e., for the credit card with the highest Interchange Fees), and then later determine what, if any, discount to apply. The inflated advertised price would make WestJet's product appear uncompetitive from a pricing perspective. Consumers are very focused on advertised prices, particularly when it comes to air travel. A $10 difference in the advertised price of an air fare can have a material impact. Advertising this higher price would place WestJet at a significant disadvantage relative to its competitors. I believe that the ability to surcharge, assuming WestJet is able to identify the card type and therefore the Interchange Fee associated with that card, will allow for more transparency and equity for its guests.

Technical Feasibility of the Remedies Sought by the Commissioner of Competition

40. In order to efficiently pass on to its customers some or all of the cost of "premium" credit card acceptance, WestJet requires the ability to electronically determine the Interchange Fee associated with a credit card presented for payment at the time of the transaction and without additional cost to WestJet.

41. Assuming a real-time means to identify the Interchange Fees associated with credit card transactions, surcharging raises few technical issues for WestJet. Fees for service are widespread in the airline industry and can easily be incorporated into the WestJet reservation system.

Signed: March 7, 2012

CANDICE LI

STAYING TRUE

WESTJET ANNUAL REPORT 2010

STAYING TRUE

WESTJET ANNUAL REPORT 2010

Staying true doesn't mean staying the same. To WestJet, it means remaining as committed as ever to what matters and selecting opportunities to grow in a measured way.

In 2010, we stayed true by printing less paper for this report. Visit westjet.com/stayingtrue to read the story of how WestJet stayed true to its solid foundation and the principles that have continued to make our airline successful.

2010

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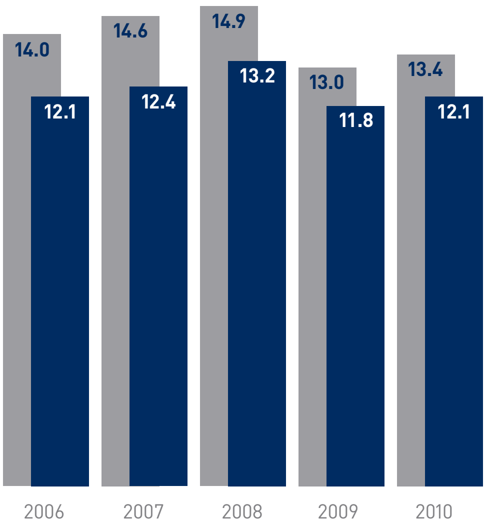
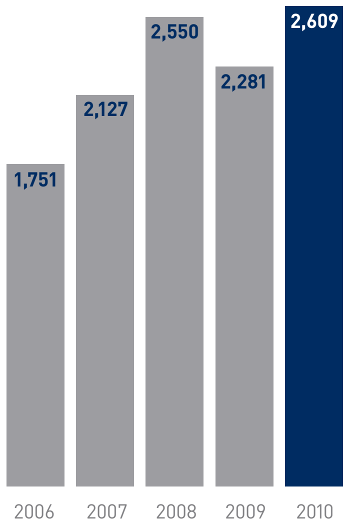
FINANCIAL OVERVIEW



RASM vs. CASM*

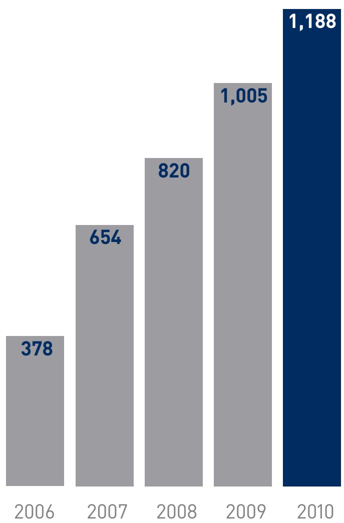
(cents)

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



Revenue

(millions of dollars)



Cash and cash equivalents

(millions of dollars)

($ in thousands, except per share data)	2010	2009	2008	2007	2006
Consolidated financial information					
Revenue	$ 2,609,261	$ 2,281,120	$ 2,549,506	$ 2,127,156	$ 1,751,269
Earnings before income taxes*	$ 196,667	$ 136,796	$ 254,749	$ 233,313	$ 164,783
Net earnings*	$ 136,720	$ 98,178	$ 178,506	$ 189,048	$ 116,631
Cash and cash equivalents	$ 1,187,899	$ 1,005,181	$ 820,214	$ 653,558	$ 377,517
Earnings per share*					
Basic	$ 0.94	$ 0.74	$ 1.39	$ 1.46	$ 0.90
Diluted	$ 0.94	$ 0.74	$ 1.37	$ 1.44	$ 0.90
Operational highlights					
Available seat miles (ASM)	19,535,291,313	17,587,640,902	17,138,883,465	14,544,737,340	12,524,379,943
Revenue passenger miles (RPM)	15,613,121,610	13,834,761,211	13,730,960,234	11,739,063,003	9,791,878,403
Load factor	79.9%	78.7%	80.1%	80.7%	78.2%
Yield (cents)	16.71	16.49	18.57	18.12	17.88
Revenue per ASM (cents)	13.36	12.97	14.88	14.62	13.98
Cost per ASM (cents)*	12.09	11.77	13.17	12.36	12.10
Cost per ASM, excluding fuel and employee profit share (cents)*	8.52	8.45	8.29	8.57	8.54

*2006 to 2008 restated. 2007 excludes reservation system impairment of $31.9 million.

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Since my appointment as President and Chief Executive Officer in April 2010, my appreciation for the power and effectiveness of an engaged workforce and its ability to execute on a solid business plan has only grown. I am honoured to be associated with and lead a team of exceptional WestJetters, and 2010 was another example of the great results that are achievable by staying true to the things that have made WestJet a success since its inception in 1996.

Along with my new title and responsibilities came questions about what I might plan to change or how I would shake things up with the airline. Well, the fact of the matter is that there is no revolution required at WestJet. The formula of providing caring guest experiences, keeping costs low and offering high value has been working for 15 years and I believe that WestJet will continue to be the envy of the airline industry.

In a year filled with economic uncertainty, 2010 followed one of the worst recessions in recent history. Despite these challenging conditions, the airline industry saw demand for air travel and consumer confidence gradually return. With an operating margin of 9.5 per cent and an earnings before tax margin of 7.5 per cent in 2010, WestJet was again one of the top-performing airlines in North America.

Our business model, founded on a single fleet type strategy, continued to demonstrate value by staying true to our low-cost philosophy, our people and our guests. We haven't made cost reduction an official program at WestJet because keeping a close eye on costs is fundamental to the way that WestJetters do business every day.

I'm proud of WestJetters and the caring way that we safely flew more than 15 million guests in 2010. WestJetters are the foundation of the WestJet brand and we have a steadfast focus on maintaining our strong culture and excellent guest experience. These foundational strengths were exemplified by our 2010 induction into Canada's Most Admired Corporate Cultures Hall of Fame and winning the Airline Staff Service Excellence Award North America at the World Airline Awards in Hamburg, Germany. Just last month, we were named a J.D. Power 2011 Customer Service Champion by the prestigious global marketing information services company, J.D. Power and Associates.

Last year, we began to capitalize on the significant investments made in our reservations systems, and we started to benefit from some of the revenue growth opportunities that these investments afford us. We implemented our first code-share agreement and added additional interline partners. We launched the WestJet Frequent Guest Program and WestJet Credit Card Program with rewards that are easy to understand and redeem.

We continued growing our WestJet Vacations business and its brand by leveraging our existing scheduled network. With the introduction of many new sun destinations in the last few years, WestJet Vacations has become a significant player in the Canadian tour operator industry. In four short years, WestJet Vacations has become the number one Canadian provider of hotel rooms to Las Vegas, with additional strength into the Orlando, California and Hawaii markets, along with the popular Caribbean and Mexico markets. WestJet Vacations is important to our growth as an airline and will be a key component of our future success.

In 2010, we made the decision to introduce a quarterly dividend and a share buy-back program. These initiatives speak to our confidence to consistently generate positive cash flow while maintaining a healthy balance sheet.

Outlook

As we move forward, we will stay true to our strategy of profitable and measured growth. In 2011, we plan to increase our airline partnerships by implementing three to four code-share agreements and signing on additional interline partners. This will drive more guests into our network and expand our global reach by offering our guests access to new destinations. Our long-term objective is to have a code-share partner from each of the major geographic regions of the world.

In 2011, we will add fare products that increase flexibility for the business traveller and grow our schedule to make it even more convenient through improved frequencies and code-share relationships. With reservation system enhancements and frequent guest programs now firmly in place, we expect 2011 to be a banner year in attracting incremental business travellers.

Over the past several months, as part of our ongoing fleet planning review and strategy, we chose to defer the delivery of nine aircraft to 2017 and 2018 that were previously scheduled to be delivered between 2011 and 2015. The entirety of our order with Boeing remains intact, but the revisions allow us to better match the timing of aircraft deliveries with the dates for potential lease returns. This allows us to accelerate or decelerate capacity growth, dependent on economic and market conditions, without deviating from our long-term growth strategy.

Our long-term vision remains the same – to become one of the most successful airlines in the world by 2016. This does not mean that we will be among the largest, fly the most aircraft or go to the most destinations. Rather, we want to be top five in brand strength, on-time performance, profit margin, culture and guest loyalty and satisfaction.

As WestJet continues to grow, having just celebrated our 15th birthday, we will stay true to the business model that has produced 55 out of 57 profitable quarters. A low-cost structure and a caring guest experience will remain the foundations of success for WestJet as we move toward our 2016 vision. A culture of engagement, where doing the right things for our business happens each day, will be fostered by all WestJetters.

Staying true should not be misinterpreted as status quo. WestJet will continue to evolve as the complexity of the airline business changes with advancements in technology, ongoing consolidation, and ever-changing market and consumer demands. We will embrace change and always stay true to our people, our guests and our shareholders.

In summary, WestJet's 2010 results proved again that our measured growth strategy continued to deliver profitable results. We are confident in our business model and our ability to consistently generate positive cash flow, maintain a strong balance sheet and fund our growth objectives. WestJet's brand strength and visibility are growing with additional frequencies in key Canadian business markets, further expansion in the vacations market and an expanding global reach with airline partnerships. Combined with the commitment of all WestJetters to the strong underlying fundamentals of our low-cost structure and the revenue opportunities that lie ahead with a strengthening economy, we believe that 2011 will be another exciting year of growth, success and profitability for WestJet.

On behalf of the Board of Directors, Executive team and more than 8,000 WestJetters, I thank all of our shareholders and guests for their ongoing support and loyalty.

Gregg Saretsky
President and Chief Executive Officer

March 16, 2011

Caution regarding forward-looking statements

Certain information set forth in the above president's message to shareholders, including information regarding our strategy of profitable and measured growth, increases in our airline partnerships and resulting increases in guest access to our network and geographic reach, new fare products and flight scheduling, our vision and related objectives regarding brand strength, on-time performance, profit margin, culture, and guest loyalty and satisfaction, our cost structure and guest experience, our ability to generate cash flow, maintain a strong balance sheet and fund our growth objectives, and our expectations for growth, success and profitability in 2011, contain forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond WestJet's control. These forward-looking statements are based on our existing strategy and currently available implementation plans, agreements and bookings, but may vary due to factors including, but not limited to, changes in fuel prices, changes in guest demand, general economic conditions, competitive environment, ability to effectively implement and maintain critical systems, ability to successfully negotiate and effectively implement new partnering relationships and obtain the necessary regulatory approvals relating thereto and other factors described in WestJet's public reports and filings, which are available on WestJet's profile at www.sedar.com. Readers are cautioned that undue reliance should not be placed on forward-looking statements as actual results may vary materially from the forward-looking statements. WestJet does not undertake to update, correct or revise any forward-looking statements as a result of any new information, future events or otherwise, except as may be required by applicable law.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS 2010

Advisories

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 8, 2011, 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, 2010 and 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. Certain prior-period balances in the consolidated financial statements have been reclassified to conform to current period's presentation and policies. References to "WestJet," "the Company," "we," "us" or "our" mean WestJet Airlines Ltd., its subsidiaries, partnership and special-purpose entities, unless the context otherwise requires. Additional information relating to WestJet filed with Canadian securities commissions, including periodic quarterly and annual reports and Annual Information Forms (AIF), is available on SEDAR at www.sedar.com and our website at www.westjet.com. An additional advisory with respect to the use of non-GAAP measures is set out on page 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 we will continue to develop our partnership strategy, referred to under the heading "Overview" on page 10; our expectation that our partnership strategy will enable us to meet our strategic objective of becoming one of the top five airlines in the world by 2016, referred to under the heading "Overview" on page 10; our plans to operate a leased Boeing 757-200 from North American Airlines to provide non-stop services between Calgary and Honolulu, Calgary and Maui, and Edmonton and Maui between February 12 and April 30, 2011, referred to under the heading "Revenue" on page 17; our expectation that our temporary lease agreement will provide additional capacity for non-stop service from Alberta to Hawaii, referred to under the heading "Revenue" on page 17; our plans to have a WestJet service ambassador onboard each 757-200 flight to ensure that the WestJet guest experience is consistently delivered to our standards and expectations, referred to under the heading "Revenue" on page 17; our expectation that our checked baggage policy will help offset the impact of rising fuel costs, referred to under the heading "Revenue" on page 17; our sensitivity to changes in crude oil and fuel pricing referred to under the heading "Aircraft fuel" on page 21; our expected tax rate for 2011, referred to under the heading "Income taxes" on page 27; our expectation that we will continue introducing self-tagging at other airports during 2011, referred to under "Guest experience" on page 27; our belief that the new Aircraft Sector Understanding (ASU) will increase the cost of export-credit access for all eligible airlines, referred to under the heading "Liquidity and capital resources" on page 28; our belief that our strong balance sheet and credit will enable us to continue financing future aircraft deliveries at reasonable rates and terms, referred to under the heading "Liquidity and 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 flow, referred to under the heading "Contingencies" on page 32; our intention to purchase shares pursuant to the normal course issuer bid on the open market through the facilities of the Toronto Stock Exchange (TSX), referred to under the heading "Normal course issuer bid" on page 32; our intention to cancel any shares purchased under the normal course issuer bid, referred to under the heading "Normal course issuer bid" on page 32; our expectation that the relocation firm engaged will actively market the residence of our Chief Executive Officer (CEO), referred to under the heading "Related-party transactions" on page 33; our intention to remit taxes related to the CEO's exercise of restricted share units (RSU) in connection with his relocation, referred to under the heading "Related-party transactions" on page 33; our expectation that our next purchased aircraft delivery will be in February 2012, referred to under the heading "Liquidity and capital resources" on page 28 and under the heading "Risks and uncertainties" on page 34; our plans to overhaul four engines and 11 sets of landing gear in 2011, referred to under the heading "Risks and uncertainties" on page 34; our expectation that a portion of our engine overhaul costs will be recoverable, referred to under the heading "Risks and uncertainties" on page 34; our expectations regarding WestJet's transition to International

Financial Reporting Standards (IFRS) and the impact of adopting IFRS on WestJet's consolidated financial statements, referred to under the heading "Recent accounting pronouncements and changes" on page 43; our expectation that in 2011 we will continue to build our key strategic initiatives that include expanding airline partnerships, enhancing our focus on the business traveller, growing WestJet Vacations (WVI) revenue and increasing our market penetration for the co-branded WestJet Credit Card and WestJet Frequent Guest programs, referred to under the heading "Outlook" on page 51; our expectation that we will sign additional interline agreements, referred to under the heading "Outlook" on page 51; our expectations regarding first quarter 2011 fuel costs, referred to under the heading "Outlook" on page 51; our anticipation that, in the first quarter of 2011, cost per available seat mile (CASM), excluding fuel and profit share, will be flat year over year, referred to under the heading "Outlook" on page 51; our expectations around year-over-year capacity increases for the first quarter of 2011 and for the full year of 2011, referred to under the heading "Outlook" on page 51; our belief that we will take delivery of three aircraft during the first three months of 2011 and three more throughout the remainder of the year, ending 2011 with a fleet of 97, referred to under the heading "Outlook" on page 51; our anticipation that we will continue to direct additional capacity into the transborder and international markets in the first quarter of 2011, referred to under the heading "Outlook" on page 51; our expectations regarding our overall domestic capacity, referred to under the heading "Outlook" on page 51; our expectations around our total 2011 capital expenditures and the majority of the spending relating to aircraft deposits and rotables, referred to under the heading "Outlook" on page 51; our expectations regarding WestJet's ability to weather fuel price uncertainty, referred to under the heading "Outlook" on page 51; the expectation that we will continue to capitalize on the recent investments in our new revenue systems, referred to under the heading "Outlook" on page 51; and our confidence in WestJet's ability to continue to achieve profitable growth, referred to under the heading "Outlook" on page 51. 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 we will continue to develop our partnership strategy was based on our current strategic plan;
- our expectation that our partnership strategy will enable us to meet our strategic objective of becoming one of the top five airlines in the world by 2016 was based on our past and current experiences and understanding of the airline industry;
- our plan to operate a leased Boeing 757-200 from North American Airlines to provide non-stop services between Calgary and Honolulu, Calgary and Maui, and Edmonton and Maui between February 12 and April 30, 2011 was based on an agreement entered into with North American Airlines and our current and forecasted commercial schedule;
- our expectation that our temporary lease agreement will provide additional capacity for non-stop service from Alberta to Hawaii was based on our current and forecasted commercial schedule;
- 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 plan to have a WestJet service ambassador onboard each 757-200 flight to ensure that the WestJet guest experience is consistently delivered to our standards and expectations was based on our strategic plan with respect to our 757-200 flights;
- our expectation that our checked baggage policy will help offset the impact of rising fuel costs was based on our preliminary financial analysis;

- our expected effective tax rate for 2011 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 that we will continue introducing self-tagging at other airports during 2011 was based on our current strategic plan;
- our belief that the new ASU will increase the cost of export-credit access for all eligible airlines was based on our understanding and analysis of the ASU;
- our belief that our strong balance sheet and credit will enable us to continue financing future aircraft deliveries at reasonable rates and terms was based on our current budget and forecasts;
- our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flow was based on a review of current legal proceedings by management and legal counsel;
- our intention to purchase shares pursuant to the normal course issuer bid on the open market through the facilities of the TSX was based on our current strategic plan;
- our intention to cancel any shares purchased under the normal course issuer bid was based on our current strategic plan;
- our expectation that the relocation firm engaged will actively market the residence of our CEO was based on our terms of engagement with the relocation firm;
- our intention to remit taxes related to the CEO's exercise of RSUs in connection with his relocation was based on our relocation agreement with the CEO;
- our expectation that our next purchased aircraft delivery will be in February 2012 was based on our current fleet plan and delivery schedule from Boeing;
- our plans to overhaul four engines and 11 sets of landing gear in 2011 was based on our current fleet maintenance plan;
- our expectation that a portion of our engine overhaul costs will be recoverable was based on our current lease agreements and our current fleet maintenance plan;
- our expectations regarding WestJet's transition to IFRS and the impact of adopting IFRS on WestJet's consolidated financial statements was based on standards adopted by the International Accounting Standards Board (IASB) thus far and our assessment of Canadian GAAP and IFRS differences;
- our expectation that in 2011 we will continue to build our key strategic initiatives that include expanding airline partnerships, enhancing our focus on the business traveller, growing WestJet Vacations revenue and increasing our market penetration for the co-branded WestJet Credit Card and WestJet Frequent Guest programs was based on our current strategic plan;
- our expectation that we will sign additional interline agreements was based on our current strategic plan;
- our expectations regarding first quarter 2011 fuel costs were based on realized jet fuel prices for January 2011 and forward curve prices for February and March 2011, as well as the exchange rate for the Canadian dollar to the US dollar in the first quarter similar to the current market rate;
- our anticipation that, in the first quarter of 2011, CASM, excluding fuel and profit share, will be flat year over year was based on our current budget and forecast;
- our expectation around year-over-year capacity for the first quarter of 2011 and the full year of 2011 was based on our actual and forecasted commercial schedules as well as the six aircraft to be delivered throughout 2011;
- our belief that we will take delivery of three aircraft during the first three months of 2011 and three more throughout the remainder of the year, ending 2011 with a fleet of 97, was based on our aircraft delivery schedule;
- our anticipation that we will continue to direct additional capacity into the transborder and international markets in the first quarter of 2011 is based on our current strategic plan and actual and forecasted commercial schedules and bookings;

- our expectations regarding our overall domestic capacity were based on our current strategic plan and actual and forecasted commercial schedules and bookings;
- our expectation of our total 2011 capital expenditures, with the majority of the spending relating to aircraft deposits and rotables, is based on our current budget and forecasts;
- expectations regarding WestJet's ability to weather fuel price uncertainty were based on our expectations of fuel price fluctuations and the fuel consumption for our existing schedule and historical fuel burn, our fuel hedging program, as well as a Canadian-US dollar exchange rate similar to the current market rate;
- the expectation that we will continue to capitalize on the recent investments in our new revenue systems was based on our current experiences and our strategic plan; and
- our confidence in WestJet's ability to continue to achieve profitable growth 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, capacity fluctuations and the pricing environment), labour matters, government regulations, stock-market volatility, the ability to access sufficient capital from internal and external sources and additional risk factors discussed in our Annual Information Form and other documents we file from time to time with securities regulatory authorities, which are available through the Internet on SEDAR at www.sedar.com or, upon request, without charge from us. Additional risks and uncertainties impacting WestJet and its business and operations are discussed in detail, under the heading "Risks and uncertainties," commencing on page 34 of this MD&A.

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

Definition of key operating indicators

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

Flight leg: 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

Although economic uncertainty persisted throughout 2010, demand for air travel improved, which is reflected in our strong financial results for the year. The increase in demand resulted in improved yields year-over-year, particularly throughout the second half of 2010. Our 2010 earnings before tax (EBT) margin of 7.5 per cent was once again one of the best in the North American airline industry. In 2010 we began to capitalize on new reservations systems for both WestJet and WestJet Vacations, which were implemented in the prior year. In the first quarter of 2010, we launched our WestJet Frequent Guest and WestJet Credit Card programs, which reward our guests and make our airline even more attractive for frequent travellers. We continued to increase our self-service capabilities to enhance our guest experience, while improving efficiencies at our airports. In 2010 we launched four additional interline agreements, including our first with a U.S. carrier, American Airlines. We were also able to further develop one of these interline agreements into our first code-share arrangement with Cathay Pacific Airlines. In February 2011, we announced our second interline agreement with a U.S. carrier, Delta Airlines. We will continue to develop our partnership strategy to enable us to meet our objective of becoming one of the five most successful airlines in the world by 2016. The fourth quarter of 2010 marks our 23rd consecutive quarter of profitability.

2010 highlights

- Recognized total revenues of $2.6 billion, an increase of 14.4 per cent from 2009.
- Recorded RASM of 13.36 cents, up 3.0 per cent from 12.97 cents in 2009.
- Increased capacity by 11.1 per cent and increased RPMs, a measure of guest traffic, by 12.9 per cent, compared to the prior year.
- Realized CASM of 12.09 cents, up 2.7 per cent from 11.77 cents in 2009.
- Realized CASM, excluding fuel and employee profit share, of 8.52 cents for 2010, up 0.8 per cent over 2009.
- Recorded an operating margin of 9.5 per cent, up from 9.2 per cent in 2009.
- Recorded an EBT margin of 7.5 per cent in 2010, an increase of 1.5 points over the 2009 EBT margin of 6.0 per cent.
- Realized net earnings of $136.7 million, an increase of 39.3 per cent from 2009.
- Excluding special items, realized net earnings of $142.8 million, an increase of 53.3 per cent from net earnings, excluding special items, in 2009 of $93.1 million.
- Reported diluted earnings per share of $0.94 for 2010, an increase of 27.0 per cent from $0.74 in 2009.
- Excluding special items, realized diluted earnings per share of $0.98, an increase of 38.0 per cent from $0.71 in 2009.
- Generated cash flow from operations of $443.3 million, an increase from $318.7 million in 2009.
- Realized a trailing 12-month return on invested capital (ROIC) of 9.2 per cent, an increase from 7.8 per cent as at December 31, 2009.
- Declared our first-ever quarterly dividend of $0.05 per common voting share and variable voting share, paid on January 21, 2011, to shareholders of record on December 15, 2010.
- Filed a notice with the TSX to make a normal course issuer bid (NCIB) to purchase up to 7.3 million outstanding shares on the open market and, in the fourth quarter of 2010, repurchased 2.3 million shares for total consideration of $31.4 million.

Our culture and people continued to shine in 2010. In February 2010, we were inducted into Canada's Most Admired Corporate Culture Hall of Fame by Waterstone Human Capital. We are also proud to have been the highest ranked airline based on brand equity in an August 2010 syndicated study conducted by Harris/Decima. The other airlines measured in the study were Air Canada, American Airlines, British Airways, Porter Airlines, Southwest Airlines, United Airlines and Virgin Atlantic. In addition to being the highest ranked airline, we also rated in the top three per cent among all 890 brands studied in overall connection with customers. This category measured emotional connection to the brand, practical and aspirational fit with the brand, and a company's ability to deliver on brand expectations.

Further, we won the Airline Staff Service Excellence Award for North America at the 2010 World Airline Awards. These awards are based on the World Airline Survey, and are recognized for being the only truly global, independent passenger survey of airline standards. WestJet was also named in *Travel + Leisure* magazine's annual "World's Best" awards as one of the top 10 domestic airlines for the second year in a row.

These awards are a testament to our over 8,000 WestJetters who remain committed to providing a fun, friendly and caring world-class guest experience. Our receipt of the prestigious International Make-A-Wish® Corporate Partner Award also demonstrates our culture of caring and our commitment to community investment.

We have generously rewarded the dedication of our people with approximately $200 million of total profit share distributions since our airline's inception. Our continued strength, both financially and operationally, would not be possible without each and every one of our WestJetters.

Operational highlights	**Three months ended December 31**			**Twelve months ended December 31**		
	2010	**2009**	**Change**	**2010**	**2009**	**Change**
ASMs	5,021,010,134	4,412,573,833	13.8%	19,535,291,313	17,587,640,902	11.1%
RPMs	3,941,660,897	3,460,905,058	13.9%	15,613,121,610	13,834,761,211	12.9%
Load factor	78.5%	78.4%	0.1 pts.	79.9%	78.7%	1.2 pts.
Yield (cents)	17.58	16.47	6.7%	16.71	16.49	1.3%
RASM (cents)	13.80	12.92	6.8%	13.36	12.97	3.0%
CASM (cents)	12.23	12.10	1.1%	12.09	11.77	2.7%
CASM, excluding fuel and employee profit share (cents)	8.51	8.67	(1.8%)	8.52	8.45	0.8%
Fuel consumption (litres)	242,620,920	216,871,585	11.9%	950,341,292	859,115,698	10.6%
Fuel costs per litre (dollars)	0.74	0.69	7.2%	0.71	0.66	7.6%
Segment guests	3,803,550	3,515,168	8.2%	15,173,581	14,038,827	8.1%
Average stage length (miles)	982	923	6.4%	968	923	4.9%
Utilization (hours)	11.7	11.4	2.6%	11.6	11.7	(0.9%)
Number of full-time equivalent employees at period end	6,877	6,291	9.3%	6,877	6,291	9.3%
Fleet size at period end	91	86	5.8%	91	86	5.8%

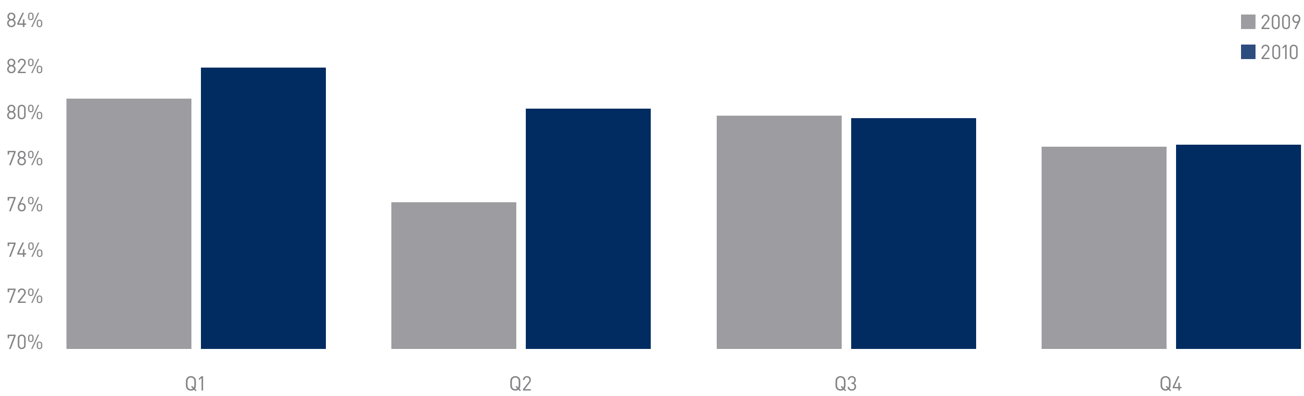
We are pleased with the significant improvement in results from 2009. Our year-over-year RASM increase was 3.0 per cent, on a capacity increase of 11.1 per cent from the prior year.

During the fourth quarter of 2010, we launched seasonal service to three new destinations: New Orleans, Louisiana; Grand Cayman Island; and Santa Clara, Cuba. In addition, we launched service this year to Kindley Field, Bermuda; Windsor, Ontario; and Samana, Dominican Republic, which brought our total number of destinations to 70 as at December 31, 2010.

In January 2011, in conjunction with the release of our 2011 summer schedule, we announced new non-stop service from Vancouver and Calgary to Orange County, California, beginning in the summer of 2011. The summer schedule also includes expanded service across our existing network.

Our 2010 load factor was up by 1.2 points to 79.9 per cent in 2010 from 78.7 per cent in 2009. Our fourth quarter load factor of 78.5 per cent remained relatively consistent, as compared to the same quarter of the prior year. We are encouraged by our strong oad factor, particularly with the significant quarter-over-quarter capacity increase of 13.8 per cent. This reflects the improvement in the demand environment during the fourth quarter. Our quarterly load factors over the 2009 and 2010 years are depicted on the following chart.

Quarterly load factor



During the fourth quarter of 2010, we broke our record for number of guests flown in one day. On December 23, 2010, we flew over 50,000 guests on 434 flights. In addition, our on-time performance statistic of 75.4 per cent during the fourth quarter of 2010 was our best recorded performance since the fourth quarter of 2007.

Cost control remains a key priority for us, and we have continued with our disciplined approach to cost management. For the year ended December 31, 2010, our realized CASM was 12.09 cents, an increase of 2.7 per cent from a CASM of 11.77 cents in the prior year. Excluding fuel and employee profit share, our CASM increased slightly to 8.52 cents, up 0.8 per cent from 2009.

We maintained one of the strongest balance sheets in the North American airline industry during 2010, as evidenced by our significant cash and cash equivalents balance of $1,187.9 million as at December 31, 2010, an increase of 18.2 per cent from December 31, 2009. The increase in our cash position was a result of our positive cash flow from operations. Our current ratio, defined as current assets over current liabilities, improved to 1.52 compared to 1.48 as at December 31, 2009, and our adjusted debt-to-equity ratio improved by 2.8 per cent to 1.39 from 1.43 as at December 31, 2009. Similarly, our adjusted net debt to earnings before interest, taxes, depreciation, aircraft rent and other items (EBITDAR) ratio improved by 19.1 per cent to 1.78 compared to 2.20 as at December 31, 2009.

Our ROIC calculation is used to assess our efficiency at allocating our capital to generate profitable returns. As at December 31, 2010, our trailing 12-month ROIC improved to 9.2 per cent from 7.8 per cent at December 31, 2009. This increase is primarily attributable to improved earnings in 2010 versus 2009, and is moving towards our target of a 12 per cent ROIC.

Operating cash flow for the year ended December 31, 2010, was $443.3 million, an increase of 39.1 per cent from $318.7 million in 2009. This increase is related primarily to improved earnings from operations, as well as a positive year-over-year change in non-cash working capital. Similarly, our diluted operating cash flow per share increased to $3.05, as compared to $2.41 in 2009, representing an increase of 26.6 per cent year over year.

During 2010, we increased our fleet size by five, ending the year with 91 aircraft. With an average age of 5.2 years, we continue to operate one of the youngest fleets of any large North American commercial airline.

Please refer to page 52 of this MD&A for a reconciliation of the non-GAAP measures, including CASM, excluding fuel and employee profit share; net earnings and diluted earnings per share, excluding special items; ROIC; adjusted debt-to-equity and adjusted net debt to EBITDAR ratios; and diluted operating cash flow per share, to the nearest measure under Canadian GAAP.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Annual audited financial information

($ in thousands, except per share data)	2010	2009	2008 *Restated*
Total revenues	$ 2,609,261	$ 2,281,120	$ 2,549,506
Net earnings	$ 136,720	$ 98,178	$ 178,506
Basic earnings per share	$ 0.94	$ 0.74	$ 1.39
Diluted earnings per share	$ 0.94	$ 0.74	$ 1.37
Total assets	$ 3,562,844	$ 3,493,702	$ 3,268,702
Total long-term financial liabilities[i]	$ 866,745	$ 1,051,912	$ 1,201,382
Shareholders' equity	$ 1,507,679	$ 1,388,928	$ 1,075,990

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

Quarterly unaudited financial information

	Three months ended			
($ in thousands, except per share data)	Dec. 31, 2010	Sept. 30, 2010	Jun. 30, 2010	Mar. 31, 2010
Total revenues	$ 692,815	$ 684,564	$ 612,117	$ 619,765
Net earnings	$ 47,908	$ 53,983	$ 21,029	$ 13,800
Basic earnings per share	$ 0.33	$ 0.37	$ 0.14	$ 0.10
Diluted earnings per share	$ 0.33	$ 0.37	$ 0.14	$ 0.10

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

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.

FOURTH QUARTER

The 2010 year ended with a strong fourth quarter. We saw significant improvement in our financial results, as reported in our revenues and net earnings, as well as operational strength with a record number of guests flown in one day and improved on-time performance, all resulting in our 23rd consecutive quarter of profitability.

Quarterly highlights

- Recognized total revenues of $692.8 million, an increase of 21.5 per cent from the fourth quarter of 2009.
- Recorded RASM of 13.80 cents, up 6.8 per cent from the comparable period of 2009.
- Increased capacity by 13.8 per cent and increased RPMs by 13.9 per cent, over the three months ended December 31, 2009.
- Realized CASM of 12.23 cents, up 1.1 per cent from the fourth quarter of 2009.
- Realized CASM, excluding fuel and employee profit share, of 8.51 cents, down 1.8 per cent over the three months ended December 31, 2009.
- Recorded an operating margin of 11.4 per cent, compared to 6.3 per cent in the same period last year.
- Recorded an EBT margin of 9.7 per cent, up 5.7 points from the 4.0 per cent reported in the fourth quarter of 2009.
- Reported net earnings of $47.9 million, an increase of 137.5 per cent from the three months ended December 31, 2009, and an increase of 216.8 per cent when excluding special items.
- Realized diluted earnings per share of $0.33 for the fourth quarter of 2010, an increase of 135.7 per cent compared to the same period of 2009.
- Generated cash flow from operations of $69.9 million, an increase from $64.6 million in the fourth quarter of 2009.

Please refer to page 52 of this MD&A for a reconciliation of non-GAAP measures, including CASM, excluding fuel and employee profit share, and net earnings, excluding special items, to the nearest measure under Canadian GAAP.

FOURTH QUARTER RESULTS OF OPERATIONS

Fourth quarter 2010 revenue

	Three months ended December 31		
($ in thousands)	**2010**	**2009**	**Change**
Guest	$ 641,905	$ 528,104	21.5%
Other	50,910	41,938	21.4%
	$ 692,815	$ 570,042	21.5%
RASM (cents)	13.80	12.92	6.8%

During the quarter ended December 31, 2010, total revenues increased by 21.5 per cent to $692.8 million from $570.0 million in the same period of 2009, largely attributable to improved pricing and demand in the market. Guest revenues from our scheduled flight operations increased by 21.5 per cent during the fourth quarter to $641.9 million, compared to $528.1 million in the fourth quarter of 2009. This was due primarily to the 13.8 per cent increase in capacity quarter over quarter, in conjunction with increased traffic of 13.9 per cent and improvement in our yield.

Our RASM increased by 6.8 per cent for the fourth quarter of 2010 to 13.80 cents, compared to 12.92 cents in 2009. This RASM increase related primarily to an increase in yield of 6.7 per cent for the fourth quarter of 2010, as our quarter-over-quarter load factor remained relatively consistent. We had significant capacity increases into the transborder and international markets in the fourth quarter as compared to the prior year, with domestic capacity remaining relatively flat. Despite this higher percentage of lower-yielding ASMs in the longer-haul routes, our yields improved across our network as compared to the same quarter of the prior year. Please refer to the table below for details on our quarter-over-quarter capacity variances.

	Three months ended December 31				
(in millions)	2010		2009		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	2,834.2	56.4%	2,850.2	64.6%	(0.6%)
Charter and scheduled transborder and international	2,186.8	43.6%	1,562.4	35.4%	40.0%
Total	5,021.0	100.0%	4,412.6	100.0%	13.8%

For the fourth quarter of 2010, other revenues, which include charter, cargo, ancillary, WestJet Vacations non-air and other revenue, increased by 21.4 per cent to $50.9 million. This increase was attributable primarily to an increase in WestJet Vacations non-air revenue. Since the prior year, WestJet Vacations tour package revenues have increased due to a significant increase in the number of bookings, as well as from improved average value per booking.

We continued to see improvements in our ancillary fees per guest, as seen in our fourth quarter ancillary fee per guest of $6.43, up 23.7 per cent from $5.20 per guest in the same quarter of the prior year. During the fourth quarter of 2010, we redesigned our corporate website, www.westjet.com, and, as a result of amending the booking flow to make the pre-reserved seating option more prominent, we have seen increases in these ancillary fees from the same period of last year. Our reservation system implementation during the fourth quarter of 2009 also resulted in a period whereby certain fees were being temporarily waived to accommodate our guests during the adjustment to the new system.

Fourth quarter 2010 expenses

	Three months ended December 31		
CASM (cents)	**2010**	**2009**	**Change**
Aircraft fuel	3.57	3.37	5.9%
Airport operations	2.00	2.08	(3.8%)
Flight operations and navigational charges	1.60	1.66	(3.6%)
Sales and distribution	1.33	1.14	16.7%
Marketing, general and administration	1.04	1.24	(16.1%)
Aircraft leasing	0.73	0.57	28.1%
Depreciation and amortization	0.65	0.83	(21.7%)
Inflight	0.64	0.61	4.9%
Maintenance	0.52	0.54	(3.7%)
Employee profit share	0.15	0.06	150.0%
	12.23	12.10	1.1%
CASM, excluding fuel and employee profit share	8.51	8.67	(1.8%)

For the fourth quarter of 2010, our CASM increased by 1.1 per cent to 12.23 cents compared to 12.10 cents in the same quarter of 2009. Our CASM, excluding fuel and employee profit share, decreased by 1.8 per cent to 8.51 cents from 8.67 cents in the same quarter of 2009.

Aircraft fuel

In the fourth quarter of 2010, aircraft fuel expenses increased by 20.4 per cent from the prior year to $179.3 million. We saw a significant increase in jet fuel prices, with the average market price for jet fuel being US $100 per barrel in the fourth quarter of 2010, versus US $84 per barrel in the fourth quarter of 2009, an increase of 19.0 per cent. Our fuel costs per ASM increased by 5.9 per cent to 3.57 cents in the fourth quarter of 2010, up from 3.37 cents in the same period in 2009. Our fourth quarter unhedged fuel costs were $0.73 per litre, an increase of 9.0 per cent from last year. Including costs related to fuel hedging, our fourth quarter fuel costs were $0.74 per litre, up 7.2 per cent from $0.69 per litre in the same quarter of 2009. The increase in our fuel costs were partially offset by favourable foreign exchange rates this quarter, as compared to the same quarter in the prior year.

The following table displays our fuel costs per litre, including and excluding fuel hedging, for the three months ended December 31, 2010 and 2009. Please refer to page 52 of this MD&A for a discussion of the use of non-GAAP measures, including aircraft fuel expense, excluding hedging, which is reconciled to GAAP in the following table.

	Three months ended December 31		
($ in thousands, except per litre data)	**2010**	**2009**	**Change**
Aircraft fuel expense – GAAP	$ 179,276	$ 148,853	20.4%
Realized loss on designated fuel derivatives – effective portion	(1,512)	(3,707)	(59.2%)
Aircraft fuel expense, excluding hedging – Non-GAAP	$ 177,764	$ 145,146	22.5%
Fuel consumption (thousands of litres)	242,621	216,872	11.9%
Fuel costs per litre (dollars) – including fuel hedging	0.74	0.69	7.2%
Fuel costs per litre (dollars) – excluding fuel hedging	0.73	0.67	9.0%

Sales and distribution

Our fourth quarter sales and distribution expense per ASM was 1.33 cents, an increase of 16.7 per cent from 1.14 cents in the same quarter of the prior year. Sales and distribution expenses increased to $67.0 million from $50.4 million in the same period of 2009, representing an increase of 33.1 per cent. The growth of WestJet Vacations represented approximately 40 per cent of this increase. The increase in WestJet Vacations costs were due to the significant increases in the number of tour package bookings made compared to the same quarter of the prior year. This resulted in increased commissions and incentive payments, as the majority of WVI bookings were made indirectly through the travel agency community. As well, sales expenses increased from the fourth quarter of 2009, which related primarily to increased WestJet travel agency commission and incentive payments. The percentage of our airline's bookings made through the travel trade has increased, which drives higher commission and incentive expenses, but also contributes higher average fares. The remainder of the variance was due to increased distribution costs, resulting primarily from increased global distribution system (GDS) fees and credit card fees, which are in line with the rate of increase of our bookings, as well as costs associated with the redesign of our corporate website. These increases are offset by the $2.4 million bad debt provision recorded in the fourth quarter of 2009 related to accounts receivable from our previous cargo service provider. Since January 2010, we have had a new cargo partner in place.

Marketing, general and administration

During the fourth quarter of 2010, our marketing, general and administration expense decreased by $2.4 million from the same quarter of 2009 to $52.3 million. The marketing, general and administration charge per ASM decreased by 16.1 per cent to 1.04 cents, compared to 1.24 cents in the same period of 2009. This decrease was mainly attributable to the reclassification in 2010 of our onboard product costs from marketing expense to our airport operations. Our advertising expenses have also decreased, on an ASM basis, from the same quarter of the prior year.

Aircraft leasing

Our aircraft leasing costs in the fourth quarter of 2010 increased by 28.1 per cent to 0.73 cents per ASM from 0.57 cents per ASM in the same quarter of 2009. During the fourth quarter of 2009, we assumed delivery of five leased aircraft and, in addition, during 2010 an additional five leased aircraft were added to our fleet. Leased aircraft now represent 42 per cent of our total fleet, with a total of 38 aircraft under operating lease, as compared to 38 per cent of our fleet at the end of 2009. Our ASM growth from the fourth quarter of the prior year is attributable to the addition of these leased aircraft. As well, our foreign exchange forward hedging program contributed to the decrease in costs per ASM for the fourth quarter of 2010, as compared to the prior year, as we had not hedged the foreign currency exposure on aircraft leasing expenses during the fourth quarter of 2009.

Depreciation and amortization

Our depreciation and amortization charge per ASM was 0.65 cents, a reduction of 21.7 per cent from 0.83 cents in the prior year. The decrease in depreciation and amortization expense in the current quarter versus the same quarter of 2009 is primarily attributable to the change in our fleet mix, where a smaller percentage of our total aircraft fleet was comprised of owned aircraft. As such, the number of cycles flown by owned aircraft versus those that are under operating lease has decreased from the prior year.

Income taxes

Our effective consolidated income tax rate for the three months ended December 31, 2010, was 28.5 per cent, as compared to 12.4 per cent for the same period in 2009. This difference in our effective tax rate for the three month period ended December 31, 2010, was primarily due to a corporate income tax rate reduction enacted by the Ontario provincial government occurring in the comparative period. The current period's effective rate is in line with expectations previously set for the quarter.

2010 RESULTS OF OPERATIONS

Revenue

	Twelve months ended December 31		
($ in thousands)	2010	2009	Change
Guest	$ 2,405,281	$ 2,067,860	16.3%
Other	203,980	213,260	(4.4%)
	$ 2,609,261	$ 2,281,120	14.4%
RASM (cents)	13.36	12.97	3.0%

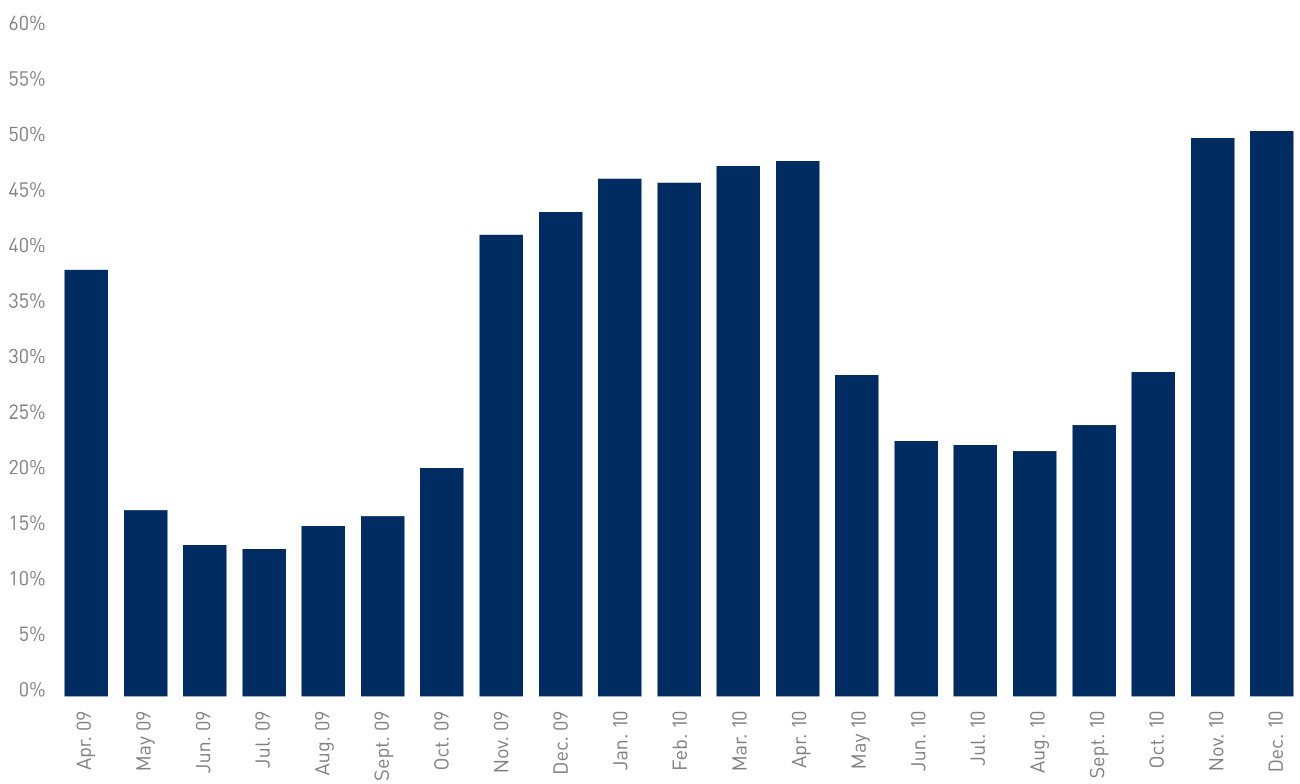
During 2010, total revenues increased by 14.4 per cent to $2,609.3 million from $2,281.1 million in 2009. The increase in revenues is primarily attributable to the increased capacity since the prior year, along with positive variances in both load factor and yield. Our traffic growth of 12.9 per cent outpaced our 11.1 per cent capacity growth during the year. One of our key revenue measurements is RASM, as it takes into consideration load factor and yield. Our RASM increased by 3.0 per cent to 13.36 cents for 2010, compared to 12.97 cents in 2009. Average stage length growth of 4.9 per cent from 2009 placed downward pressure on RASM. As average stage length increases, revenue per available seat mile typically decreases. Despite the growth in stage length and the significant increase in ASMs year over year, we saw an improvement in load factor of 1.2 points, as well as an improvement in yield of 1.3 per cent year over year.

Beginning in the third quarter of 2010, we realized year over year yield increases, driven heavily by strong domestic market performance over the busy summer months. Throughout the fourth quarter, we continued to experience strong yields across our network. This trend is encouraging, as it is an indication that the demand environment is improving.

At the end of the second quarter of 2010, we adjusted our fare structure to offer everyday low fares, with the objective of encouraging guests to purchase flights when they are ready to book, rather than waiting for a seat sale. Our top-end fares were reduced by an average of 25 per cent, designed to offer excellent value for guests who need to book close to departure date. The volume of guests booking in these higher fare classes has grown significantly year over year. We believe that our new fare structure provides our guests with value and has contributed to our overall yield improvement.

Our aircraft utilization remained relatively consistent with the prior year, with a slight decrease of 0.9 per cent to 11.6 operating hours per day. 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. During the peak winter months, we have allocated more than half of our system capacity outside of Canada to the high-demand transborder and international markets, as depicted in the following chart.

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



	Twelve months ended December 31				
(in millions)	2010		2009		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	12,415.0	63.6%	12,506.9	71.1%	(0.7%)
Charter and scheduled transborder and international	7,120.3	36.4%	5,080.7	28.9%	40.1%
Total	19,535.3	100.0%	17,587.6	100.0%	11.1%

On average, long-haul routes have lower yields; however, even with the substantial capacity increase in the transborder and international markets, we experienced overall yield improvement. This is due to stronger yields and slightly higher load factors in the domestic market, as compared to the prior year, on a relatively consistent level of capacity in the domestic market. Our guest traffic remained relatively consistent year over year in our domestic market, with strong increases in our transborder and international markets consistent with our ASM growth in those markets. Our capacity in the transborder and international markets increased by 40.1 per cent from 2009, with a consistent load factor and a flat year-over-year yield.

As announced in late 2010, we will be operating a leased Boeing 757-200 from North American Airlines to provide non-stop services between Calgary and Honolulu, Calgary and Maui, and Edmonton and Maui between February 12 and April 30, 2011. This temporary lease agreement will allow us to provide additional capacity for non-stop service from Alberta to Hawaii. We will have a WestJet service ambassador onboard each 757-200 flight to ensure that the WestJet guest experience is consistently delivered to our standards and expectations. This initiative once again demonstrates our WestJet spirit and our ability to meet the service needs of our guests.

For 2010, other revenues decreased by 4.4 per cent to $204.0 million from $213.3 million in 2009. We saw significant increases in WestJet Vacations non-air revenue, offset by decreases in our charter revenues due to the termination of our charter agreement with Transat, effective May 10, 2009. Despite the absence of this agreement in 2010, our strong load factor and traffic growth indicate that our increased capacity is being profitably absorbed by the market.

WestJet Vacations experienced significant revenue growth in 2010. Vacation package revenue increased over 70 per cent from the prior year. Growth was largely to our Southern winter destinations in Mexico and the Caribbean, in line with WestJet's network expansion into these regions. This growth, along with longer stays in these markets, provided significant year-over-year growth in our other revenues. WestJet Vacations continues to be successful in generating an additional revenue stream and supporting our network expansion to vacation destinations.

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 enhancing our overall guest experience by providing guests with additional products and services to meet their needs. For 2010, ancillary revenues were $91.1 million, representing a slight decrease from $91.7 million in 2009. Ancillary fees per guest for the year decreased by 9.5 per cent to $6.03 per guest from $6.66 per guest in 2009.

After the October 2009 implementation of our Sabre reservation system, we experienced lower pre-reserved seating, change and cancellation fees. The variance in pre-reserved seating fees was experienced throughout the first three quarters of 2010, as compared to 2009, mainly due to the shift in distribution methods to more indirect channels, such as the use of travel agents. With our new reservation system, we had limited ability to sell pre-reserved seating through these channels. We have implemented plans to increase the availability of pre-reserved seating through all booking channels, and have seen these fees per guest continue to improve throughout 2010. In addition, during the fourth quarter of 2010, our corporate website redesign helped to improve our conversion rates on pre-reserved seating fees, as the booking flow now highlights this option more prominently than in the past. We are now realizing levels of pre-reserved seating fees per guest that are higher than those experienced prior to our reservation system implementation. Lastly, for a period subsequent to our reservation system cutover, certain fees were temporarily waived in order to accommodate guests during the adjustment to the new system. We are now back to normal levels of charging fees; however, there have been fewer change and cancellation fees as a result of our fare structure adjustment in the second quarter of 2010. With everyday low fares, guests are less likely to change their flights prior to departure date.

In November 2010, we announced a charge of $20 to guests checking a second bag, effective for travel on or after January 19, 2011. Concurrent with this change, we reduced our fee for the third and fourth bag from $75 to $50. This checked baggage policy better aligns us with standard industry practice and will help to offset the impact of rising fuel costs.

Also included in ancillary revenues are revenues related to our WestJet Frequent Guest and WestJet Credit Card programs, both of which were launched during the first quarter of 2010. These programs have performed well and continue to contribute to our objective of providing high value to our guests.

Expenses

CASM (cents)	2010	2009	2008 *Restated*	2007 *Restated*	2006 *Restated*
Aircraft fuel	3.45	3.24	4.69	3.46	3.40
Airport operations	1.99	2.00	2.00	2.06	2.02
Flight operations and navigational charges	1.67	1.70	1.64	1.77	1.83
Sales and distribution	1.30	0.98	1.00	1.03	0.98
Marketing, general and administration	1.00	1.19	1.23	1.22	1.17
Aircraft leasing	0.73	0.59	0.50	0.52	0.57
Depreciation and amortization	0.68	0.80	0.80	0.87	0.89
Inflight	0.64	0.64	0.62	0.59	0.54
Maintenance	0.51	0.55	0.50	0.51	0.54
Employee profit share	0.12	0.08	0.19	0.33	0.16
	12.09	11.77	13.17	12.36*	12.10
CASM, excluding fuel and employee profit share	8.52	8.45	8.29	8.57*	8.54

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

	Twelve months ended December 31		
CASM (cents)	2010	2009	Change
Aircraft fuel	3.45	3.24	6.5%
Airport operations	1.99	2.00	(0.5%)
Flight operations and navigational charges	1.67	1.70	(1.8%)
Sales and distribution	1.30	0.98	32.7%
Marketing, general and administration	1.00	1.19	(16.0%)
Aircraft leasing	0.73	0.59	23.7%
Depreciation and amortization	0.68	0.80	(15.0%)
Inflight	0.64	0.64	—
Maintenance	0.51	0.55	(7.3%)
Employee profit share	0.12	0.08	50.0%
	12.09	11.77	2.7%
CASM, excluding fuel and employee profit share	8.52	8.45	0.8%

During 2010, our CASM increased by 2.7 per cent due to increases in aircraft fuel, sales and distribution, as well as aircraft leasing costs. These increases were largely offset by decreases in marketing, general and administration, as well as depreciation and amortization expense. Our CASM, excluding fuel and employee profit share, grew slightly to 8.52 cents, representing an increase of 0.8 per cent over 2009.

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

Aircraft fuel expense for 2010 was $674.6 million, representing an increase of 18.2 per cent from the prior year. The average market price for jet fuel rose to US $91 per barrel in 2010 versus US $71 per barrel in 2009, representing an increase of 28.2 per cent. With the Canadian dollar strengthening versus the US dollar in 2010, the average market price for jet fuel in Canadian dollars was $94 per barrel versus $81 per barrel in 2009, an increase of 16.0 per cent.

The increase in fuel costs was primarily due to increases in US-dollar West Texas Intermediate (WTI) crude oil prices and refining costs, partially offset by a higher Canadian dollar and lower fuel hedging charges in 2010. Fuel remains our most significant cost, representing approximately 29 per cent of total operating costs for the year, as compared to approximately 28 per cent in 2009.

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 hedging limits based on time horizon. Management continually reviews and adjusts its strategy based on market conditions and competitors' positions. Our hedging program is designed to mitigate the risk of sudden and substantial movements in fuel prices causing volatility in our earnings and cash flows. We do not hold or use any derivative instruments for speculative purposes. Financial derivatives in crude-oil-based commodities (including a variety of crude oil, heating oil and jet benchmarks) that are traded directly on organized exchanges or are available over the counter, can be useful in mitigating the risk of volatile fuel prices. During the year ended December 31, 2010, we purchased Canadian-dollar WTI call options and Canadian-dollar jet fuel swaps, call options and collars. The cash premium paid during the year related to option-style contracts was $6.2 million (2009 – $nil).

As at December 31, 2010, we had a mixture of Canadian-dollar WTI and jet fuel call options and collars to hedge approximately 20 per cent (2009 – 14 per cent) of our anticipated jet fuel requirements for the next 12 months. The following tables outline, per type, as at December 31, 2010, the notional volumes per barrel (bbl.) or per gallon (gal.), along with the weighted average contract prices.

Type	**Year**	**Instrument**	**Notional volumes (bbl.)**	**WTI average call price (CAD/bbl.)**
WTI	2011	Call options	1,230,000	$ 97

Type	**Year**	**Instrument**	**Notional volumes (gal.)**	**Jet average call price (CAD/gal.)**	**Jet average put price (CAD/gal.)**
Jet	2011	Collars	1,260,000	$ 2.50	$ 2.00

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 fuel derivatives is to measure effectiveness based on the change in the intrinsic value of the fuel derivatives versus the change in the intrinsic value of the anticipated jet fuel purchase. We elect to exclude time value from the measurement of effectiveness; accordingly, changes in time value are recognized in non-operating income (expense) during the period the change occurs. As a result, a significant portion of the change in fair value of our options may be recorded as ineffective.

Ineffectiveness is inherent in hedging jet fuel with derivative instruments in other commodities, such as crude oil, particularly given the significant volatility observed in the market on crude oil and related products. Because of 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 expense. If the transaction is no longer expected to occur, amounts previously recorded in AOCL will be reclassified to non-operating income (expense). For the years ended December 31, 2010 and 2009, there were no amounts reclassified as a result of transactions no longer expected to occur.

The following table displays our fuel costs per litre, including and excluding fuel hedging, for the years ended December 31, 2010 and 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.

	Twelve months ended December 31		
($ in thousands, except per litre data)	**2010**	**2009**	**Change**
Aircraft fuel expense – GAAP	$ 674,608	$ 570,569	18.2%
Realized loss on designated fuel derivatives – effective portion	(9,172)	(28,411)	(67.7%)
Aircraft fuel expense, excluding hedging – Non-GAAP	$ 665,436	$ 542,158	22.7%
Fuel consumption (thousands of litres)	950,341	859,116	10.6%
Fuel costs per litre (dollars) – including fuel hedging	0.71	0.66	7.6%
Fuel costs per litre (dollars) – excluding fuel hedging	0.70	0.63	11.1%

On an ASM basis, aircraft fuel expense increased by 6.5 per cent to 3.45 cents from 3.24 cents in the prior year. Our fuel costs per litre, including fuel hedging, increased to $0.71 per litre during 2010, representing an increase of 7.6 per cent from $0.66 per litre in 2009. Excluding the effects of the realized loss on fuel derivatives designated in an effective hedging relationship, our fuel costs per litre were $0.70 for 2010, an increase of 11.1 per cent from 2009.

The following table presents the financial impact and statement presentation of our fuel derivatives on the consolidated balance sheet as at December 31, 2010 and 2009.

($ in thousands)	Statement presentation	2010	2009
Receivable from counterparties for fuel derivatives	Prepaid expenses, deposits and other	$ 445	$ 96
Fair value of fuel derivatives	Prepaid expenses, deposits and other	5,244	—
Fair value of fuel derivatives	Accounts payable and accrued liabilities	—	(7,521)
Payable to counterparties for fuel derivatives	Accounts payable and accrued liabilities	(800)	(1,242)
Unrealized (gain) loss from fuel derivatives	AOCL – before tax impact	(11)	6,713

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, 2010 and 2009.

($ in thousands)	Statement presentation	2010	2009
Realized loss on designated fuel derivatives – effective portion	Aircraft fuel	$ (9,172)	$ (28,411)
Gain on designated fuel derivatives	Gain (loss) on derivatives	44	5,617

During the year ended December 31, 2010, we net settled fuel derivatives in favour of the counterparties for $9.0 million (2009 – $29.6 million). 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 gain before tax of $0.01 million (2009 – loss before tax of $6.7 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 collar structures and call option contracts are estimated by the use of a standard option valuation technique. As at January 31, 2011, for the period we are hedged, the closing forward curve for crude oil ranged from approximately US $92 to US $100 per barrel with the average foreign exchange rate being 1.0051 Canadian to US dollars.

For 2011, excluding the impact of fuel hedging, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately $6 million annually 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 $10 million for every one-cent change per litre of fuel.

Sales and distribution

Included in sales and distribution expenses are commissions and incentives paid to travel agents, credit card settlement fees, GDS fees, transaction fees related to our reservation system, costs of our call centre, as well as sales and distribution costs associated with WestJet Vacations.

Sales and distribution expenses increased to $255.8 million in 2010, representing an increase of 48.4 per cent from $172.3 million in 2009. Our costs per ASM rose by 32.7 per cent to 1.30 cents in 2010, as compared to 0.98 cents in the prior year. Sales and distribution expenses related to WestJet Vacations contributed to approximately 40 per cent of the dollar increase. Increased distribution expenses year over year contributed to approximately 40 per cent of the increase, with the balance attributable to the increase in our sales expenses. The increases in WestJet Vacations sales and distribution expenses, as well as the increases in the airline's sales expenses, are due largely to increases in commissions and incentive payments paid to travel agents. The increase in commissions is due to an increase in travel trade sales since the prior year. The implementation of our new reservations systems allows for greater ease of use by travel agents and, as such, a higher proportion of our sales are sourced through this indirect channel. The increase in incentive payments during the year is directly related to the improvement in the economy and in our revenues. Incentive payments are structured so that certain revenue targets must be achieved by the agents and, with the economic recession in 2009, targets were rarely achieved in the prior year. The growth of WestJet Vacations from the prior year has contributed to a significant year-over-year increase in WVI sales and distribution expenses; however, we are realizing margin improvements from the prior year. The increase in distribution expense relates to costs associated with our new reservation system, such as system transaction fees, as well as higher GDS fees from the increased use of indirect sales channels.

Marketing, general and administration

Marketing largely consists of expenses such as advertising and promotions and live satellite television licensing fees. General and administration costs consist of our corporate office departments, professional fees and insurance costs.

Marketing, general and administration expenses decreased from the prior year by $13.1 million, from $208.3 million in 2009 to $195.2 million in 2010, representing a decrease of 6.3 per cent. On an ASM basis, our marketing, general and administration expenses decreased by 16.0 per cent, to 1.00 cent in 2010. Marketing expenses decreased from the prior year primarily due to a reclassification of our onboard product costs to airport operations. We also incurred lower information technology (IT) costs from the prior year due to lower IT consulting and software costs. In 2009, we had significant IT consulting expenses related to the implementation of our new reservation system. Software support costs were also reduced due to the reservation system implementation, as our new system is outsourced to a third party and, therefore, our internal IT support costs are reduced. The reservation system transaction fees are now recorded under the sales and distribution expense line item. These decreases were offset by an increase in general and administrative expenses due to increased compensation expense related to the change in our CEO during the year, as well as higher general and administrative consulting costs year over year.

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 up-front cash outlay required for deposits on purchased aircraft. During the year ended December 31, 2010, we assumed delivery of two leased 737-700 aircraft and three leased 737-800 aircraft. As at December 31, 2010, we had a total of 38 leased aircraft. This represents approximately 42 per cent of our total fleet. At the end of 2009, we had a total of 33 aircraft under operating leases, representing approximately 38 per cent of our total registered fleet.

Our aircraft leasing costs per ASM increased by 23.7 per cent in 2010 to 0.73 cents, from 0.59 cents in 2009. The variance was due to incremental leasing costs on the five leased aircraft delivered since the end of 2009, as well as a full period of aircraft leasing costs for the 10 leased aircraft delivered during 2009. This was partially offset by a stronger Canadian dollar versus the US dollar compared to the prior year. We 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 26 of this MD&A for further information.

Depreciation and amortization

During the year ended December 31, 2010, depreciation and amortization expense decreased by $8.4 million or 6.0 per cent to $132.9 million. On an ASM basis, the depreciation and amortization charge was 0.68 cents, as compared to 0.80 cents in the prior year. The decrease in depreciation and amortization expense per ASM from the prior year is attributable to the fact that our ASM growth during 2010 has been a result of incremental leased aircraft in our fleet, rather than owned aircraft. As at December 31, 2010, our percentage of owned aircraft to aircraft under operating lease was 58 per cent, a decrease from 62 per cent as at the end of 2009. As this percentage decreases, the number of our aircraft cycles flown attributable to our owned aircraft is reduced as a percentage of our total cycles flown.

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 creates a personal vested interest in our financial results and accomplishments.

	Twelve months ended December 31		
($ in thousands)	2010	2009	Change
Salaries and benefits	$ 439,750	$ 392,749	12.0%
Employee share purchase plan	52,643	47,030	11.9%
Employee profit share	22,222	14,675	51.4%
Stock option plan	11,103	12,045	(7.8%)
Key employee and pilot plan	977	—	N/A
Executive share unit plan	3,588	1,395	157.2%
	$ 530,283	$ 467,894	13.3%

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2010, salaries and benefits increased by 12.0 per cent to $439.8 million from $392.7 million in 2009. This increase was due primarily to an increase in our total number of full-time equivalent employees of 9.3 per cent to 6,877 employees; higher pilot salaries and benefits resulting from the new pilot agreement effective July 1, 2009; a cash payout of $1.5 million related to the departure of our previous CEO; 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 up to a maximum of 20 per cent of their gross pay, and these acquisitions are matched by WestJet. As at December 31, 2010, 84 per cent of our eligible active employees participated in the ESPP, contributing an average of 13 per cent. During the year ended December 31, 2010, 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, 2010, all ESPP matching shares were acquired through the open market. For the year ended 2010, our matching expense was $52.6 million, an 11.9 per cent increase from 2009, 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, 2010, was $22.2 million, a 51.4 per cent increase from $14.7 million in 2009. This increase was directly attributable to higher earnings eligible for profit share versus the prior year. As a result of our continued profitability, we were pleased that our WestJetters earned a bonus payout of over 5 per cent of their salaries and benefits in 2010. This brings our total profit share payout since 1996 to approximately $200 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, 2010, was $11.1 million, representing a decrease of 7.8 per cent over 2009. This decrease in stock option expense was related primarily to the introduction of the key employee and pilot plan (KEP), as described below. Non-executive employees and pilots eligible under the KEP plan are now granted restricted share units (RSU) in lieu of a portion of the stock options that they would have otherwise been granted. This decrease was also related to the implementation of a new retirement policy in the prior year, which resulted in a greater number of employees being eligible for retirement. Under the 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.

Key employee and pilot plan (KEP)

During the year ended December 31, 2010, the KEP plan, a new stock-based compensation plan, was approved by our shareholders, whereby RSUs are issued to certain non-executive employees and pilots. In 2010, $1.0 million of compensation expense was recognized in relation to the KEP plan.

Executive share unit (ESU) plan

We have an equity-based ESU plan, whereby RSUs and performance share units (PSU) may be issued to our senior executive officers. Each RSU and PSU entitles the senior executive to receive payment upon exercise 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, 2010, $3.6 million in compensation expense was recognized in relation to the ESU plan, an increase of $2.2 million from 2009. The increase was primarily attributable to the acceleration of expense due to the former CEO leaving the Company; additional share units granted under the plan, including units granted in relation to our current CEO's relocation; as well as revised probabilities related to performance criteria achievement for the PSUs. 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 flow 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, 2010, the average US-dollar exchange rate was 1.0302 (2009 – 1.1425), with the year-end exchange rate at 0.9946 (2009 – 1.0510).

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, 2010, US-dollar-denominated net monetary assets totalled approximately US $53.0 million

(2009 – US $19.9 million). These net monetary assets 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-dollar-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 $0.8 million in 2010, as compared to a foreign exchange loss of $12.3 million in 2009, 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, 2010, we entered into foreign exchange forward contracts for an average US $11.5 million per month for the period of January to December 2011. These contracts totalled US $138.4 million at a weighted average contract rate of 1.0264 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, 2010, no portion of the forward contracts was considered ineffective.

As at December 31, 2010, the fair value of the foreign exchange forward contracts was $3.6 million (2009 – $1.2 million), included in accounts payable and accrued liabilities and $nil (2009 – $0.2 million) recorded in prepaid expenses, deposits and other. For the year ended December 31, 2010, we realized a loss before tax on the forward contracts of $2.1 million (2009 – gain of $5.6 million), included in net earnings as an increase (2009 – decrease) to aircraft leasing expense. The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft leasing expense in the next 12 months is a loss before tax of $3.6 million (2009 – $1.0 million). The fair value of the foreign exchange forward contracts is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace.

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 2010 was 30.5 per cent, as compared to 28.2 per cent in 2009. The variance was driven primarily by corporate income tax rate reductions enacted by various provincial governments in 2009, offset by unfavourable revisions to the measurement of previously recognized future tax assets also in the comparative period.

Although our year-to-date effective rate fell within our expected range of 29 to 31 per cent at the beginning of the year, revisions to the measurement of future income tax assets and liabilities, revised expectations of when certain temporary differences are anticipated to reverse, and the acceleration of non-deductible stock-based compensation expense due to the departure of the former CEO resulted in a net $2.0 million unfavourable increase to future income tax expense. Excluding these items, our effective rate would have been reduced to 29.5 per cent, which is still within our expected range. For 2011, our expected effective tax rate should remain within the range of 29 to 31 per cent.

Guest experience

At WestJet, we are focused on meeting the needs of our guests while maintaining the highest safety standards. We are committed to delivering a positive guest experience at every stage of our service, from the time the flight is booked to its completion.

Key performance indicators

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

	Three months ended December 31			Twelve months ended December 31		
	2010	2009	Change	2010	2009	Change
On-time performance	75.4%	63.8%	11.6 pts.	77.8%	78.6%	(0.8 pts).
Completion rate	99.2%	99.1%	0.1 pts.	99.1%	98.9%	0.2 pts.
Bag ratio	3.02	4.36	30.7%	3.39	3.57	5.0%

On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring our guest experience. During 2010, our on-time performance declined slightly by 0.8 points. Our fourth quarter 2010 on-time performance improved by 11.6 points to 75.4 per cent, which represents our highest level of on-time performance since the fourth quarter of 2007. In the fourth quarter of 2009, our new reservation system cutover contributed to a decline in our on-time performance. We experienced delays due to increased times at our check-in counters and at our boarding gates while we adapted to our new system. As well, we saw fewer flight departure delays due to weather conditions in this quarter versus the same quarter last year.

During 2010, we introduced a new self-service option for baggage tagging in Calgary, Toronto, Vancouver, Montreal and Edmonton. Self-serve baggage tagging allows for our guests to use mobile, web or airport kiosk to check in for their flight and print their own baggage tags when they arrive at the airport. Once the tags have been attached, guests drop baggage off at the appropriate location. This self-serve option improves efficiencies at our airport counters and allows our guest service agents a greater opportunity for meaningful interactions with our guests. We expect to continue introducing self-tagging at other airports during 2011. Our focus on providing self-service tools enhances the travel experience of our guests while improving operational efficiencies.

Our completion rates remained strong for 2010 at 99.1 per cent versus 98.9 per cent in 2009. This indicator represents the percentage of flights completed from flights originally scheduled. We also saw a significant improvement in our bag ratio for the fourth quarter compared to the same period in 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. We continued to maintain one of the most favourable balance sheets in the airline industry and produced our 23rd consecutive quarter of profitability in the fourth quarter of 2010.

We completed 2010 with a significant cash and cash equivalents balance of $1,187.9 million, compared to $1,005.2 million as at December 31, 2009. This increase resulted primarily from improved cash flow from operations. 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, 2010, was $308.0 million, as compared to $286.4 million at December 31, 2009. 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, 2010, we had cash on hand of 3.86 (2009 – 3.51) times the advance ticket sales balance. Additionally, the increase in our working capital ratio to 1.52 from 1.48 as at December 31, 2009, further demonstrates our financial stability and strong financial position. Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are invested primarily in debt instruments from highly rated financial institutions, many with provincial-government-backed guarantees. As at December 31, 2010, 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 2.8 per cent to 1.39, as at December 31, 2010, which took into consideration $1,066.8 million in off-balance-sheet aircraft operating leases. This compared favourably to our adjusted debt-to-equity ratio of 1.43 at December 31, 2009, mainly due to the increase in shareholders' equity as a result of net earnings more than offsetting the net increase in our aircraft financing. As at December 31, 2010, our adjusted net debt to EBITDAR ratio improved by 19.1 per cent to 1.78, compared to 2.20 as at December 31, 2009, mainly attributable to the increase in cash and cash equivalents and EBITDAR. Both of these ratios remain strong, relative to the airline industry, and have exceeded our internal targets for December 31, 2010 and 2009, 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 flow from operations has allowed us to meet our working capital requirements throughout the year. During 2010, cash from operations increased to $443.3 million compared to $318.7 million in 2009, representing an improvement of 39.1 per cent. This year-over-year increase is related primarily to higher earnings from operations and a positive year-over-year change in non-cash working capital.

Financing cash flow

During 2010, our financing cash outflow of $210.2 million consisted primarily of long-term debt repayments of $171.1 million, largely related to our aircraft, as well as share repurchases of $31.4 million. In the prior year, the financing cash inflow of $34.7 million was attributable to the net proceeds from the equity offering of $165.0 million and the proceeds from the US $32.0 million term loan, offset by $165.8 million in long-term debt repayments.

As at December 31, 2010, we had 38 remaining purchased aircraft commitments, for delivery between 2011 and 2017. In January 2011, subsequent to year end, we took delivery of the one purchased aircraft planned for 2011, which was funded by cash from operations. Our next purchased aircraft delivery is scheduled for February 2012. We regularly review financing alternatives available to us for our future direct aircraft deliveries.

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 total number of aircraft financed with loan guarantees is 52, with an outstanding debt balance of $1,005.7 million associated with those aircraft. All of this debt has been financed in Canadian dollars at fixed interest rates, 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.

The rules applying to export credit support granted for the purchase and sale of aircraft is governed by a gentlemen's agreement between a number of participating Organisation for Economic Co-operation and Development (OECD) and non-OECD countries, commonly known as the Aircraft Sector Understanding (ASU). The ASU sets forth a number of key terms and conditions related to export credit for aircraft, including minimum premium and interest rates, the maximum allowable term of the export-credit supported loan and the advance rate (or loan to value), among other standards. We are aware that the ASU has been renegotiated and a new ASU has been adopted as of February 1, 2011. The new ASU will likely increase the cost of export-credit access for all eligible airlines, including WestJet; however, we are confident that our strong balance sheet and credit will enable us to finance future aircraft deliveries at reasonable rates and terms.

We have entered into nine arrangements whereby we participate under contract in fuel facility corporations, along with other airlines, to procure fuel services at major Canadian airports. The fuel facility corporations operate on a cost-recovery basis. The purpose of these corporations is to own and finance the system that distributes fuel to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including the debt service requirements, of the fuel facility corporations are shared pro rata among the contracting airlines. The nine fuel facility corporations are 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, 2010, the nine fuel facility corporations have combined total assets of approximately $345.5 million and debt of approximately $312.6 million.

Investing cash flow

Cash used in investing activities for 2010 totalled $48.6 million, as compared to $166.7 million in 2009. In 2009, cash was used for aircraft additions of $118.7 million for the purchase of one leased aircraft during the year as well as deposits paid to Boeing on future owned aircraft deliveries. In 2010, we incurred $29.9 million in aircraft addition costs related to deposits paid, as no additional aircraft were purchased during the year. Furthermore, in 2010, we incurred $18.7 million in other property and equipment additions as compared to $48.0 million in the prior year.

Free cash flow

Free cash flow is a measure that represents the cash that a company is able to generate after meeting its requirements to maintain or expand its asset base. It is a calculation of operating cash flow, less the amount of cash used in investing activities related to property and equipment. Our free cash flow for the year ended December 31, 2010, was $394.7 million, as compared to $152.0 million in the prior year, representing an increase of 159.7 per cent. This increase was due to higher operating cash flow relative to the prior year, as well as lower investments in property and equipment as compared to 2009. Our 2010 free cash flow per share was $2.72, as compared to $1.15 in 2009, a year-over-year increase of 136.5 per cent.

Please refer to page 52 of this MD&A for a reconciliation of the non-GAAP measures listed above, including free cash flow and free cash flow per share, to the nearest measure under Canadian GAAP.

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 following table:

($ in thousands)	Total	2011	2012	2013	2014	2015	Thereafter
Long-term debt repayments	$ 1,047,177	$ 183,681	$ 169,642	$ 169,358	$ 169,626	$ 132,170	$ 222,700
Capital lease obligations(i)	5,878	282	245	245	245	245	4,616
Operating leases and commitments(ii)	1,366,015	206,983	202,085	195,222	190,423	166,189	405,113
Purchase obligations(iii)	1,647,046	72,217	182,961	270,436	287,597	401,406	432,429
Total contractual obligations	$ 4,066,116	$ 463,163	$ 554,933	$ 635,261	$ 647,891	$ 700,010	$ 1,064,858

(i) Includes weighted average imputed interest at 5.28 per cent totalling $2,521.
(ii) Relates to operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licences and satellite programming. The obligations of these operating leases, where applicable, in US dollars are: 2011 – $186,454; 2012 – $188,807; 2013 – $185,535; 2014 – $184,359; 2015 – $161,149; and thereafter $361,979.
(iii) 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: 2011 – $72,607; 2012 – $183,949; 2013 – $271,896; 2014 – $289,150; 2015 – $403,574; and thereafter $434,764.

We currently have 38 aircraft under operating leases. We have entered into agreements with independent third parties to lease three additional 737-700 aircraft and three additional 737-800 aircraft for terms ranging between eight and 10 years, to be delivered throughout 2011 and 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 an agreement with Bell ExpressVu to provide satellite programming. The agreement commenced in 2004, expires in July 2011, 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 on the previous page.

As at December 31, 2010, our future payments to 2016 and thereafter relating to operating leases and commitments were $1,366.0 million (US $1,268.3 million), to be funded through our operating cash flow.

Subsequent to year end, we deferred the deliveries of six aircraft from the years 2012 to 2015, into 2017 and 2018. The total number of our aircraft purchase commitments remains unchanged at 38 aircraft. These deferrals have not been reflected in the table on the previous page under "Purchase obligations."

Capital resources

During 2010, we took delivery of five leased aircraft, two 737-700s and three 737-800s, increasing our total registered fleet to 91 aircraft as at December 31, 2010. During the fourth quarter of 2010, we amended the terms of one of our lease agreements for the delivery of a 737-700 aircraft in the fourth quarter of 2011 to instead take delivery of a 737-800 series aircraft. Under our current fleet plan, we have 33 aircraft leases expiring between 2013 and 2018, each with the option to renew, and commitments to take delivery of an additional 44 aircraft, as depicted in the table below. This provides us with the flexibility to end 2018 with a fleet size between 102 and 135 aircraft, dependent on the exercise of the lease renewal options.

Subsequent to year end, in January 2011, we purchased a new 737-700 series aircraft, funded by cash from operations. Further, as part of our ongoing fleet planning process, we announced the deferral of six aircraft deliveries from 2012 (2), 2013 (1), 2014 (2) and 2015 (1) to 2017 (3) and 2018 (3). The deferral of these aircraft deliveries increases the flexibility in our fleet plan, as the revised delivery schedule allows us to better match the timing of the deliveries with the dates for potential lease returns. The entirety of our order with Boeing remains intact. The table below illustrates our fleet commitments to 2018, based on the revised schedule.

	Series												Lease expires with option to renew
	600s			700s			800s			Total fleet			
	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total	Total
Fleet at December 31, 2009	—	13	**13**	25	38	**63**	8	2	**10**	**33**	**53**	**86**	**—**
Fleet at December 31, 2010	—	13	**13**	27	38	**65**	11	2	**13**	**38**	**53**	**91**	**—**
Commitments:													
2011	—	—	**—**	3	1*	**4**	2	—	**2**	**5**	**1**	**6**	**—**
2012	—	—	**—**	—	2*	**2**	1	—	**1**	**1**	**2**	**3**	**—**
2013	—	—	**—**	—	5*	**5**	—	—	**—**	**—**	**5**	**5**	**(3)**
2014	—	—	**—**	—	4*	**4**	—	—	**—**	**—**	**4**	**4**	**—**
2015	—	—	**—**	—	9*	**9**	—	—	**—**	**—**	**9**	**9**	**(12)**
2016	—	—	**—**	—	8*	**8**	—	—	**—**	**—**	**8**	**8**	**(8)**
2017	—	—	**—**	—	6*	**6**	—	—	**—**	**—**	**6**	**6**	**(6)**
2018	—	—	**—**	—	3*	**3**	—	—	**—**	**—**	**3**	**3**	**(4)**
Total commitments	—	—	**—**	3	38	**41**	3	—	**3**	**6**	**38**	**44**	
Committed fleet as of 2018	—	13	**13**	30	76	**106**	14	2	**16**	**44**	**91**	**135**	**(33)**

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

We have available a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available to a maximum of $80.8 million (December 31, 2009 – $85 million); it is secured by our Campus facility and expires in May 2012. The line of credit bears interest at prime plus 0.50 per cent per annum, or a banker's 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 an annual 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, 2010, 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 flow.

Quarterly dividend policy

On November 2, 2010, the Board of Directors authorized us to initiate a quarterly dividend of $0.05 per common voting share and variable voting share. In the fourth quarter of 2010, we declared our initial quarterly dividend of $0.05 per common voting share and variable voting share to shareholders of record on December 15, 2010. This dividend was paid on January 21, 2011.

On February 8, 2011, our Board of Directors declared our second quarterly dividend of $0.05 per common voting share and variable voting share to shareholders of record on March 16, 2011, to be paid on March 31, 2011.

We believe that this dividend policy is consistent with our objective of creating and returning value to shareholders.

Normal course issuer bid

On November 2, 2010, we filed a notice with the TSX to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, we are authorized to purchase up to 7,264,820 common voting shares and variable voting shares (representing 5 per cent of our issued and outstanding shares at the time of the bid) during the period of November 5, 2010 to November 4, 2011, or until such time as the bid is completed or terminated at our option. Any shares purchased under this bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under this bid will be cancelled.

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

During 2010, we repurchased 2,338,730 shares under the bid for total consideration of $31.4 million. The book value of the shares repurchased of $10.6 million was charged to share capital, with the $20.8 million excess of the market price over the average book value, including transaction costs, charged to retained earnings.

Share capital

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

	Number of shares	
	January 31, 2011	December 31, 2010
Issued and outstanding:		
Common voting shares	137,583,946	137,489,456
Variable voting shares	5,380,752	5,468,958
Total voting shares issued and outstanding	**142,964,698**	**142,958,414**
Voting shares potentially issuable:		
Stock options	8,047,082	8,083,431
RSUs – KEP Plan	168,286	171,129
RSUs – ESU Plan	187,875	187,875
PSUs	199,486	199,486
Total voting shares potentially issuable	**8,602,729**	**8,641,921**
Total outstanding and potentially issuable voting shares	**151,567,427**	**151,600,335**

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, 2010, total long-term debt includes an amount of $5.6 million (2009 – $6.4 million) due to the financial institution. Included in cash and cash equivalents, as at December 31, 2010, are short-term investments of $164.7 million (2009 – $143.3 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.

During 2010, we engaged a relocation firm to purchase a single-family residence from the CEO for a guaranteed price of US $1.5 million in accordance with our relocation policy. The relocation firm will actively market the residence to locate an outside buyer. If the proceeds of the sale of the home to a third party are less than or greater than the guaranteed price, the difference between the guaranteed price and the proceeds will accrue to us. We paid the relocation firm fees and expenses in connection with this transaction, and also agreed to reimburse the officer for certain related tax and relocation expenses. The residence is located in the United States and the transaction was as a result of the officer's move to Canada in conjunction with his appointment to President and CEO, effective April 1, 2010. In connection with the relocation, we granted 38,256 RSUs pursuant to the ESU plan with a total value of US $0.5 million, which are scheduled to wholly vest on April 1, 2011, the anniversary of the officer's appointment to President and CEO. Upon exercise of the RSUs, we will remit, on his behalf, an amount sufficient to satisfy any withholding or other tax requirements of such RSUs, limited to the withholding tax on the original award amount. Transactions have been measured at the exchange amount.

RISKS AND UNCERTAINTIES

The risks described below are not intended to be an exhaustive list of all risks facing the Company. Other risks of which we are not currently aware or which we currently deem immaterial may surface and have a material adverse impact on our business. Management performs a risk assessment on a continual basis to ensure that significant risks related to our airline have been reviewed and assessed.

RISKS RELATING TO THE BUSINESS

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

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

Our fuel costs constitute our largest single expense category, representing approximately 29 per cent of operating costs in 2010 and approximately 28 per cent in 2009. Therefore, the price of fuel has affected, and could continue to affect, 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 those of our competitors, if their hedging programs are more effective in mitigating the risk of the increasing costs of jet fuel.

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

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

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

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

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

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

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

We are dependent on single aircraft and engine suppliers. 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 if Boeing was 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 of aircraft to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs and, additionally, aircraft may not be available at similar prices or received during the same scheduled delivery dates, which could adversely affect our business, operating results and financial condition. In addition, we would be materially adversely affected in the event of a mechanical or regulatory issue associated with the Boeing 737 aircraft type, including negative perceptions from the travelling community.

We are also dependent on General Electric as our sole supplier of 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 our business.

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 purchase of the remaining 37 737 aircraft for which we have purchase commitments. Historically, the purchase of our aircraft is financed by funds drawn in Canadian dollars; however, the aircraft are paid for in US funds at the date of each aircraft delivery. As a result, we are exposed to foreign currency fluctuations prior to each delivery date. In July 2008, we took delivery of the final aircraft under our previous facility with Ex-Im Bank, which was subsequently closed. We took delivery of one purchased 737-700 in January 2011, which was funded by cash from operations. We continually review financing alternatives available to us for our future direct aircraft deliveries. Our next purchased aircraft delivery is not expected until February 2012. There is no guarantee we will be able to secure similar financing arrangements for the remaining 37 aircraft to be delivered between 2012 to 2018.

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

Our maintenance costs will increase as our fleet ages.

The average age of our fleet as at December 31, 2010, was 5.2 years. These aircraft require less maintenance now than they will in the future. We have incurred lower maintenance expenses on these aircraft because most of the parts on these aircraft are under multi-year warranties. Our maintenance costs will increase as our fleet ages and warranties expire. At December 31, 2010, 63 aircraft have come off warranty, with an additional seven coming off warranty in 2011.

In 2011, we expect to overhaul four engines and 11 sets of landing gear, at an estimated cost of US $14 to $16 million. The engines that are scheduled for overhaul in 2011 are leased, and in conjunction with our lease agreements, we have paid maintenance reserve amounts related to the maintenance of these engines. As such, a portion of these costs is expected to be recoverable from the lessor.

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

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

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

Our debt and other fixed obligations could impact our ability to obtain additional financing to support capital expansion plans and working capital requirements on suitable terms. Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cash flow. The failure to generate sufficient operating cash flow to meet our fixed obligations could harm our business. Changes in the conditions of the equity capital markets, the debt capital markets and the commercial bank market, as well as regulatory or other government-imposed changes, could adversely impact WestJet's access to and cost of financing which could harm our ability to meet our growth strategy.

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

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

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

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

The airline business is labour intensive. Salaries and benefits represented approximately 19 per cent of WestJet's operating expenses for the year ended December 31, 2010. Employment-related issues that may impact WestJet's results of operations include hiring/retention rates, pay rates, outsourcing costs and the costs of employee benefits. Significantly increased labour costs, combined with curtailed growth, could negatively impact WestJet's competitive position.

RISKS RELATING TO THE AIRLINE INDUSTRY

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

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

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

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

There is a possibility that a significant terrorist attack, pandemic or geological event could have a material impact on our operations, which could also negatively impact the insurance market and our ability to obtain coverage at current terms.

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

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

General worldwide economic conditions have experienced a downturn due to the effects of the subprime lending crisis in the United States, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. 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.

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

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

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

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

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

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

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

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

Numerous jurisdictions around the world have implemented or announced measures to penalize for greenhouse gas emissions as a means to deal with climate change. Certain of these measures cover the airline industry or may do so in the future. We may be directly exposed to such measures, which could result in additional costs that could adversely affect our margins and results of operations.

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

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

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

A widespread outbreak of influenza, SARS, the H1N1 influenza virus or any other widespread illness (whether domestic or international) or any governmental or World Health Organization travel advisories (whether relating to Canadian or international cities or regions) could affect our ability to continue full operations and could materially adversely affect demand for air travel. We cannot predict the likelihood of such a public health emergency or the effect that it may have on our business or the market price of our securities. However, any significant reduction in guest traffic on our network could have a material adverse effect on our business, results from operations and financial condition.

Governmental fee increases discourage air travel.

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

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

Please refer to Accounting – Financial instruments and risk management below for a further discussion on risks.

ACCOUNTING

Financial instruments and risk management

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

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

Overall, our Board of Directors has responsibility for the establishment and approval of our risk management policies. 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 affected 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, 2010 and 2009, including the business purposes they serve; risk management activities; the financial statement classification and amount of income, expense, gain and loss associated with the instruments; and the significant assumptions made in determining their fair value, please refer to 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 amount of income, expense, gain and loss associated with the instruments; and the significant assumptions made in determining their fair value, please refer to Results of operations – Foreign exchange on page 26 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, 2010, totalled $28.3 million (2009 – $27.3 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, 2010, totalled $6.8 million (2009 – $8.6 million) or 0.6 per cent (2009 – 0.7 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, 2010, 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 having terms of 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, many with provincial-government-backed guarantees. 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, 2010, we had a total principal amount invested of $913.2 million (2009 – $813.2 million) in Canadian-dollar short-term investments with terms ranging between five and 365 days, and a total of US $45.2 million (2009 – US $nil) 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, 2010, we do not expect any counterparties to fail to meet their obligations.

As at December 31, 2010, our trade receivables accounted for $12.4 million (2009 – $8.7 million) of total receivables. The remainder is related to receivables from travel agents, interline agreements with other airlines and partnerships. All significant services and counterparties are reviewed and approved for credit on a regular basis. Receivables are short-term in nature, generally being settled within 30 to 60 days.

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, 2010, fuel derivatives of $5.7 million (2009 – $0.1 million) and foreign exchange derivatives of $nil (2009 – $0.2 million) outstanding with our counterparties were in an asset position. We do not expect these counterparties to fail to meet their 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 deposits relating to airport operations, we consider this risk as remote because of 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 flow for our non-derivative and derivative financial liabilities as at December 31, 2010. 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 (i)	$ 299,204	$ 299,204	$ —	$ —	$ —
Foreign exchange derivatives	3,579	3,579	—	—	—
Fuel derivatives	800	800	—	—	—
Long-term debt	1,232,319	235,215	414,455	341,920	240,729
Obligations under capital leases	5,878	282	490	490	4,616
Total	$ 1,541,780	$ 539,080	$ 414,945	$ 342,410	$ 245,345

(i) Excludes foreign exchange derivatives of $3,579 and fuel derivatives of $800.

A portion of our cash and cash equivalents balance relates to cash collected on advance ticket sales, for which the balance at December 31, 2010, was $308.0 million (2009 – $286.4 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, 2010, we had cash on hand of 3.86 (2009 – 3.51) times the advance ticket sales balance. We aim to maintain a current ratio of at least 1.00. As at December 31, 2010, our current ratio was 1.52 (2009 – 1.48). As at December 31, 2010, 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 because of 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, 2010, the fair value of our fixed-rate long-term debt was approximately $1,142.0 million (2009 – $1,323.1 million).

The fair value of our fixed-rate long-term debt is determined by discounting the future contractual cash flow under current financing arrangements at discount rates obtained from the lender, which represent borrowing rates presently available to us for loans with similar terms and remaining maturities. As at December 31, 2010, rates used in determining the fair value ranged from 2.00 per cent to 2.74 per cent (2009 – 2.28 per cent to 3.27 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 21 and 26, 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 for the year ended December 31, 2010. 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 useful 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 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 expire. 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 inflow and outflow 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 voting 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. Changes in estimates and assumptions would change the fair value of the options and the related compensation expense recognized each period.

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 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 call options and collars is estimated by the use of a standard option valuation technique.

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

Fair value of awards and breakage associated with the frequent guest program (FGP)

It is necessary for management to utilize judgment and estimates in preparing the accounting transactions for the FGP. Fair value is management's estimate of the expected awards for which the credit will be redeemed and is reduced by the proportion of credits that have been redeemed relative to the total number expected to be redeemed (breakage). Estimates are required in calculating the fair value of the dollars awarded, the revenue to be deferred, in estimating the expected redemption rates of the credits including accounting for breakage, and in determining the fair value of free companion flights. Given the nature and significance of many of the assumptions used in determining the accounting for the FGP, it may be common to have changes in estimates that affect the recorded amounts of the obligations or deferred revenue. Changes in estimates will be accounted for prospectively.

Recent accounting pronouncements and changes

IFRS

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

We commenced our IFRS conversion project during 2008 and established a formal project governance structure, including an

IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. The Steering Committee consists of senior levels of management from Finance, Treasury and Investor Relations, among others. An external advisor has been engaged to work with our 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 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 provided insight into the most significant differences applicable to us. We have also completed the second phase, Solution Development, which involved an in-depth analysis and evaluation of the financial impact of various alternatives provided for under IFRS; identification of effects on operational and business processes, analysis of disclosure requirements, 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, is substantially complete. It involves the design and execution of 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 into day-to-day business processes.

Please see the table on page 45 for certain elements of our IFRS transition plan and an assessment of progress towards achieving these milestones. Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating these key milestones and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes to the transition plan being communicated here.

Key activity	Key milestones	Status
Financial statement preparation		
• Identify differences in Canadian GAAP/IFRS accounting policies • Select ongoing IFRS policies • Select IFRS 1 choices • Develop financial statement format • Quantify effects of change in initial IFRS disclosure and 2010 comparative financial statements	Senior management and Steering Committee sign-off for all key IFRS accounting policy choices to occur in early 2010. Development of draft financial statement format to occur during the first half of 2010.	Completed the IFRS Diagnostic phase during 2008, which involved a high-level review of the major differences between Canadian GAAP and IFRS. The Solution Development phase is complete, and the Implementation and Execution phase is substantially complete, as previously discussed. Our preliminary assessment of the impact of the changeover to IFRS on financial results is disclosed in this MD&A. Our external auditors have carried out certain initial audit procedures on the IFRS opening balance sheet, and have started their review of the IFRS 2010 quarterly impacts.
Training		
Define and introduce appropriate level of IFRS expertise for each of the following: • Finance Department • Audit Committee	Training for the Finance Department throughout 2010. Regular Audit Committee updates are provided once per quarter.	Project team expert resources and our external advisor were identified to provide insights and training. Training for project team members is occurring throughout the project, and a detailed training plan created for the Finance Department was delivered in 2010. Additional ongoing training for the Finance Department and other departments will be delivered as needed.
Information technology (IT) infrastructure		
Confirm that business processes and systems are IFRS compliant, including: • Program upgrades (including any interfaces) and changes • Gathering data for disclosures	Confirm that systems can address 2010 dual reporting requirements in the fourth quarter of 2009. Confirm that business processes and systems are IFRS compliant throughout the project.	IT proof of concept for dual reporting during 2010 has been completed, and testing and implementation occurred throughout 2010. We are confident that there are no significant IT issues that cannot be addressed by our current systems. We continue to work with affected business units to address business process and IT changes required to embed IFRS into day-to-day processes.
Control environment		
• For all accounting policy changes identified, assess control design and effectiveness implications • Implement appropriate changes	All key IFRS control design and effectiveness implications to be assessed as part of the key IFRS differences and accounting policy choices through to the end of 2010.	New control requirements have been developed for the opening balance sheet, dual reporting period and the maintenance of IFRS after the changeover date. The internal audit team is currently performing testing of these identified controls.
External communications		
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 has been formulated, and includes a strategy to analyze effects on management and employee compensation arrangements and plans, and the related communications necessary if changes are required.

The transition from Canadian GAAP to IFRS is a significant undertaking that will materially affect our reported financial position and results of operations. We continue to monitor standards development as issued by the IASB 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.

Our preliminary assessment of the impact of adopting IFRS based on the current standards has identified the following areas as potentially having the most significant impact on 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 finalize 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.

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. We do not anticipate any changes to the previously reported cash flows as a result of adopting IFRS.

Preliminary unaudited consolidated condensed balance sheet
January 1, 2010
($ in millions)

Below is a summary of the preliminary unaudited estimated impact of IFRS adjustments on our 2010 opening consolidated balance sheet:

	Canadian GAAP	IFRS adjustments	IFRS
Assets			
Current assets[i]	$ 1,118	$ 12	$ 1,129
Property, equipment and intangibles[ii]	2,322	(199)	2,122
Long-term assets[iii]	54	44	98
	$ 3,494	$ (144)	$ 3,350
Liabilities			
Current liabilities[iv]	$ 754	$ 1	$ 756
Long-term debt[v]	1,052	(20)	1,032
Other long-term liabilities[vi]	20	81	101
Future income tax[vii]	279	(54)	225
	$ 2,105	$ 8	$ 2,113
Shareholders' equity			
Share capital and AOCL	$ 618	$ —	$ 618
Contributed surplus[viii]	72	4	76
Retained earnings	699	(156)	543
	$ 1,389	$ (152)	$ 1,237
	$ 3,494	$ (144)	$ 3,350

(i) Total adjustment to current assets includes an increase of $9 million related to the current portion of maintenance reserves recoverable, an increase of $6 million related to expendable inventories not previously recognized, offset by a $3 million reclassification of future income taxes from current to long term.
(ii) The property and equipment decrease is due to componentization of aircraft, as well as the change in depreciation methods.
(iii) The increase to other long-term assets is due to the recognition of the maintenance reserves recoverable.
(iv) Total adjustment to current liabilities is an $8 million increase related to the current portion of maintenance provisions, offset by a $6 million reduction in current portion of long-term debt related to the change in accounting for transaction costs, and a reduction of $1 million in non-refundable guest credits related to the change in accounting for soft dollar credit files.
(v) The reduction in long-term debt is related to the change in the accounting treatment for transaction costs.
(vi) Total adjustment to other long-term liabilities includes an increase of $86 million related to maintenance provisions, offset by a decrease of $5 million related to the removal of the deferred gain on a sale-leaseback transaction.
(vii) The reduction in future income tax liability results from the future tax impact of all accounting changes on changeover to IFRS, as well as the reclassification of $3 million from current to long-term future income tax liability.
(viii) The increase to contributed surplus is related to the difference in the service period used to recognize share-based payments.

Preliminary unaudited impact to certain line items on the 2010 statement of earnings

($ in millions)

The following illustrates our preliminary unaudited estimated pre-tax impact to specific items on our 2010 statement of earnings. This table does not present all of our 2010 IFRS adjustments, rather, only the most significantly affected expenses are included. The remaining adjustments are not expected to have a material net impact on our 2010 IFRS earnings before tax.

As noted in the table below, our estimated 2010 IFRS depreciation and maintenance charges are expected to be higher than those recorded under Canadian GAAP. This increase is due strictly to timing of expense recognition, and overall expenses related to the maintenance of our fleet will ultimately be the same under IFRS and Canadian GAAP.

The increases in 2010 are related to the timing and recognition of major engine maintenance costs for both our owned and leased aircraft. Under Canadian GAAP, the costs of major engine maintenance are recognized as incurred. Because of the young age of our fleet, we have not performed significant levels of engine overhauls prior to 2011. Under our current maintenance plan, we anticipate that increasing levels of major maintenance will be performed beginning in 2013. For leased aircraft, under IFRS, these costs are recognized over the term of the lease based on usage of the aircraft, rather than being based on the actual maintenance event occurring. As a result, there will be timing differences in expense recognition between IFRS and Canadian GAAP, where in years when significant major maintenance events occur, IFRS maintenance costs would be otherwise lower, assuming a consistent fleet size and composition, than those recognized under Canadian GAAP.

Depreciation expense under IFRS is also increased as compared to that recognized under Canadian GAAP in 2010, due to the fact that major maintenance events are recognized as a separate component of the overall aircraft cost, and depreciated over a shorter useful life until the next scheduled overhaul. Under Canadian GAAP, these overhaul expenses would not have been capitalized, rather, they would have been recognized as maintenance expense when incurred.

These differences are related to the accounting recognition of expenditures; therefore, we do not expect any changes in cash flows as a result of adopting IFRS.

($ in millions)	Note	Canadian GAAP	IFRS adjustments	IFRS
Depreciation and amortization	1	$ 133	$ 35–40	$ 168–173
Maintenance expense	2	100	15–20	115–120
Interest expense	2, 4	60	8–12	68–72
			$ 58–72	

We expect that income tax expense for 2010 will decrease as a result of lower expected 2010 earnings before income tax under IFRS, as compared to under Canadian GAAP.

Significant accounting policy differences

We have identified the following significant differences between our current accounting policies and those required or expected to apply in preparing IFRS financial statements. The estimated impact for 2010 is discussed for certain of these differences.

1. **Property, plant and equipment**

   Componentization

   Canadian GAAP – Maintenance and repair costs for owned aircraft, including major overhauls, are currently charged to expense at the time maintenance is performed.

   IFRS – Each item of property and equipment with a significant cost in relation to the total cost and/or a different useful life is required to be depreciated separately. 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.

Depreciation

Canadian GAAP – Currently, depreciation of our owned aircraft is based on aircraft cycles.

IFRS – As a result of componentization as described above, we have made an election to change the depreciation method of our aircraft to the straight-line method, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets, as we estimate that the aircraft will be retired after a specified time period rather than a specified number of cycles flown. Our policy will be to depreciate our aircraft on a straight-line basis over a period of 20 years.

Estimated 2010 impact

Depreciation and amortization expense for the 2010 period is estimated to increase by approximately $35 to $40 million due to the increased depreciation expense related to the componentization of our aircraft, as well as the change in depreciation method from a units-of-production (cycles) to a straight-line method.

2. Provisions, contingent liabilities and contingent assets

Maintenance provision for leased aircraft

Canadian GAAP – For our aircraft under operating leases provisions for future maintenance expenses related to aircraft lease return conditions are not currently recognized. Expenses for maintenance are recognized as incurred.

IFRS – A provision will be recognized during the lease term for the future obligation to return the aircraft to the lessor at or better than contractually specified maintenance levels.

Maintenance Reserves

Canadian GAAP – A number of aircraft leases also require WestJet to pay maintenance reserves to the lessor. The purpose of these payments is to provide the lessor with collateral should an aircraft be returned in a condition that does not meet the maintenance requirements of the lease. These payments are currently expensed when due under contract. If a maintenance event occurs that qualifies for reimbursement, a receivable is recognized at the same time the maintenance costs are recorded.

IFRS – As maintenance reserves are either refunded when qualifying maintenance is performed, these payments will be recognized as an asset. As qualifying maintenance is performed and reimbursed, the asset will be drawn down. At any time, where the amount of maintenance reserves paid exceeds the estimated amount recoverable from the lessor, the non-recoverable amount will be expensed.

Soft dollar credit files

Canadian GAAP – Soft dollar credit files are credits provided to guests as a sign of goodwill to be used towards future travel. These are recorded as an expense and as a liability at the issue date, and measured at incremental cost.

IFRS – The issuance of discretionary credit files does not require a performance obligation to be fulfilled by WestJet, nor is the issuance part of a sales transaction and, therefore, no obligation exists at the time of the issue. As such, soft dollar credit files will no longer be recognized as a liability upon issuance but rather recognized as a reduction to revenue upon redemption.

Estimated 2010 impact

Maintenance expense for the 2010 period is expected to increase by approximately $15 to $20 million due to the recognition of maintenance provisions over the term of the aircraft lease, offset by the maintenance reserves recoverable related to the maintenance provisions.

Interest expense for 2010 is expected to increase by approximately $3 to $5 million related to the accretion of the maintenance provision.

3. **Leases**

   Canadian GAAP – The profit on sale-leaseback transactions from 2005 is currently being deferred and recognized on a straight-line basis over the lease term.

   IFRS – There is a requirement to recognize the profit from these types of sale-leaseback transactions immediately into income.

4. **Financial instruments – recognition and measurement**

   Canadian GAAP – Transaction costs which are incremental and directly attributable to the acquisition, issue or disposal of a financial asset or liability are currently being expensed as incurred. Specifically, this difference relates to transaction costs on our long-term debt.

   IFRS – Transaction costs are required to be added to the initial measurement and recognition of the financial instrument. Using the effective interest method, the amount would then be recognized as a deduction to net earnings over the remaining terms of the long-term debt as interest expense.

   Estimated 2010 impact

   We expect that interest expense for 2010 will be increased by approximately $5 to $7 million due to the timing of expense recognition for transaction costs.

5. **Income taxes**

   The impact of IFRS on WestJet will be derived directly from the accounting policy decisions made under other standards.

6. **Share-based payments**

   Canadian GAAP – Share-based awards are currently measured at fair value, with compensation expense being recognized over the vesting period. For equity-settled plans, we recognize a corresponding increase in equity, and for our cash-settled plans, we recognize a corresponding increase in a liability.

   IFRS – The recognition period under IFRS is based on a service period and may commence prior to the date of a share-based grant. This represents a difference in the timing of expense recognition and ultimately does not impact the overall expense.

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

Disclosure controls and procedures (DC&P)

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the 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 design and operation of our DC&P was conducted, as at December 31, 2010, 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, 2010, our DC&P, as defined by the CSA in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective.

Internal control over financial reporting (ICFR)

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with 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; that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; and that 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 design and operating 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, the CEO and the CFO have concluded that, as at December 31, 2010, our ICFR as defined by the CSA in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, was effective.

Changes in internal controls over financial reporting

During the year ended December 31, 2010, we implemented a new Human Resource Information System (HRIS). The HRIS integrates the majority of the human resource and payroll functions into two new modules of our existing enterprise reporting software solution. Payroll processing was previously outsourced to a third party. The change in the human resource and payroll systems and the related processes has resulted in a change that materially affects our ICFR.

Management has designed and implemented controls to ensure that all related accounting transactions associated with the system change have received the relevant designation requirements; a reasonable methodology has been established to determine the effectiveness of the HRIS; 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.

There have been no other changes to our ICFR during the year ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our ICFR.

OUTLOOK

Following one of the deepest recessions in recent history, 2010 was a year characterized by economic uncertainty and speculation of a possible double-dip recession. But in the midst of this environment, consumer confidence showed signs of improvement, as did the overall demand for airline travel. We were happy with our 2010 financial results, in particular, the year-over-year growth we realized in our revenue and net earnings figures and our ability to keep our controllable costs relatively flat.

In 2010, we began to capitalize on the investment in our new reservation systems. In 2011, we will continue this trend by building on our key strategic initiatives that include expanding our airline partnerships, enhancing our focus on the business traveller, growing WestJet Vacations revenue, and increasing our market penetration for the co-branded WestJet Credit Card and WestJet Frequent Guest programs.

Expanding the number of our airline partnerships will afford WestJet and its guests an enhanced global reach and also attract more guests into our network. We implemented our first code-share agreement with Cathay Pacific Airways in the fourth quarter of 2010, and we are making good progress towards our goal of completing an additional three to four code-share agreements by the end of 2011. We also expect to sign additional interline agreements and our long-term goal is to partner with airlines from each of the major geographic regions around the world.

The business traveller will benefit from a broader network afforded by the expanding number of airline partnerships. Additional initiatives aimed at enhancing the business traveller's experience include higher daily frequencies in key business markets, additional flexibility for itinerary changes and the launch of fare-bundling options. By improving convenience and flexibility, our goal is to drive up our higher yielding traffic by increasing loyalty from existing guests and attracting new business travellers. We have started to see some traction in this area with the signing of some key corporate accounts during 2010.

We expect our first-quarter 2011 fuel costs, excluding the impact of hedging, to range between $0.82 and $0.84 per litre, which represents a year-over-year increase of 21 to 24 per cent from the first quarter of 2010. As at December 31, 2010, we have hedged approximately 20 per cent of our anticipated jet fuel requirements for the next 12 months.

For the first quarter of 2011, we anticipate that CASM, excluding fuel and profit share, will be flat to down year-over-year on an IFRS-comparable basis. From our inception, maintaining a low-cost structure has been one of the keys to success at WestJet and is ingrained in the way we do business. Throughout 2011, we will roll out more self-tagging baggage functionality at nine additional domestic airports and also exploit some cost-saving opportunities we have identified in the procurement process.

We expect year-over-year capacity to increase between 9 and 10 per cent for the first quarter of 2011, and full-year capacity to increase between 6 and 8 percent as compared to 2010. We will take delivery of three aircraft during the first three months of 2011 and three more throughout the remainder of the year, ending 2011 with a fleet of 97. The additional capacity in the first quarter will continue to be directed into the transborder and international markets with domestic capacity slightly down. Our full-year domestic capacity is expected to grow modestly (1 to 2 per cent) in 2011, with increased frequencies within the eastern triangle, which includes Toronto, Montreal and Ottawa, and core transcontinental routes, including Vancouver-Toronto and Calgary-Toronto. We have also introduced year-round service on the Ottawa-Halifax and Ottawa-Vancouver routes. These capacity extensions align with our code-share and business traveller strategies.

For 2011, we anticipate total capital expenditures of $95 to $105 million, with the majority of the spending related to aircraft deposits and rotables. We purchased an aircraft in the first quarter of 2011, which is the key reason for the increase in capital expenditures, when compared to 2010 when we added only leased aircraft.

As we move forward into 2011, we are encouraged by the strengthening yield trend that emerged in the second half of 2010 and the growing optimism surrounding an economic recovery. We expect that first quarter year-over-year RASM improvements will be roughly in line with the positive change seen in the fourth quarter of 2010. We realize fuel costs may be a headwind in 2011, but we firmly believe that our fundamental low-cost structure and strong balance sheet positions us well to weather fuel price uncertainty. We will continue to capitalize on the recent investment in our new reservations systems. Momentum is building and our WestJet brand is stronger than ever. For 2011, we are confident in our ability to continue to achieve profitable growth, driven by the commitment of each and every one of our over 8,000 WestJetters.

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; they are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a more consistent basis for comparison between 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 leases and off-balance-sheet aircraft operating leases. Our practice, consistent with common industry practice, is to multiply the trailing 12 months of aircraft leasing expense by 7.5 to derive a present value debt equivalent. This measure is used in the calculation of adjusted debt-to-equity and adjusted net debt to EBITDAR, as defined below.

Adjusted equity: The sum of share capital, contributed surplus and retained earnings, excluding 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 by which an airline finances its aircraft.

Net earnings and diluted earnings per share, excluding special items: We believe excluding special items is useful for investors to evaluate our recurring operational performance.

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

Aircraft fuel expense, excluding hedging: As presented in the non-GAAP measures to GAAP reconciliation on 20 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.

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

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

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

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

Reconciliation of non-GAAP measures to GAAP

($ in thousands, except ratio amounts)	2010	2009	Change
Adjusted debt-to-equity			
Long-term debt(i)	$ 1,047,177	$ 1,219,777	$ (172,600)
Obligations under capital leases(ii)	3,357	4,102	(745)
Off-balance-sheet aircraft leases(iii)	1,066,815	779,655	287,160
Adjusted debt	$ 2,117,349	$ 2,003,534	$ 113,815
Total shareholders' equity	1,507,679	1,388,928	118,751
Add: AOCL	10,470	14,852	(4,382)
Adjusted equity	$ 1,518,149	$ 1,403,780	$ 114,369
Adjusted debt-to-equity	1.39	1.43	(2.8%)
Adjusted net debt to EBITDAR(iv)			
Net earnings	$ 136,720	$ 98,178	$ 38,542
Add:			
Net interest(v)	50,254	62,105	(11,851)
Taxes	59,947	38,618	21,329
Depreciation and amortization	132,894	141,303	(8,409)
Aircraft leasing	142,242	103,954	38,288
Other(vi)	814	10,478	(9,664)
EBITDAR	$ 522,871	$ 454,636	$ 68,235
Adjusted debt (as above)	2,117,349	2,003,534	113,815
Less: Cash and cash equivalents	(1,187,899)	(1,005,181)	(182,718)
Adjusted net debt	$ 929,450	$ 998,353	$ (68,903)
Adjusted net debt to EBITDAR	1.78	2.20	(19.1%)

(i) As at December 31, 2010, long-term debt includes the current portion of long-term debt of $183,681 (2009 – $171,223) and long-term debt of $863,496 (2009 – $1,048,554).

(ii) As at December 31, 2010, obligations under capital leases includes the current portion of obligations under capital leases of $108 (2009 – $744) and obligations under capital leases of $3,249 (2009 – $3,358).

(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, 2010, the trailing twelve months of aircraft leasing costs totalled $142,242 (2009 – $103,954).

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

(v) As at December 31, 2010, net interest includes the trailing twelve months of interest income of $9,910 (2009 – $5,601) and the trailing twelve months of interest expense of $60,164 (2009 – $67,706).

(vi) As at December 31, 2010, other includes the trailing twelve months foreign exchange loss of $780 (2009 – loss of $12,306) and the trailing twelve months non-operating loss on derivatives of $34 (2009 – gain of $1,828).

($ in thousands, except per share data)	Three months ended December 31		Twelve months ended December 31	
	2010	2009	2010	2009
Net earnings, excluding special items				
Net earnings – GAAP	$ 47,908	$ 20,175	$ 136,720	$ 98,178
Adjusted for:				
CEO departure (net of tax)	—	—	3,700	—
Income tax rate reductions and estimate change	—	(5,051)	2,372	(5,051)
Net earnings, excluding special items	$ 47,908	$ 15,124	$ 142,792	$ 93,127
Diluted earnings per share, excluding special items	$ 0.33	$ 0.11	$ 0.98	$ 0.71

($ in thousands, except per share data)	2010	2009	Change
Operating cash flow per share			
Cash flow from operating activities	$ 443,283	$ 318,661	$ 124,622
Diluted operating cash flow per share	$ 3.05	$ 2.41	26.6%

($ in thousands, except per unit data)	Three months ended December 31		Twelve months ended December 31	
	2010	2009	2010	2009
CASM, excluding fuel and employee profit share				
Operating expenses – GAAP	$ 614,011	$ 533,938	$ 2,361,716	$ 2,070,564
Adjusted for:				
Aircraft fuel expense	(179,276)	(148,853)	(674,608)	(570,569)
Employee profit share expense	(7,442)	(2,297)	(22,222)	(14,675)
Operating expenses, excluding above items – Non-GAAP	$ 427,293	$ 382,788	$ 1,664,886	$ 1,485,320
ASMs (in thousands)	5,021,010	4,412,574	19,535,291	17,587,641
CASM, excluding above items – Non-GAAP (cents)	8.51	8.67	8.52	8.45

($ in thousands, except percentage amounts)	2010	2009	Change
Return on invested capital			
Earnings before income taxes	$ 196,667	$ 136,796	$ 59,871
Add:			
Special items before tax(i)	5,368	—	5,368
Interest expense	60,164	67,706	(7,542)
Implicit interest in operating leases(ii)	74,677	54,576	20,101
	$ 336,876	$ 259,078	$ 77,798
Invested capital:			
Average long-term debt(iii)	$ 1,133,477	$ 1,285,840	$ (152,363)
Average obligations under capital leases(iv)	3,730	2,605	1,125
Average shareholders' equity	1,448,304	1,232,459	215,845
Off balance-sheet operating leases(v)	1,066,815	779,655	287,160
	$ 3,652,326	$ 3,300,559	$ 351,767
Return on invested capital	9.2%	7.8%	1.4 pts.

(i) For the year ended December 31, 2010 special items before tax includes $4,136 for CEO departure and $1,232 for revisions to the calculation of capital taxes.
(ii) Interest implicit in operating leases is equal to 7.0 per cent of 7.5 times the trailing 12 months of aircraft lease expense. 7.5 is a proxy and does not necessarily represent actual for any given period.
(iii) Average long-term debt includes the current portion and long-term portion.
(iv) Average capital lease obligations includes the current portion and long-term portion.
(v) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. As at December 31, 2010, the trailing 12 months of aircraft leasing costs totalled $142,242 (2009 – $103,954).

($ in thousands, except per share data)	2010	2009	Change
Free cash flow			
Cash flow from operating activities	$ 443,283	$ 318,661	$ 124,622
Adjusted for capital expenditures:			
Aircraft additions	(29,884)	(118,659)	88,775
Other property and equipment and intangible additions	(18,675)	(48,021)	29,346
Free cash flow	$ 394,724	$ 151,981	$ 242,743
Diluted free cash flow per share	$ 2.72	$ 1.15	136.5%

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

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

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

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

Gregg Saretsky
President and Chief Executive Officer

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

Calgary, Canada
February 8, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of WestJet Airlines Ltd. (the Company), which comprise the balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, shareholders' equity, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WestJet Airlines Ltd. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 8, 2011

CONSOLIDATED STATEMENT OF EARNINGS

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

	2010	2009
Revenues:		
Guest	$ 2,405,281	$ 2,067,860
Other	203,980	213,260
	2,609,261	2,281,120
Expenses:		
Aircraft fuel	674,608	570,569
Airport operations	388,392	352,333
Flight operations and navigational charges	325,754	298,762
Sales and distribution	255,777	172,326
Marketing, general and administration	195,185	208,316
Aircraft leasing	142,242	103,954
Depreciation and amortization	132,894	141,303
Inflight	124,303	112,054
Maintenance	100,339	96,272
Employee profit share	22,222	14,675
	2,361,716	2,070,564
Earnings from operations	247,545	210,556
Non-operating income (expense):		
Interest income	9,910	5,601
Interest expense	(60,164)	(67,706)
Loss on foreign exchange	(780)	(12,306)
Gain (loss) on disposal of property and equipment	190	(1,177)
Gain (loss) on derivatives (note 13)	(34)	1,828
	(50,878)	(73,760)
Earnings before income taxes	196,667	136,796
Income tax expense (note 9):		
Current	1,573	2,690
Future	58,374	35,928
	59,947	38,618
Net earnings	$ 136,720	$ 98,178
Earnings per share (note 10):		
Basic	$ 0.94	$ 0.74
Diluted	$ 0.94	$ 0.74

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

CONSOLIDATED BALANCE SHEET

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

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 1,187,899	$ 1,005,181
Accounts receivable	17,518	27,654
Prepaid expenses, deposits and other (note 14)	41,716	56,239
Inventory	20,181	26,048
Future income tax (note 9)	1,396	2,560
	1,268,710	1,117,682
Property and equipment (note 5)	2,226,685	2,307,566
Intangible assets (note 6)	13,018	14,087
Other assets (note 14)	54,431	54,367
	$ 3,562,844	$ 3,493,702
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 303,583	$ 231,401
Advance ticket sales	308,022	286,361
Non-refundable guest credits	36,778	64,506
Current portion of long-term debt (note 7)	183,681	171,223
Current portion of obligations under capital leases (note 8)	108	744
	832,172	754,235
Long-term debt (note 7)	863,496	1,048,554
Obligations under capital leases (note 8)	3,249	3,358
Other liabilities (note 14)	18,838	19,628
Future income tax (note 9)	337,410	278,999
	2,055,165	2,104,774
Shareholders' equity:		
Share capital (note 10)	647,637	633,075
Contributed surplus	62,534	71,503
Accumulated other comprehensive loss (note 14)	(10,470)	(14,852)
Retained earnings	807,978	699,202
	1,507,679	1,388,928
Commitments and contingencies (note 12)		
	$ 3,562,844	$ 3,493,702

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

On behalf of the Board:

Gregg Saretsky, Director

Hugh Bolton, Director

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2010	2009
Operating activities:		
Net earnings	$ 136,720	$ 98,178
Items not involving cash:		
Depreciation and amortization	132,894	141,303
Amortization of other liabilities	(1,891)	(7,595)
Amortization of hedge settlements	1,400	1,400
Issuance of shares pursuant to employee share purchase plan	—	11,071
(Gain) loss on derivatives	34	(2,406)
(Gain) loss on disposal of property and equipment	(167)	1,504
Stock-based compensation expense	15,668	13,440
Income tax credit	(1,667)	(1,952)
Future income tax expense	58,374	35,928
Unrealized foreign exchange loss	3,696	8,440
Change in non-cash working capital	98,222	19,350
	443,283	318,661
Financing activities:		
Increase in long-term debt	—	33,855
Repayment of long-term debt	(171,115)	(165,757)
Decrease in obligations under capital leases	(744)	(406)
Issuance of common shares	520	172,463
Share issue costs	—	(7,468)
Shares repurchased	(31,391)	—
Change in other assets	(2,947)	3,427
Change in non-cash working capital	(4,526)	(1,463)
	(210,203)	34,651
Investing activities:		
Aircraft additions	(29,884)	(118,659)
Other property and equipment and intangible additions	(18,675)	(48,021)
	(48,559)	(166,680)
Cash flow from operating, financing and investing activities	184,521	186,632
Effect of foreign exchange on cash and cash equivalents	(1,803)	(1,665)
Net change in cash and cash equivalents	182,718	184,967
Cash and cash equivalents, beginning of year	1,005,181	820,214
Cash and cash equivalents, end of year	$ 1,187,899	$ 1,005,181
Cash interest paid	$ 61,280	$ 67,973
Cash taxes paid	$ 2,958	$ 3,369

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

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

	2010	2009
Share capital (note 10):		
Balance, beginning of year	$ 633,075	$ 452,885
Transfer of stock-based compensation expense on issued shares	24,637	2,130
Issuance of shares pursuant to stock option plans	520	—
Shares repurchased	(10,595)	—
Issued on public offering	—	172,463
Share issue costs	—	(7,468)
Tax effect of share issue costs	—	1,994
Issuance of shares pursuant to employee share purchase plan	—	11,071
	647,637	633,075
Contributed surplus:		
Balance, beginning of year	71,503	60,193
Stock-based compensation expense (note 10)	15,668	13,440
Transfer of stock-based compensation expense on issued shares	(24,637)	(2,130)
	62,534	71,503
Accumulated other comprehensive loss (note 14):		
Balance, beginning of year	(14,852)	(38,112)
Other comprehensive income	4,382	23,260
	(10,470)	(14,852)
Retained earnings:		
Balance, beginning of year	699,202	611,171
Change in accounting policy	—	(10,147)
Net earnings	136,720	98,178
Shares repurchased (note 10)	(20,796)	—
Dividends declared	(7,148)	—
	807,978	699,202
Total accumulated other comprehensive loss and retained earnings	797,508	684,350
Total shareholders' equity	$ 1,507,679	$ 1,388,928

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	2010	2009
Net earnings	$ 136,720	$ 98,178
Other comprehensive income:		
Amortization of hedge settlements to aircraft leasing	1,400	1,400
Net unrealized loss on foreign exchange derivatives under cash flow hedge accounting(i)	(3,460)	(911)
Reclassification of net realized (gain) loss on foreign exchange derivatives to net earnings(ii)	1,557	(3,977)
Net unrealized gain (loss) on fuel derivatives under cash flow hedge accounting(iii)	(1,778)	6,709
Reclassification of net realized loss on fuel derivatives to net earnings(iv)	6,663	20,039
	4,382	23,260
Total comprehensive income	$ 141,102	$ 121,438

(i) Net of income taxes of $1,224 (2009 – $447).
(ii) Net of income taxes of $(586) (2009 – $1,576).
(iii) Net of income taxes of $670 (2009 – $(2,878)).
(iv) Net of income taxes of $(2,509) (2009 – $(8,372)).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

1. Summary of significant accounting policies

(a) Basis of presentation

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

(b) Principles of consolidation

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

(c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions regarding significant items such as amounts relating to depreciation and amortization, residual values, non-refundable guest credits, the frequent guest program, asset retirement obligations, allowance for doubtful accounts, future income taxes, stock-based compensation expense, impairment assessments of property and equipment and intangible assets, and the valuation of derivative financial instruments that affect the amounts reported in the consolidated financial statements and the notes thereto. Changes in facts and circumstances may result in revised estimates, and actual results may differ from these estimates.

(d) Revenue recognition

(i) Guest

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

(ii) Other

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

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

Revenue from the land component of vacation packages is generated from providing agency services equal to the amount paid by the guest for products and services less, payment to the travel supplier, and are reported at the net amounts received. Revenue from the land component is deferred as advance ticket sales and recognized in earnings on completion of the vacation.

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

Included in other revenue is revenue from expired non-refundable guest credits recognized at the time of expiry.

(e) Non-refundable guest credits

The Corporation issues future travel credits to guests for flight changes and cancellations, as well as for gift certificates. Where appropriate, future travel credits are also issued for flight delays, missing baggage and other inconveniences. All credits are non-refundable and have expiry dates dependent upon the nature of the credit, except for gift certificates which do not contain an expiry date. The Corporation records a liability, depending on the nature of the credit, at either the face value or by applying an incremental cost percentage to the value of the credit in the period the credit is issued. The utilization of guest credits is recorded as revenue when the guest has flown or upon expiry.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

1. Summary of significant accounting policies (continued)

(f) Frequent guest program (FGP)

The Corporation has a frequent guest program that allows guests to accumulate credits that entitle them to a choice of various rewards, primarily discounted travel. Revenue received in relation to credits issued is deferred as a liability at fair value until a reward is ultimately utilized, at which time it is recognized in guest revenue. Fair value is management's estimate of the expected awards for which the credit will be redeemed and is reduced by the proportion of credits that have been redeemed relative to the total number expected to be redeemed.

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

(g) Financial instruments

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

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

Financial instrument	Category	Measurement method
Cash and cash equivalents	Held-for-trading	Fair value
Deposits	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Obligations under capital leases	Other financial liabilities	Amortized cost
Derivative instruments	Held-for-trading	Fair value

Held-for-trading instruments are financial assets and financial liabilities typically acquired with the intention of generating revenues in the short term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. As at December 31, 2010, the Corporation does not hold any financial instruments that do not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held-for-trading are measured at fair value, with gains and losses recorded in net earnings for the period in which the change occurs. The Corporation uses trade-date accounting for its held-for-trading financial assets.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

1. Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

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

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

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

(h) Cash flow hedges

The Corporation uses various financial derivative instruments, such as forwards, swaps, collars and call options, to manage fluctuations in foreign exchange rates and jet fuel prices.

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

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

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

(i) Foreign currency

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

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments that are highly liquid in nature and have a maturity date of one year or less, with the majority having a term of less than 91 days.

1. Summary of significant accounting policies (continued)

(k) Inventory

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

(l) Property and equipment

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

Asset class	Basis	Rate
Aircraft, net of estimated residual value	Cycles	Cycles flown
Live satellite television included in aircraft	Straight-line	10 years/Term of lease
Ground property and equipment	Straight-line	3 to 25 years
Spare engines and parts, net of estimated residual value	Straight-line	20 years
Buildings	Straight-line	40 years
Leasehold improvements	Straight-line	Term of lease
Assets under capital leases	Straight-line	Term of lease

Aircraft are depreciated over a range of 30,000 to 50,000 cycles. One cycle is defined as one flight, counted by the aircraft leaving the ground and landing. Estimated residual values of the Corporation's aircraft range between $4,000 and $6,000.

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

(m) Intangible assets

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

(n) Maintenance costs

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

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

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

(o) Leases

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

1. Summary of significant accounting policies (continued)

(o) Leases (continued)

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

(p) Capitalized costs

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

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

(q) Future income tax

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

(r) Stock-based compensation plans

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

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

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

For employees eligible to retire during the vesting period, 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, compensation expense is recognized immediately.

(s) Per share amounts

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

1. Summary of significant accounting policies (continued)

(t) Comparative amounts

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

2. Recent accounting pronouncements and changes

International financial reporting standards (IFRS)

On February 13, 2008, the Accounting Standards Board (AcSB) confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements, effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The objective is to improve financial reporting by having a single set of accounting standards that are comparable with other entities on an international basis. The transition from current Canadian GAAP to IFRS is a significant undertaking that will materially affect the Corporation's reported financial position and results of operations. The Corporation continues to monitor standards developments issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

3. Capital management

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

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

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

The Corporation monitors its capital structure on a number of bases, including adjusted debt-to-equity and adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR). EBITDAR is a non-GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft. In addition, the Corporation will adjust EBITDAR for one-time special items, for non-operating gains and losses on derivatives and for gains and losses on foreign exchange. The calculation of EBITDAR is a measure that does not have a standardized meaning prescribed under GAAP and is therefore not likely to be comparable to similar measures presented by other issuers. The Corporation adjusts debt to include its off-balance-sheet aircraft operating leases. Common industry practice is to multiply the trailing 12 months of aircraft leasing expense by 7.5 to derive a present-value debt equivalent. The Corporation defines adjusted net debt as adjusted debt less cash and cash equivalents. The Corporation defines equity as the sum of share capital, contributed surplus and retained earnings, and excludes AOCL.

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

3. **Capital management** (continued)

	2010	2009	Change
Adjusted debt-to-equity			
Long-term debt(i)	$ 1,047,177	$ 1,219,777	$ (172,600)
Obligations under capital leases(ii)	3,357	4,102	(745)
Off-balance-sheet aircraft leases(iii)	1,066,815	779,655	287,160
Adjusted debt	$ 2,117,349	$ 2,003,534	$ 113,815
Total shareholders' equity	1,507,679	1,388,928	118,751
Add: AOCL	10,470	14,852	(4,382)
Adjusted equity	$ 1,518,149	$ 1,403,780	$ 114,369
Adjusted debt-to-equity	1.39	1.43	(2.8%)
Adjusted net debt to EBITDAR(iv)			
Net earnings	$ 136,720	$ 98,178	$ 38,542
Add:			
Net interest(v)	50,254	62,105	(11,851)
Taxes	59,947	38,618	21,329
Depreciation and amortization	132,894	141,303	(8,409)
Aircraft leasing	142,242	103,954	38,288
Other(vi)	814	10,478	(9,664)
EBITDAR	$ 522,871	$ 454,636	$ 68,235
Adjusted debt (as above)	2,117,349	2,003,534	113,815
Less: Cash and cash equivalents	(1,187,899)	(1,005,181)	(182,718)
Adjusted net debt	$ 929,450	$ 998,353	$ (68,903)
Adjusted net debt to EBITDAR	1.78	2.20	(19.1%)

(i) As at December 31, 2010, long-term debt includes the current portion of long-term debt of $183,681 (2009 – $171,223) and long-term debt of $863,496 (2009 – $1,048,554).
(ii) As at December 31, 2010, obligations under capital leases includes the current portion of obligations under capital leases of $108 (2009 – $744) and obligations under capital leases of $3,249 (2009 – $3,358).
(iii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. As at December 31, 2010, the trailing 12 months of aircraft leasing costs totalled $142,242 (2009 – $103,954).
(iv) The trailing 12 months are used in the calculation of EBITDAR.
(v) As at December 31, 2010, net interest includes the trailing 12 months of interest income of $9,910 (2009 – $5,601) and the trailing 12 months of interest expense of $60,164 (2009 – $67,706).
(vi) As at December 31, 2010, other includes the trailing 12 months foreign exchange loss of $780 (2009 – loss of $12,306) and the trailing 12 months of non-operating loss on derivatives of $34 (2009 – gain of $1,828).

As at December 31, 2010 and 2009, the Corporation's internal targets were an adjusted debt-to-equity measure of no more than 3.00 and an adjusted net debt to EBITDAR of no more than 3.00. As at December 31, 2010, the Corporation's adjusted debt-to-equity ratio improved by 2.8% when compared to 2009, mainly due to the increase in shareholders' equity as a result of net earnings more than offsetting the net increase in the Corporation's aircraft financing. As at December 31, 2010, the Corporation's adjusted net debt to EBITDAR improved by 19.1% when compared to 2009, mainly attributable to the increase in cash and cash equivalents and EBITDAR.

As part of the long-term debt agreements for the Calgary hangar facility and one flight simulator, the Corporation monitors certain financial covenants to ensure compliance with these debt agreements. As at December 31, 2010, the Corporation was in compliance with these financial covenants. There are no financial covenant compliance requirements for the facilities guaranteed by the Export-Import Bank of the United States (Ex-Im Bank).

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3. Capital management (continued)

During the year ended December 31, 2010, the Corporation announced a dividend program and declared an initial quarterly dividend of $0.05 per common voting share and variable voting share to be paid on January 21, 2011, to shareholders of record on December 15, 2010.

Furthermore, during the year ended December 31, 2010, the Corporation initiated a normal course issuer bid to purchase outstanding shares in the open market. See note 10, Share capital for further disclosure.

There were no other changes in the Corporation's approach to capital management during the year ended December 31, 2010.

4. Cash and cash equivalents

As at December 31, 2010, cash and cash equivalents includes bank balances of $229,817 (2009 – $191,966) and short-term investments of $958,082 (2009 – $813,215). Included in these balances, as at December 31, 2010, the Corporation has US-dollar cash and cash equivalents totalling US $66,194 (2009 – US $32,858) and short-term investments of US $45,157 (2009 – US $nil).

As at December 31, 2010, cash and cash equivalents includes total restricted cash of $28,583 (2009 – $10,192). Included in this amount is $21,578 (2009 – $4,564), representing cash held in trust by WestJet Vacations Inc., a wholly owned subsidiary of the Corporation, in accordance with regulatory requirements governing advance ticket sales for certain travel-related activities; $6,691 (2009 – $4,491) for security on the Corporation's facilities for letters of guarantee; and, in accordance with U.S. regulatory requirements, US $315 (2009 – US $1,082) in restricted cash, representing cash not yet remitted for passenger facility charges.

5. Property and equipment

2010	Cost	Accumulated depreciation	Net book value
Aircraft	$ 2,471,806	$ 622,997	$ 1,848,809
Ground property and equipment	121,814	61,895	59,919
Spare engines and parts	106,198	28,251	77,947
Buildings	135,817	13,154	122,663
Leasehold improvements	9,965	3,348	6,617
Assets under capital leases	4,413	1,170	3,243
	2,850,013	730,815	2,119,198
Deposits on aircraft	98,344	—	98,344
Assets under development	9,143	—	9,143
	$ 2,957,500	$ 730,815	$ 2,226,685

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

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5. Property and equipment (continued)

For the year ended December 31, 2010, the Corporation recognized $128,284 (2009 – $135,702) of depreciation expense in relation to property and equipment. Included in aircraft costs are asset retirement costs for aircraft under operating leases totalling $5,411 (2009 – $4,710) and associated accumulated depreciation of $1,912 (2009 – $1,314). These amounts are being depreciated on a straight-line basis over the term of each lease. During the year ended December 31, 2010, the Corporation recognized depreciation expense of $598 (2009 – $468) in relation to the asset retirement costs.

6. Intangible assets

	Cost	Accumulated amortization	Net book value
2010			
Software	$ 43,549	$ 30,531	$ 13,018
2009			
Software	$ 40,392	$ 26,305	$ 14,087

All of the Corporation's intangible assets relate to purchased software. Included in the balance of software is $2,151 (2009 – $4,085) for acquired software that is being developed and is not yet being amortized. For the year ended December 31, 2010, the Corporation recognized $4,610 (2009 – $5,601) of amortization expense in relation to intangible assets.

7. Long-term debt

		2010	2009
Term loans – purchased aircraft	(i)	$ 1,005,678	$ 1,168,381
Term loan – purchased aircraft	(ii)	25,997	33,631
Term loan – flight simulator	(iii)	5,575	6,392
Term loan – live satellite television equipment	(iv)	41	493
Term loan – Calgary hangar facility	(v)	8,707	9,202
Term loan – Calgary hangar facility	(vi)	1,179	1,678
		1,047,177	1,219,777
Current portion		183,681	171,223
		$ 863,496	$ 1,048,554

(i) 52 individual term loans, amortized over a 12-year term, each repayable in quarterly principal instalments ranging from $668 to $955, plus fixed interest at a weighted average rate of 5.30%, maturing between 2014 and 2020. These facilities are guaranteed by Ex-Im Bank and secured by one 800-series aircraft, 38 700-series aircraft and 13 600-series aircraft.

(ii) Term loan of US $26,137 repayable in quarterly instalments of US $1,788, including fixed interest at a rate of 4.315%, maturing in 2014. This facility is secured by one 800-series aircraft.

(iii) Term loan repayable in monthly instalments of $93, including floating interest at the bank's prime rate plus 0.88%, with an effective interest rate of 3.88% as at December 31, 2010, maturing in July 2011 with a final payment of $5,123, secured by one flight simulator.

(iv) Term loan amortized over a five-year term, repayable in quarterly principal instalments of $41, plus floating interest at the Canadian LIBOR rate plus 0.08%, with an effective interest rate of 1.30% as at December 31, 2010, maturing in January 2011. This facility is for the purchase of live satellite television equipment, is guaranteed by the Ex-Im Bank and is secured by one 700-series aircraft.

(v) Term loan repayable in monthly instalments of $108, including fixed interest at 9.03%, maturing in April 2011 with a final payment of $8,575, secured by the Calgary hangar facility.

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7. Long-term debt (continued)

(vi) Term loan repayable in monthly instalments of $50, including floating interest at the bank's prime rate plus 0.50%, with an effective interest rate of 3.50% as at December 31, 2010, maturing in 2013, secured by the Calgary hangar facility.

The net book value of the property and equipment pledged as collateral for the Corporation's secured borrowings was $1,819,095 as at December 31, 2010 (2009 – $1,925,672).

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

2011	$ 183,681
2012	169,642
2013	169,358
2014	169,626
2015	132,170
2016 and thereafter	222,700
	$ 1,047,177

Held within the special-purpose entities, as identified in note 1, Summary of significant accounting policies, are liabilities of $1,005,719 (2009 – $1,168,907) related to the acquisition of the 52 purchased aircraft and live satellite television equipment, which are included above in the long-term debt balances.

8. Obligations under capital leases

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

2011	$ 282
2012	245
2013	245
2014	245
2015	245
2016 and thereafter	4,616
Total minimum lease payments	$ 5,878
Less: Weighted average imputed interest at 5.28%	(2,521)
Net minimum lease payments	3,357
Less: Current portion of obligations under capital leases	(108)
Obligations under capital leases	$ 3,249

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9. Income taxes

The provision for income taxes differs from that which would be expected by applying the combined federal and provincial statutory rates. A reconciliation of the difference is as follows:

	2010	2009
Earnings before income taxes	$ 196,667	$ 136,796
Income tax rate	29.39%	30.62%
Expected income tax provision	57,800	41,887
Add (deduct):		
Non-deductible expenses	2,380	5,545
Non-deductible stock-based compensation	4,584	4,112
Effect of tax rate changes	(5,609)	(18,206)
Other	792	5,280
Actual income tax provision	$ 59,947	$ 38,618

The Corporation has included in its reconciliation an amount of $5,609 (2009 – $18,206) for the effect of tax rate changes. This amount reflects the impact of changes to the timing around when the Corporation expects certain temporary differences to reverse, and differences between current statutory rates used in the reconciliation and future rates at which the future income tax liability is recorded.

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

		2010	2009
Future income tax liability:			
Property and equipment		$ (350,506)	$ (327,783)
Deferred partnership income		(43,437)	(11,913)
Future income tax asset:			
Share issue costs		1,143	1,561
Net unrealized loss on effective portion of derivatives designated in a hedging relationship		919	2,120
Non-capital losses		45,010	50,200
Credit carryforwards		10,857	9,376
		$ (336,014)	$ (276,439)
The net future tax liability is presented on the consolidated balance sheet as follows:			
Future income tax	Current assets	1,396	2,560
Future income tax	Long-term liabilities	(337,410)	(278,999)
		$ (336,014)	$ (276,439)

The Corporation has recognized a benefit on $168,663 (2009 – $188,474) of non-capital losses that are available for carryforward to reduce taxable income in future years. These losses will begin to expire in 2014. The Corporation has also recognized a benefit of $10,857 (2009 – $9,376) for unused corporate minimum tax credits, which are available for carryforward to reduce taxes payable in future years. These credits begin to expire in 2013.

10. Share capital

(a) Authorized

Unlimited number of common voting shares

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

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

Unlimited number of variable voting shares

The variable voting shares may be beneficially owned and controlled only by a person who is not Canadian; they are entitled to one vote per variable voting share unless (i) the number of issued and outstanding variable voting shares exceeds 25% of the total number of all issued and outstanding variable voting shares and common voting shares collectively, including securities currently convertible into such a share and currently exercisable options and rights to acquire such shares (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*); or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting exceeds 25% (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes cast that may be cast at such meeting.

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

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

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

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

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10. Share capital (continued)

(b) Issued and outstanding

	2010		2009	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	144,359,383	$ 633,075	127,913,580	$ 452,885
Issuance of shares pursuant to stock option plans	741,014	520	29,685	—
Stock-based compensation expense on stock options exercised	—	21,860	—	1,561
Issuance of shares pursuant to key employee and pilot plan	2,298	—	—	—
Stock-based compensation for settled key employee and pilot units	—	29	—	—
Issuance of shares pursuant to executive share unit plan	194,449	—	40,159	—
Stock-based compensation expense on executive share units exercised	—	2,748	—	569
Issued on public offering	—	—	15,398,500	172,463
Issuance of shares pursuant to employee share purchase plan	—	—	977,459	11,071
Share issue costs	—	—	—	(7,468)
Tax effect of share issue costs	—	—	—	1,994
Shares repurchased	(2,338,730)	(10,595)	—	—
Balance, end of year	142,958,414	$ 647,637	144,359,383	$ 633,075

As at December 31, 2010, the number of common voting shares outstanding was 137,489,456 (2009 – 138,763,891) and the number of variable voting shares outstanding was 5,468,958 (2009 – 5,595,492).

On November 2, 2010, the Corporation filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation is authorized to purchase up to 7,264,820 shares (representing 5% of its issued and outstanding shares at the time of the bid) during the period of November 5, 2010, to November 4, 2011, or until such earlier time as the bid is completed or terminated at the option of the Corporation. Any shares the Corporation purchases under the bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid will be cancelled.

During the year ended December 31, 2010, the Corporation purchased 2,338,730 shares under the bid for total consideration of $31,391. The average book value of the shares repurchased of $4.53 per share was charged to share capital with the $20,796 excess of the market price over the average book value, including transaction costs, charged to retained earnings.

(c) Per share amounts

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

	2010	2009
Weighted average number of shares outstanding – basic	144,852,548	132,130,009
Effect of dilutive employee stock options and share unit plans	267,348	131,761
Weighted average number of shares outstanding – diluted	145,119,896	132,261,770

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10. Share capital (continued)

(c) Per share amounts (continued)

For the year ended December 31, 2010, 6,580,005 (2009 – 10,455,457) employee stock options were not included in the calculation of dilutive potential shares as the result would be anti-dilutive.

(d) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2010, 11,693,868 (2009 – 12,228,611) voting shares were reserved for issuance to officers and employees of the Corporation, subject to the following limitations:

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

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

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

Stock options are granted at a price that equals the market value of the Corporation's voting shares, have a term of up to five years and vest on either the first, second or third anniversary from the date of grant.

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

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	11,521,844	$ 13.42	11,918,168	$ 13.90
Granted	2,024,143	12.78	3,011,148	12.47
Exercised	(5,100,279)	11.83	(376,596)	11.83
Forfeited	(32,607)	12.58	(34,487)	13.25
Expired	(329,670)	14.77	(2,996,389)	14.61
Stock options outstanding, end of year	8,083,431	$ 14.21	11,521,844	$ 13.42
Exercisable, end of year	3,348,164	$ 16.49	6,647,525	$ 12.90

Under the terms of the Corporation's stock option plan, with the approval of the Corporation, option holders can either (i) elect to receive shares by delivering cash to the Corporation in the amount of the options, or (ii) choose a cashless settlement alternative, whereby they can elect to receive a number of shares equivalent to the market value of the options over the exercise price. For the year ended December 31, 2010, option holders exercised 5,056,288 (2009 – 376,596) options on a cashless settlement basis and received 697,023 (2009 – 29,685) shares. For the year ended December 31, 2010, 43,991 options (2009 – nil) were exercised on a cash basis.

The following table summarizes the options outstanding and exercisable as at December 31, 2010:

	Outstanding options			Exercisable options	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$11.00–$12.50	2,813,635	2.38	$ 12.47	56,818	$ 12.49
$12.51–$15.50	2,017,658	3.33	12.81	39,208	14.51
$15.51–$19.99	3,252,138	0.90	16.58	3,252,138	16.58
	8,083,431	2.03	$ 14.21	3,348,164	$ 16.49

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10. Share capital (continued)

(d) Stock option plan (continued)

As new options are granted, the fair value of the options is expensed over the vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Upon the exercise of stock options, consideration received, together with amounts previously recorded in contributed surplus, is recorded as an increase to share capital.

The fair value of options granted during the years ended December 31, 2010 and 2009, and the assumptions used in their determination are as follows:

	2010	2009
Weighted average fair value per option	$ 4.02	$ 3.82
Weighted average risk-free interest rate	2.5%	1.7%
Weighted average volatility	38%	39%
Expected life (years)	3.6	3.6
Weighted average dividend yield	0.02%	—

(e) Key employee and pilot plan

During 2010, shareholders of the Corporation approved a new stock-based compensation plan, the key employee and pilot (KEP) plan, whereby restricted share units (RSU) are issued to key employees and pilots of the Corporation. The fair market value of the RSUs at the time of grant is equal to the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the grant date. Each RSU entitles the employee to receive payment upon vesting in the form of voting shares of the Corporation. The Corporation intends to settle all RSUs with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury; however, wholly at its own discretion, the Corporation may settle the units in cash. The RSUs time vest at the end of a two- or three-year period, with compensation expense being recognized in net earnings on a straight-line basis over the vesting period. As at December 31, 2010, 997,702 voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2010, the Corporation settled all RSUs with shares issued from treasury.

	2010	
	Number of RSUs	Weighted average grant date fair value
RSUs outstanding, beginning of period	—	$ —
Granted	177,440	12.77
Settled	(2,298)	12.77
Forfeited	(4,013)	12.77
RSUs outstanding, end of period	171,129	$ 12.77
Vested, end of period	—	$ —

(f) Executive share unit plan

The Corporation has an equity-based executive share unit (ESU) plan, whereby RSUs and performance share units (PSU) may be issued to senior executive officers. As at December 31, 2010, 805,551 (2009 – 509,841) voting shares of the Corporation were reserved for issuance under the ESU plan.

The fair market value of the RSUs and PSUs at the time of grant is equal to the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the grant date.

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10. Share capital (continued)

(f) Executive share unit plan (continued)

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

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

	2010					
	RSUs			PSUs		
	Number of units	Weighted average grant date fair value		Number of units	Weighted average grant date fair value	
Units outstanding, beginning of year	143,461	$	14.10	191,276	$	14.10
Granted	127,750		13.57	119,323		13.78
Exercised	(83,336)		14.13	(111,113)		14.13
Units outstanding, end of year	187,875	$	13.73	199,486	$	13.90
Vested, end of year	17,211	$	14.16	22,948	$	14.16

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

(g) Stock-based compensation expense

The following table summarizes stock-based compensation expense for the Corporation's equity-based plans:

		2010		2009
Stock option plan	$	11,103	$	12,045
Key employee and pilot plan		977		—
Executive share unit plan		3,588		1,395
Total stock-based compensation expense	$	15,668	$	13,440
Presented on the consolidated statement of earnings as follows:				
Flight operations and navigational charges	$	8,956	$	8,248
Marketing, general and administration		6,712		5,192
Total stock-based compensation expense	$	15,668	$	13,440

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10. Share capital (continued)

(h) 2007 restricted share units

The Corporation has a cash-settled RSU plan, whereby RSUs may be issued to executive officers of the Corporation. Each RSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. Compensation expense is accrued over the vesting period of the RSU. Fluctuations in the market value are recognized in the period in which the fluctuations occur. For the year ended December 31, 2010, $296 (2009 – $181) of expense was included in marketing, general and administration expense. For the year ended December 31, 2010, the Corporation granted 21,282 (2009 – nil) RSUs and settled 82,964 (2009 – 6,376) RSUs for total cash payment of $1,060 (2009 – $78). As at December 31, 2010, nil (2009 – 61,682) RSUs were outstanding.

(i) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for independent members of the Corporation's Board of Directors. Each DSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. The number of DSUs granted is determined based on the closing price of the Corporation's common shares on the trading day immediately prior to the date of grant. Total compensation expense is recognized at the time of grant. Fluctuations in the market value are recognized in the period in which the fluctuations occur. For the year ended December 31, 2010, 20,565 (2009 – 24,324) DSUs were granted, with $344 (2009 – $288) of expense included in marketing, general and administration expense. During the year ended December 31, 2010, the Corporation settled nil (2009 – 1,392) DSUs for a total cash payment of $nil (2009 – $16). As at December 31, 2010, 60,988 (2009 – 40,423) DSUs are vested and outstanding. DSUs are redeemable upon the Director's retirement from the Board.

(j) Employee share purchase plan

The Corporation has an employee share purchase plan (ESPP), whereby the Corporation matches every dollar contributed by each employee. Under the terms of the ESPP, employees may contribute up to a maximum of 20% of their gross pay and acquire voting shares of the Corporation at the current fair market value of such shares. Shares acquired for the ESPP are restricted for one year. Employees may offer to sell shares, which have not been held for at least one year to the Corporation, four times per year. The purchase price of the voting shares shall be equal to 50% of the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the employee's notice to the Corporation.

The Corporation has the option to acquire voting shares on behalf of employees through open market purchases or to issue new shares from treasury at the current market price, which is determined based on the volume weighted average trading price of the Corporation's voting shares for the five trading days preceding the issuance.

For the year ended December 31, 2010, all shares were acquired through open market purchases. For the year ended December 31, 2009, the Corporation elected to issue a portion of the shares from treasury. During 2009, a total of 977,459 shares were issued at a total market value of $11,071 for which no cash was exchanged. The remaining shares for 2009 were acquired through the open market.

The Corporation's share of the contributions in 2010 amounted to $52,643 (2009 – $47,030) and is recorded as compensation expense within the related business unit.

11. Related-party transactions

The Corporation has debt financing and investments in short-term deposits with a financial institution that is related through two common directors, one of whom is also the president of the financial institution. As at December 31, 2010, total long-term debt includes an amount of $5,575 (2009 – $6,392) due to the financial institution. See note 7, Long-term debt, for further disclosure. Included in cash and cash equivalents, as at December 31, 2010, are short-term investments of $164,710 (2009 – $143,332) owing from the financial institution. In 2008, the Corporation signed a three-year revolving operating line of credit agreement with a banking syndicate, of which one of the members is the related-party financial institution. See note 12, Commitments and contingencies, for further information. These transactions occurred in the normal course of operations on terms consistent with those offered to arm's-length parties and are measured at the exchange amount.

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11. Related-party transactions (continued)

The Corporation engaged a relocation firm to purchase a single family residence from the President and Chief Executive Officer (CEO) for a guaranteed price of US $1,525 in accordance with the Corporation's relocation policy. The relocation firm will actively market the residence to locate an outside buyer. If the proceeds on the sale of the home to a third party are less than or greater than the guaranteed price, the difference between the guaranteed price and the proceeds will accrue to WestJet. The Corporation paid the relocation firm's fees and expenses in connection with this transaction, and also agreed to reimburse the officer for certain related tax and relocation expenses. The residence is located in the United States and the transaction was a result of the officer's move to Canada in conjunction with his appointment to President and CEO, effective April 1, 2010. In connection with the relocation, the Corporation granted 38,256 RSUs pursuant to the ESU plan with a total value of US $500, which are scheduled to wholly vest on April 1, 2011, the anniversary of the officer's appointment to President and CEO. Upon exercise of the RSUs, the Corporation will remit, on his behalf, an amount sufficient to satisfy any withholding or other tax requirements of such RSUs, limited to the withholding tax on the original award amount of US $500. Transactions have been measured at the exchange amount.

12. Commitments and contingencies

(a) Purchased aircraft and live satellite television systems

As at December 31, 2010, the Corporation is committed to purchase 38 737-700 aircraft for delivery between 2011 and 2017. The remaining estimated amounts to be paid in deposits and purchase prices for the 38 aircraft, as well as amounts to be paid for live satellite television systems on purchased and leased aircraft in US dollars and the Canadian-dollar equivalents, are as follows:

	USD	CAD
2011	$ 72,607	$ 72,217
2012	183,949	182,961
2013	271,896	270,436
2014	289,150	287,597
2015	403,574	401,406
2016 and thereafter	434,764	432,429
	$ 1,655,940	$ 1,647,046

Subsequent to year end, the Corporation took delivery of one 737-700 aircraft. The Corporation did not incur any debt or equity financing for this aircraft and funded the entire purchase with cash.

In addition, subsequent to year end, the Corporation has deferred the deliveries of six 737-700 aircraft from the years 2012 to 2015 into 2017 and 2018. The total number of the Corporation's aircraft purchase commitments remains unchanged at 38 737-700 aircraft. These deferrals have not been reflected in the table above.

(b) Operating leases and commitments

The Corporation has entered into operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licences and satellite programming. As at December 31, 2010, the future payments in Canadian dollars, and when applicable the US-dollar equivalents, under operating leases and commitments are as follows:

	USD	CAD
2011	$ 186,454	$ 206,983
2012	188,807	202,085
2013	185,535	195,222
2014	184,359	190,423
2015	161,149	166,189
2016 and thereafter	361,979	405,113
	$ 1,268,283	$ 1,366,015

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12. Commitments and contingencies (continued)

(b) Operating leases and commitments (continued)

As at December 31, 2010, the Corporation is committed to lease an additional three 737-700 aircraft and three 737-800 aircraft for terms ranging between eight and 10 years in US dollars. These aircraft have been included in the above totals.

The Corporation signed a six-year agreement with Bell ExpressVu to provide satellite programming. The agreement commenced in 2004, expires in July 2011, and can be renewed for an additional four years. During 2009, the Corporation amended its agreement with LiveTV to install, maintain and operate live satellite television on all of the Corporation's aircraft for a term of 10 years. The minimum commitment amounts associated with these agreements have been included in the totals in the table above.

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

(c) Letters of guarantee

The Corporation has available two revolving loan credit facilities with a Canadian chartered bank totalling $38,000 (2009 – $38,000). One loan facility is unsecured for $8,000, and the other is a facility for $30,000 that requires funds to be assigned and held in cash security for the full value of letters of guarantee issued by the Corporation. As at December 31, 2010, $6,691 (2009 – $12,491) of letters of guarantee were issued under these facilities. These facilities are secured by a general security agreement and $6,691 (2009 – $4,491) of restricted cash.

(d) Operating line of credit

Commencing in the third quarter of 2009, the Corporation has available a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available to a maximum of $80,750 (2009 – $85,000) and is secured by the Corporation's Campus facility. The line of credit bears interest at prime plus 0.50% per annum, or a bankers' acceptance rate at 2.0% annual stamping fee or equivalent, and is available for general corporate expenditures and working capital purposes. The Corporation is required to pay an annual 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, 2010, no amounts were drawn (2009 – $nil).

(e) Fuel facility corporations

The Corporation has entered into nine arrangements whereby it participates under contract in fuel facility corporations, along with other airlines, to procure fuel services at major Canadian airports. The fuel facility corporations operate on a cost-recovery basis. The purpose of these corporations is to own and finance the system that distributes fuel to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including debt service requirements, of the fuel facility corporations are shared pro rata among the contracting airlines. The nine fuel facility corporations are considered variable interest entities and have not been consolidated within the Corporation's accounts. In the remote event that all other contracting airlines withdraw from the arrangements and the Corporation remained as sole member, it would be responsible for the costs of the fuel facility corporations, including debt service requirements. As at November 30, 2010, the nine fuel facility corporations had combined total assets of approximately $345,523 (2009 – $341,487) and debt of approximately $312,625 (2009 – $307,825).

(f) Contingencies

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

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13. Financial instruments and risk management

(a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives both designated and not designated in an effective hedging relationship, deposits, accounts payable and accrued liabilities, long-term debt and capital lease obligations. The following tables set out the Corporation's classification and the carrying amount, together with the fair value, for each type of its financial assets and liabilities as at December 31, 2010 and 2009:

	Fair value		Amortized cost		Totals	
2010	**Held-for-trading**	**Derivatives**	**Loans and receivables**	**Other financial liabilities**	**Carrying amount**	**Fair value**
Asset (liability):						
Cash and cash equivalents	$ 1,187,899	$ —	$ —	$ —	$ 1,187,899	$ 1,187,899
Accounts receivable	—	—	17,518	—	17,518	17,518
Foreign exchange derivatives(i)	—	(3,579)	—	—	(3,579)	(3,579)
Fuel derivatives(ii)	—	4,889	—	—	4,889	4,889
Deposits(iii)	28,258	—	—	—	28,258	28,258
Accounts payable and accrued liabilities(iv)	—	—	—	(299,204)	(299,204)	(299,204)
Long-term debt(v)	—	—	—	(1,047,177)	(1,047,177)	(1,141,961)
Obligations under capital leases(vi)	—	—	—	(3,357)	(3,357)	(3,357)
	$ 1,216,157	$ 1,310	$ 17,518	$(1,349,738)	$ (114,753)	$ (209,537)

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

(i) Includes $nil (2009 – $181) classified in prepaid expenses, deposits and other, and $3,579 (2009 – $1,430) classified in accounts payable and accrued liabilities.
(ii) Includes $5,689 (2009 – $96) classified in prepaid expenses, deposits and other, and $800 (2009 – $8,763) classified in accounts payable and accrued liabilities.
(iii) Includes $14,752 (2009 – $11,249) classified in prepaid expenses, deposits and other, and $13,506 (2009 – $16,015) classified in other assets.
(iv) Excludes fuel derivative liabilities of $800 (2009 – $8,763) and foreign exchange derivative liabilities of $3,579 (2009 – $1,430).
(v) Includes current portion of long-term debt of $183,681 (2009 – $171,223) and long-term portion of $863,496 (2009 – $1,048,554).
(vi) Includes current portion of obligations under capital leases of $108 (2009 – $744) and long-term portion of $3,249 (2009 – $3,358).

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13. Financial instruments and risk management (continued)

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

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

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

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

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

The following items, shown in the consolidated balance sheet as at December 31, 2010 and 2009, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The fair value of the financial assets and liabilities at December 31, 2010, using level 3 inputs, was $nil (2009 – $nil).

2010	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	$ 1,187,899	$ —	$ 1,187,899
Foreign exchange derivatives	—	(3,579)	(3,579)
Fuel derivatives	—	4,889	4,889
Deposits	28,258	—	28,258
	$ 1,216,157	$ 1,310	$ 1,217,467

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

During the years ended December 31, 2010 and 2009, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

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

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

Foreign exchange derivatives: Foreign exchange derivatives consist of forward and option contracts. The fair value of the foreign exchange forward contracts is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace. These instruments are classified as level 2. As at December 31, 2010, the average contracted rate on the forward contracts was 1.0264 (2009 – 1.0671) Canadian dollars to US dollars, and the average forward rate used in determining the fair value was 0.9995 (2009 – 1.0512) Canadian dollars to US dollars. The fair value of the foreign exchange option contracts is determined through a standard option valuation technique used by the counterparty based on market inputs, including foreign exchange rates, interest rates and volatilities. These instruments are classified as level 2. There were no foreign exchange option contracts outstanding as at December 31, 2010.

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13. Financial instruments and risk management (continued)

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

Fuel derivatives: Fuel derivatives consist of swaps, collars and call option contracts. The fair value of the fuel derivatives is determined using inputs, including quoted forward prices for commodities, foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. The fair value of the swap contracts is estimated by discounting the difference between the contractual strike price and the current forward price. These instruments are classified as level 2.

The fair value of the collar and call option contracts are estimated by the use of a standard option valuation technique. These instruments are classified as level 2. As at December 31, 2010, for the period that the Corporation is hedged, the closing forward curve for crude oil ranged from approximately US $91 to US $94 (2009 – US $79 to US $84), with the average forward foreign exchange rate used in determining the fair value being 1.0032 (2009 – 1.0536) Canadian dollars to US dollars.

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

Long-term debt: The fair value of the Corporation's fixed-rate long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates obtained from the lender, which represent borrowing rates presently available to the Corporation for loans with similar terms and remaining maturities. As at December 31, 2010, rates used in determining the fair value ranged from 2.00% to 2.74% (2009 – 2.28% to 3.27%). The fair value of the Corporation's variable-rate long-term debt approximates its carrying value, as it is at a floating market rate of interest.

Obligations under capital leases: The fair value of the Corporation's capital lease obligations approximates their carrying value due to their short-term remaining maturities and total value due.

(b) Gain (loss) on derivatives recorded at fair value

The following table presents the components of gain (loss) on derivatives included on the consolidated statement of earnings for the years ended December 31, 2010 and 2009:

	2010	2009
Gain on designated fuel derivatives	$ 44	$ 5,617
Loss on foreign exchange options	(78)	(3,789)
	$ (34)	$ 1,828

(c) Risk management

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

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

Fuel risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, the Corporation is exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside the Corporation's control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. For the year ended December 31, 2010, aircraft fuel expense represented approximately 29% (2009 – 28%) of the Corporation's total operating expenses.

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13. Financial instruments and risk management (continued)

(c) Risk management (continued)

Fuel risk (continued)

Under the Corporation's fuel price risk management policy, the Corporation is permitted to hedge a portion of its future anticipated jet fuel purchases for up to 36 months, as approved by the Board of Directors. The policy establishes hedging limits based on time horizon. The hedging program is designed to mitigate the risk of sudden and substantial movements in fuel prices causing volatility in earnings and cash flows. Management continuously reviews and adjusts its strategy based on market conditions and competitors' positions. Financial derivatives in crude-oil-based commodities (including a variety of crude oil, heating oil and jet benchmarks) that are traded directly on organized exchanges or are available over the counter can be useful in mitigating the risk of volatile fuel prices.

As at December 31, 2010, the Corporation had a mixture of Canadian-dollar West Texas Intermediate (WTI) and jet fuel call options and collars to hedge approximately 20% (2009 – 14%) of its anticipated jet fuel requirements for the next 12 months. The following table outlines, per type, as at December 31, 2010, the notional volumes per barrel (bbl.) or per gallon (gal.) along with the weighted average contract prices.

Type	Year	Instrument	Notional volumes (bbl.)	WTI average call price (CAD/bbl.)
WTI	2011	Call options	1,230,000	$ 97

Type	Year	Instrument	Notional volumes (gal.)	Jet average call price (CAD/gal.)	Jet average put price (CAD/gal.)
Jet	2011	Collars	1,260,000	$ 2.50	$ 2.00

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

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

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

If the hedging relationship ceases to qualify for cash flow hedge accounting, any change in fair value of the instrument from the point it ceases to qualify is recorded in non-operating income (expense). Amounts previously recorded in AOCL will remain in AOCL until the anticipated jet fuel purchase occurs, at which time, the amount is recorded in net earnings under aircraft fuel expense. If the transaction is no longer expected to occur, amounts previously recorded in AOCL will be reclassified to non-operating income (expense). For the years ended December 31, 2010 and 2009, there were no amounts reclassified as a result of transactions no longer expected to occur.

The periodic changes in fair value and realized settlements on fuel derivatives that do not qualify or that are not designated under cash flow hedge accounting are recorded in non-operating income (expense). For the years ended December 31, 2010 and 2009, there were no fuel derivatives not designated under cash flow hedge accounting.

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13. Financial instruments and risk management (continued)

(c) Risk management (continued)

Fuel risk (continued)

The following table presents the financial impact and statement presentation of the Corporation's fuel derivatives on the consolidated balance sheet as at December 31, 2010 and 2009:

	Statement presentation	2010	2009
Receivable from counterparties for fuel derivatives	Prepaid expenses, deposits and other	$ 445	$ 96
Fair value of fuel derivatives	Prepaid expenses, deposits and other	5,244	—
Fair value of fuel derivatives	Accounts payable and accrued liabilities	—	(7,521)
Payable to counterparties for fuel derivatives	Accounts payable and accrued liabilities	(800)	(1,242)
Unrealized (gain) loss from fuel derivatives	AOCL – before tax impact	(11)	6,713

The following table presents the financial impact and statement presentation of the Corporation's fuel derivatives on the consolidated statement of earnings for the years ended December 31, 2010 and 2009:

	Statement presentation	2010	2009
Realized loss on designated fuel derivatives – effective portion	Aircraft fuel	$ (9,172)	$ (28,411)
Gain on designated fuel derivatives	Gain (loss) on derivatives	44	5,617

During the year ended December 31, 2010, the Corporation net settled fuel derivatives in favour of the counterparties of $8,980 (2009 – $29,574) and paid cash premiums for option-style contracts of $6,189 (2009 – $nil).

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 gain before tax of $11 (2009 – loss before tax of $6,713).

A 10% increase in the forward curve for WTI, the underlying commodity of the Corporation's fuel derivatives, as at December 31, 2010, would have decreased AOCL by approximately $4,896, net of taxes (2009 – $3,583). A 10% decrease in the forward curve for WTI, as at December 31, 2010, would have increased AOCL by approximately $2,455, net of taxes (2009 – $3,814). This is assuming that 100% of the change in price is considered effective under cash flow hedge accounting. Should some or all of the change in price be considered ineffective under hedge accounting, the ineffective portion would be recorded in non-operating income (expense). It also assumes that all other variables remain constant, particularly foreign exchange and interest rates. These assumptions may not be representative of actual movements.

13. Financial instruments and risk management (continued)

(c) Risk management (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of recognized assets and liabilities or future cash flows would fluctuate as a result of changes in foreign exchange rates. The Corporation is exposed to foreign exchange risks arising from fluctuations in exchange rates on its US-dollar-denominated net monetary assets and its operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operations costs. During the year ended December 31, 2010, the average US-dollar exchange rate was 1.0302 (2009 – 1.1425), with the year-end exchange rate at 0.9946 (2009 – 1.0510).

The gain or loss on foreign exchange included in the Corporation's consolidated statement of earnings is mainly attributable to the effect of the changes in the value of the Corporation's US-dollar-denominated net monetary assets. As at December 31, 2010, US-dollar-denominated net monetary assets totalled approximately US $53,037 (2009 – US $19,858). The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar as at December 31, 2010, would have increased or decreased net earnings for the year ended December 31, 2010, by $369 (2009 – $143), as a result of the Corporation's US-dollar-denominated net monetary asset balance.

As at December 31, 2010, the Corporation was entered into foreign exchange forward contracts for an average of US $11,535 (2009 – US $7,270) per month for the period of January to December 2011 for a total of US $138,420 (2009 – US $65,430) at a weighted average contract price of 1.0264 (2009 – 1.0671) per US dollar to offset a portion of its US-dollar-denominated aircraft lease payments. Upon proper qualification, the Corporation designated the forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in AOCL, while the ineffective portion is recognized in non-operating income (expense). Upon maturity of the derivative instrument, the effective gains and losses previously recognized in AOCL are recorded in net earnings as a component of aircraft leasing expense. As at December 31, 2010, no portion of the forward contracts was considered ineffective.

As at December 31, 2010, the fair value of the foreign exchange forward contracts was $3,579 (2009 – $1,219) included in accounts payable and accrued liabilities, and $nil (2009 – $181), recorded in prepaid expenses, deposits and other. For the year ended December 31, 2010, the Corporation realized a loss before tax on forward contracts of $2,143 (2009 – gain of $5,553), included in net earnings as an increase (2009 – decrease) to aircraft leasing expense. The estimated amount reported in AOCL that is expected to be reclassified to net earnings as a component of aircraft leasing expense in the next 12 months is a loss before tax of $3,579 (2009 – loss before tax of $1,038).

The Corporation's foreign exchange option contracts were not designated as hedges for accounting purposes and were recorded at fair value on the consolidated balance sheet, with changes in fair value recorded in non-operating income (expense). As at December 31, 2010, the Corporation had no foreign exchange option contracts outstanding. For the year ended December 31, 2010, the Corporation recorded a loss of $78 (2009 – loss of $3,789), included in non-operating income (expense) on foreign exchange option contracts.

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2010, would impact AOCL, net of taxes, by $1,028 (2009 – $475) as a result of the foreign exchange derivatives.

Interest rate risk

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

(i) Cash and cash equivalents

The Corporation is exposed to interest rate fluctuations on its short-term investments, included in cash and cash equivalents. A change of 50 basis points in the market interest rate would have had for the year ended December 31, 2010, an approximate impact on net earnings of $3,762 (2009 – $2,555) as a result of the Corporation's short-term investment activities.

13. Financial instruments and risk management (continued)

(c) Risk management (continued)

Interest rate risk (continued)

(ii) Deposits

The Corporation is exposed to interest rate fluctuations on its deposits that relate to purchased aircraft and airport operations, which, as at December 31, 2010, totalled $28,258 (2009 – $27,264). A reasonable change in market interest rates as at December 31, 2010, would not have significantly impacted the Corporation's net earnings as a result of the deposits.

(iii) Long-term debt

The fixed-rate nature of the majority of the Corporation's long-term debt mitigates the impact of interest rate fluctuations over the term of the outstanding debt. The Corporation accounts for its long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates as at December 31, 2010, would not impact net earnings.

The Corporation is exposed to interest rate fluctuations on its variable-rate long-term debt, which, as at December 31, 2010, totalled $6,795 (2009 – $8,563) or 0.6% (2009 – 0.7%) of the Corporation's total long-term debt. Because of the immaterial balance of the variable-rate long-term debt, a change in market interest rates as at December 31, 2010, would not have significantly impacted the Corporation's net earnings.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2010, the Corporation's 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.

(i) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and short-term investments with terms of up to one year, with the majority having terms of less than 91 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions. The Corporation manages its exposure risk by assessing the financial strength of its counterparties and by limiting the total exposure to any one individual counterparty. As at December 31, 2010, the Corporation had a total principal amount invested of $913,167 (2009 – $813,215) in Canadian-dollar short-term investments and a total of US $45,157 (2009 – US $nil) invested in US-dollar short-term investments, all with terms ranging between five and 365 days.

The Corporation performs an ongoing review to evaluate its risk associated with its cash and cash equivalent counterparties. As at December 31, 2010, the Corporation does not expect any counterparties to fail to meet their obligations.

(ii) Accounts receivable

As at December 31, 2010, the Corporation's accounts receivable were predominantly trade receivables of $12,446 (2009 – $8,673). The remainder related to receivables from travel agents, interline agreements with other airlines and partnerships. All significant services and counterparties are reviewed and approved for credit on a regular basis. Receivables are short term in nature, generally being settled within 30 to 60 days.

As at December 31, 2010, the Corporation continues to dispute with a counterparty, an accounts receivable balance relating to its cargo operations of $2,368 (2009 – $2,368). The Corporation recorded a bad debt provision for the amount in 2009. There were no new provisions recorded for bad debts in 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

13. Financial instruments and risk management (continued)

(c) Risk management (continued)

Credit risk (continued)

(iii) Derivative financial instruments

The Corporation recognizes that it is subject to credit risk arising from derivative transactions that are in an asset position at the balance sheet date. The Corporation carefully monitors this risk by closely considering the size, credit rating and diversification of the counterparty. As at December 31, 2010, fuel derivatives of $5,689 (2009 – $96) and foreign exchange derivatives of $nil (2009 – $181) outstanding with the Corporation's counterparties were in an asset position. The Corporation does not expect these counterparties to fail to meet their obligations.

(iv) Deposits

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

Liquidity risk

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

The table below presents a maturity analysis of the Corporation's undiscounted contractual cash flows for its non-derivative and derivative financial liabilities as at December 31, 2010. The analysis is based on foreign exchange and interest rates in effect at the balance sheet date, and includes both principal and interest cash flows for long-term debt and obligations under capital leases.

	Total	Within 1 year	1–3 years	4–5 years	Over 5 years
Accounts payable and accrued liabilities (i)	$ 299,204	$ 299,204	$ —	$ —	$ —
Foreign exchange derivatives	3,579	3,579	—	—	—
Fuel derivatives	800	800	—	—	—
Long-term debt	1,232,319	235,215	414,455	341,920	240,729
Obligations under capital leases	5,878	282	490	490	4,616
Total	$ 1,541,780	$ 539,080	$ 414,945	$ 342,410	$ 245,345

(i) Excludes foreign exchange derivatives of $3,579 and fuel derivatives of $800.

A portion of the Corporation's cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2010, was $308,022 (2009 – $286,361). Typically, the Corporation has cash and cash equivalents on hand to have sufficient liquidity to meet its liabilities, when due, under both normal and stressed conditions. As at December 31, 2010, the Corporation had cash and cash equivalents on hand of 3.86 (2009 – 3.51) times the advance ticket sales balance. The Corporation aims to maintain a current ratio, defined as current assets over current liabilities, of at least 1.00. As at December 31, 2010, the Corporation's current ratio was 1.52 (2009 – 1.48). As at December 31, 2010, the Corporation was not required to post collateral with respect to any of its outstanding derivative contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

14. Additional financial information

(a) Balance sheet

		2010	2009
Prepaid expenses, deposits and other:			
Prepaid expenses		$ 9,082	$ 29,797
Short-term deposits	(i)	26,854	23,439
Derivatives (note 13)		5,689	277
Other		91	2,726
		$ 41,716	$ 56,239
Other assets:			
Aircraft-related deposits	(ii)	$ 45,268	$ 50,975
Other		9,163	3,392
		$ 54,431	$ 54,367
Other liabilities:			
Deferred gain on sale and leaseback	(iii)	$ 4,143	$ 5,281
Asset retirement obligations	(iv)	5,901	4,926
Deferred contract incentives	(v)	8,794	9,421
		$ 18,838	$ 19,628

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

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

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

(iv) Included in other liabilities is an estimate pertaining to asset retirement obligations on its aircraft under operating leases. During the year ended December 31, 2010, the Corporation increased the liability by $701 (2009 – $1,217) due to the addition of further leased aircraft with $nil (2009 – $nil) incurred on the settlement of these obligations.

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

(b) Supplementary cash flow information

	2010	2009
Net change in non-cash working capital from operations:		
(Increase) decrease in accounts receivable	$ 10,378	$ (11,365)
(Increase) decrease in prepaid expenses, deposits and other	8,531	(2,691)
(Increase) decrease in inventory	5,788	(9,014)
Increase in accounts payable and accrued liabilities	79,474	15,926
Increase in advance ticket sales	21,779	35,008
Decrease in non-refundable guest credits	(27,728)	(8,514)
	$ 98,222	$ 19,350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Stated in thousands of Canadian dollars,
except share and per share amounts)

14. Additional financial information (continued)

(c) Accumulated other comprehensive loss

	Amortization of hedge settlements	Cash flow hedges – foreign exchange derivatives	Cash flow hedges – fuel derivatives	Total
Balance as at January 1, 2009	$ (10,620)	$ 4,133	$ (31,625)	$ (38,112)
Amortization of hedge settlements	1,400	—	—	1,400
Unrealized gain (loss) on derivatives	—	(1,358)	9,587	8,229
Tax on unrealized portion	—	447	(2,878)	(2,431)
Realized (gain) loss on derivatives	—	(5,553)	28,411	22,858
Tax on realized portion	—	1,576	(8,372)	(6,796)
Balance as at December 31, 2009	(9,220)	(755)	(4,877)	(14,852)
Amortization of hedge settlements	1,400	—	—	1,400
Unrealized loss on derivatives	—	(4,684)	(2,448)	(7,132)
Tax on unrealized portion	—	1,224	670	1,894
Realized loss on derivatives	—	2,143	9,172	11,315
Tax on realized portion	—	(586)	(2,509)	(3,095)
Balance as at December 31, 2010	$ (7,820)	$ (2,658)	$ 8	$ (10,470)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Clive Beddoe
Chair
WestJet Airlines Ltd.

Hugh Bolton
Non-Executive Chair
EPCOR Utilities Inc.

Ron Brenneman
Former President and CEO
Petro-Canada

Brett Godfrey
Former CEO
Virgin Blue Airlines

Don Hougan
Captain, PACT Chair
WestJet Airlines Ltd.

Allan Jackson
President and CEO
Arci Ltd.

S. Barry Jackson
Chair
TransCanada Corporation and TransCanada PipeLines Ltd.

Wilmot Matthews
President
Marjad Inc.

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

Gregg Saretsky
President and CEO
WestJet Airlines Ltd.

Arthur Scace
Former Chair
Bank of Nova Scotia

EXECUTIVE TEAM

Gregg Saretsky
President and CEO

Vito Culmone
Executive Vice-President, Finance and CFO

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

Hugh Dunleavy
Executive Vice-President, Strategy and Planning

Cam Kenyon
Executive Vice-President, Operations

Ferio Pugliese
Executive Vice-President, People and Culture

STOCK EXCHANGE LISTING

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

INVESTOR RELATIONS CONTACT INFORMATION

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

WESTJET HEADQUARTERS

22 Aerial Place NE
Calgary, Alta. T2E 3J1
Phone: 1-403-444-2600
Toll-free: 1-888-293-7853

ANNUAL GENERAL MEETING (AGM)

WestJet Airlines Ltd.'s AGM will be held at 2 p.m. (MDT) on Tuesday, May 3, 2011, at WestJet's Campus, 22 Aerial Place NE, Calgary, Alta. T2E 3J1

TRANSFER AGENT AND REGISTRAR

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

Auditors

KPMG LLP, Calgary, Alta.

Management's Discussion and Analysis of Financial Results 2011

Advisories

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 7, 2012, should be read in conjunction with the cautionary statement regarding forward-looking information and statements below, as well as the audited consolidated financial statements and notes thereto, for the years ended December 31, 2011 and 2010. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). 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 presentation and policies. References to "WestJet," "the Corporation," "we," "us" or "our" mean WestJet Airlines Ltd., its subsidiaries and special-purpose entities (SPEs), unless the context otherwise requires. Additional information relating to WestJet, including periodic quarterly and annual reports and Annual Information Forms (AIF), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at westjet.com.

Cautionary statement regarding forward-looking information and statements

This MD&A offers our assessment of WestJet's future plans and operations and contains "forward-looking information" as defined under applicable Canadian securities legislation. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information. We can give no assurance that any of the events anticipated will transpire or occur or, if any of them do, what benefits or costs we will derive from them. By its nature, forward-looking information is subject to numerous risks and uncertainties including, but not limited to, the impact of general economic conditions, changing domestic and international airline industry conditions, volatility of fuel prices, terrorism, pandemics, currency fluctuations, interest rates, competition from other airline industry participants (including new entrants, capacity fluctuations and the pricing environment), labour matters, government regulations, stock market volatility, the ability to access sufficient capital from internal and external sources, and additional risk factors discussed in other documents we file from time to time with securities regulatory authorities, which are available on SEDAR at sedar.com or, upon request, without charge from us.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Please refer to page 37 of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development. This forward-looking information typically contains the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should," "potential," "plan" or other similar terms.

Our assumptions and estimates relating to the forward-looking information referred to above are updated quarterly and, except as required by law, we do not undertake to update any other forward-looking information.

Adoption of International Financial Reporting Standards

On January 1, 2011, we transitioned to IFRS from Canadian Generally Accepted Accounting Principles (Canadian GAAP). All comparative figures contained in this MD&A have been restated under IFRS, unless otherwise noted. Please refer to page 33 of this MD&A for further information on the impact to our financial position, results of operations and cash flows from the adoption of IFRS.

Non-IFRS measures

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

Please refer to page 41 of this MD&A for a reconciliation of the non-IFRS measures, including Cost per Available Seat Mile (CASM), excluding fuel and employee profit share; net earnings and diluted earnings per share, excluding special items; adjusted debt-to-equity and adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR) ratios; return on invested capital (ROIC); free cash flow; and diluted operating cash flow per share.

Definitions

Various terms used throughout this MD&A are defined at page 39 under the title "Definition of key operating indicators".

ANNUAL OVERVIEW

We produced strong financial and operational results in 2011 with net earnings of $148.7 million and diluted earnings per share of $1.06. This marks our seventh consecutive year of reported profitability and the fifteenth time we have reported an annual profit in our 16 year history. During 2011, we broke the three billion dollar revenue mark for the first time, ending the year with $3,071.5 million, a 17.8 per cent increase over 2010. We achieved year-over-year revenue per available seat mile (RASM) growth of 8.6 per cent on a capacity increase of 8.5 per cent, measured in available seat miles (ASMs). We were pleased with our ability to improve our operating and earnings before tax (EBT) margins in 2011 despite the environment of elevated jet fuel prices which added approximately $185 million to our operating costs. For 2011, our EBT margin of 6.8 per cent once again ranked amongst the top in the North American airline industry.

In 2011, we significantly grew our airline partnership alliances and continued to improve the value provided to our business travellers with unique service guarantees and added frequencies in key business markets. We returned approximately $110 million to our shareholders through our dividend and share buy-back programs in 2011. Our 12 month ROIC was 10.1 per cent at year-end which was an improvement of 1.9 points compared to our ROIC of 8.2 per cent at December 31, 2010. Our business decisions continue to be guided by our ROIC target and the overall goal of generating value for our shareholders.

2011 financial and operational highlights

- Recognized total revenues of $3,071.5 million, an increase of 17.8 per cent from $2,607.3 million in 2010.
- Increased capacity, measured in ASMs, by 8.5 per cent over 2010.
- Increased traffic, measured in revenue passenger miles (RPMs), by 8.2 per cent over 2010.
- Recorded RASM of 14.50 cents, up 8.6 per cent from 13.35 cents in 2010.
- Realized CASM of 13.29 cents, up 7.4 per cent from 12.37 cents in 2010.
- Realized CASM, excluding fuel and employee profit share, of 8.85 cents, up 0.6 per cent from 8.80 cents in 2010.
- Recorded an operating margin of 8.4 per cent, up 1.1 points from 7.3 per cent in 2010.
- Recorded an EBT margin of 6.8 per cent, up 1.7 points from 5.1 per cent in 2010.
- Realized net earnings of $148.7 million, an increase of 64.9 per cent from $90.2 million in 2010. Excluding the special items in 2010, which are disclosed elsewhere in this MD&A, net earnings increased 54.5 per cent from $96.3 million.
- Reported diluted earnings per share of $1.06, an increase of 71.0 per cent from $0.62 in 2010. Excluding the special items in 2010, diluted earnings per share increased 60.6 per cent from $0.66.
- Generated cash flow from operations of $506.4 million, an increase of 20.9 per cent from $418.8 million in 2010.

Our people

We place tremendous importance on creating a positive and safe experience for our guests which is accomplished by an equal focus on the quality of experience of our over 8,600 WestJetters. In 2011, we were extremely honoured to have been awarded a number of recognitions which would not have otherwise been possible without the commitment and care of our WestJetters.

- Named J.D. Power 2011 Customer Service Champion by the prestigious global marketing information services company, J.D. Power and Associates. WestJet was recognized among the top five per cent of the 800 companies in 20 industries that were evaluated in North America, and was one of only two Canadian companies to receive the award.
- Voted Canada's best flight attendants in an annual poll conducted by the online travel website FlightNetwork.com.
- Named one of Canada's Top 100 Employers as measured in Mediacorp's annual study of the best workplaces in Canada.
- Received third place recognition in Aon Hewitt's Best Employers in Canada study.
- Named one of Canada's 10 Most Admired Corporate Cultures by Waterstone Human Capital.

Expanding our reach

We announced today our plans to move ahead with the launch of a new low-cost short-haul, regional airline as early as 2013. In January 2012, we met with WestJetters across the organization to provide them an opportunity to share their input on this initiative and we are pleased with the overwhelming support received. A short-haul aircraft combined with the WestJet brand, balance-sheet strength and low-cost structure is expected to allow us to profitability accomplish four main goals:

(1) introduce WestJet's friendly and caring service to many smaller communities who have asked for our service;

(2) optimize the size of aircraft to efficiently increase flight frequency;

(3) create new connections between existing WestJet markets; and

(4) build additional feed to our current network so that we can continue to profitably grow and add shareholder value.

The regional airline will be a wholly owned subsidiary of WestJet Airlines Ltd. and will operate under its own separate operating certificate. As of the date of this MD&A, no capital or operational expenditures have been made though we believe this to be a significant undertaking that will materially impact our future results of operations, financial position and cash flows. With approval from our Board of Directors to proceed with implementation of a low-cost regional airline, we will move to the next stage of planning by sending requests for proposal to two aircraft manufacturers; Bombardier for the Q400 NextGen and ATR for the ATR 72-600.

In 2011, we continued to focus on our long-term strategy of establishing strong partnerships with airlines from all major geographical regions around the world. In 2011, we launched ten new interline agreements: AeroMexico, Air India, Alitalia, China Eastern Airlines, Delta Air Lines, EL AL Israel Airlines, Emirates, Japan Airlines, Korean Air and Qantas Airways. We also established code-share agreements with American Airlines, KLM Royal Dutch Airlines (KLM) and Japan Airlines in 2011. In January 2012, we welcomed Delta Air Lines, the world's second largest airline, as our fifth code-share partner. We now have interline-relationships with 17 airlines around the world and code-share arrangements with five airlines: Cathay Pacific, American Airlines, KLM, Japan Airlines and Delta Air Lines.

In addition to expanding our reach through airline partnerships, we focused on new and increased service across our scheduled network in 2011. We launched new non-stop service to Orange County, California from Vancouver and Calgary and new non-stop seasonal flights between Toronto and San Juan, Puerto Rico. We introduced our enhanced schedule in the eastern triangle to better serve the needs of business travellers flying between Toronto and Montreal as well as Toronto and Ottawa. We also announced the return of our popular non-stop, seasonal daytime service between Calgary and Honolulu and Maui, and between Edmonton and Maui achieved by leasing a Boeing 757-200 from Thomas Cook U.K. In July 2011, we released our winter 2011-2012 flight schedule which included new non-stop seasonal service to popular sun destinations from Kelowna, London, Thunder Bay, Victoria and Winnipeg; and in December 2011 we announced the early launch of additional non-stop service to sun destinations from Halifax, Moncton and St. John's. In January 2012, we announced new non-stop service between Toronto and Kingston, Jamaica and Toronto and Aruba as well as new daily non-stop service between Vancouver and Whitehorse beginning May 2012; and in February 2012 we announced the launch of daily non-stop service between Chicago and Vancouver and between Chicago and Calgary, effective May 2012.

In November 2011, we announced our successful bid of US $17.6 million for eight slot pairs at New York's LaGuardia airport. A slot pair is defined as one arriving flight and departing flight. As a controlled airport, this opportunity allows us to execute on our growth plans, in which increased business travel in the East figures prominently. We look forward to providing our guests with frequent year-round service to New York City, commencing in June 2012.

We now serve 76 destinations through our scheduled network; including our partners, guests can access through WestJet 105 destinations throughout Canada, U.S., Mexico and the Caribbean.

Revenue and cost

During 2011, total revenues increased by 17.8 per cent to $3,071.5 million compared to $2,607.3 million in 2010, driven mainly by the additional seat capacity in our network, increased traffic and the 8.9 per cent improvement in yield. On an ASM basis, revenue grew by 8.6 per cent to 14.50 cents from 13.35 cents in 2010. This growth was key to our success as elevated jet fuel prices placed downward pressure on our operating margin. In 2011, our operating expenses increased year over year by 16.5 per cent or $399.0 million to $2,815.0 million. Of this increase, approximately $185 million was attributable to the

25.4 per cent increase in our fuel cost per litre (based on our 2011 fuel consumption multiplied by the year-over-year movement in our fuel cost per litre). Through the management of our revenue we were able to more than offset this pressure.

Cost control remains a priority for us, and we continued with our disciplined approach in 2011. For the year ended December 31, 2011, realized CASM was 13.29 cents, an increase of 7.4 per cent from 12.37 cents in the prior year. However, excluding fuel and employee profit share, CASM was relatively flat at 8.85 cents as compared to 8.80 cents in 2010.

Balance sheet strength

Our consistent and strong financial results are visible in the health of our balance sheet. We ended 2011 with a cash and cash equivalents balance of $1,243.6 million, an increase of 7.2 per cent from December 31, 2010. The increase in our cash position was a result of our positive cash flow from operations of $506.4 million more than offsetting the $118.4 million in capital expenditures, the $199.2 million in debt repayments and the combined total of $109.6 million spent on our dividend and share buy-back programs in 2011. Our capital expenditures of $118.4 million is greater than the previously communicated range of between $95 and $105 million as result of the successful bid of US $17.6 million for the eight slot pairs at New York's LaGuardia airport.

Our current ratio, defined as current assets over current liabilities, remained relatively flat at 1.51 compared to 1.53 at December 31, 2010, while our adjusted debt-to-equity ratio improved by 5.6 per cent to 1.51 from 1.60 at December 31, 2010. Similarly, our adjusted net debt to EBITDAR ratio improved by 25.7 per cent to 1.39 compared to 1.87 at December 31, 2010. These ratios remain amongst the strongest in the North American airline industry.

During 2011, we assumed delivery of five leased 737 series aircraft and one purchased 737 series aircraft, ending the year with 97 aircraft. With an average age of 5.8 years, we continue to operate one of the youngest fleets of any large North American commercial airline.

Select annual information

($ in thousands, except per unit data)	2011	2010	2009(i)	2008(i)	2007(i)
Financial highlights					
Revenue	3,071,540	2,607,294	2,281,120	2,549,506	2,127,156
Earnings before income taxes	208,006	133,465	136,796	254,749	233,313
Net earnings	148,702	90,197	98,178	178,506	189,048
Basic earnings per share	1.06	0.62	0.74	1.39	1.46
Diluted earnings per share	1.06	0.62	0.74	1.37	1.44
Cash and cash equivalents	1,243,605	1,159,316	994,989	820,214	653,558
Total assets	3,473,678	3,383,980	3,493,702	3,268,702	2,969,899
Total long-term liabilities	1,161,604	1,240,285	1,051,912	1,201,382	1,257,634
Cash dividends declared per share	0.20	0.05	—	—	—
Operational highlights					
ASMs	21,186,304,409	19,535,291,313	17,587,640,902	17,138,883,465	14,544,737,340
RPMs	16,890,941,121	15,613,121,610	13,834,761,211	13,730,960,234	11,739,063,003
Load factor	79.7%	79.9%	78.7%	80.1%	80.7%
Yield (cents)	18.18	16.70	16.49	18.57	18.12
RASM (cents)	14.50	13.35	12.97	14.88	14.62
CASM (cents)	13.29	12.37	11.77	13.17	12.58
CASM, excluding fuel and employee profit share (cents)	8.85	8.80	8.45	8.29	8.79
Fuel consumption (litres)	1,027,821,192	950,341,292	859,115,698	839,699,921	723,104,203
Fuel costs per litre (dollars)	0.89	0.71	0.66	0.97	0.70
Segment guests	16,040,682	15,173,581	14,038,827	14,283,630	13,004,726
Average stage length (miles)	984	968	923	913	856
Utilization (hours)	11.8	11.6	11.7	12.3	12.1
Number of full-time equivalent employees at period end	7,141	6,877	6,291	6,187	5,682
Fleet size at period end	97	91	86	76	70

(i) Amounts have not been restated to IFRS and are presented in accordance with Canadian GAAP.

Please refer to page 41 of this MD&A for a reconciliation of the non-IFRS measures, including CASM, excluding fuel and employee profit share; net earnings and diluted earnings per share, excluding special items; ROIC; adjusted debt-to-equity and adjusted net debt to EBITDAR ratios; and diluted operating cash flow per share, to the nearest measure under IFRS.

SUMMARY of QUARTERLY RESULTS

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

	Three months ended			
($ in thousands, except per share data)	**Dec. 31 2010**	**Sept. 30 2010**	**Jun. 30 2010**	**Mar. 31 2010**
Total revenues	692,219	684,099	611,684	619,292
Net earnings	37,168	43,831	6,833	2,365
Basic earnings per share	0.26	0.30	0.05	0.02
Diluted earnings per share	0.26	0.30	0.05	0.02

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.

FOURTH QUARTER RESULTS OF OPERATIONS

The fourth quarter of 2011 marked our 27th consecutive quarter of profitability with reported net earnings of $35.6 million and diluted earnings per share of $0.26. Furthermore, our fourth quarter traffic results confirmed that our continued capacity growth was absorbed by the market. On December 23, 2011, we achieved a new single-day record of approximately 53,000 guests flown.

Quarterly financial and operational highlights

- Recognized total revenues of $781.5 million, an increase of 12.9 per cent from $692.2 million in the fourth quarter of 2010.
- Increased capacity, measured in ASMs, by 6.1 per cent over the same period of 2010.
- Increased traffic, measured in RPMs, by 6.4 per cent over the fourth quarter of 2010.
- Recorded RASM of 14.67 cents, up 6.4 per cent from 13.79 cents in the fourth quarter of 2010.
- Realized CASM of 13.55 cents, up 8.3 per cent from 12.51 cents in the fourth quarter of 2010.
- Realized CASM, excluding fuel and employee profit share, of 9.03 cents, up 2.7 per cent from 8.79 cents in the comparable quarter of 2010.
- Recorded an operating margin of 7.6 per cent, down 1.6 points from 9.2 per cent in the fourth quarter of 2010.
- Recorded an EBT margin of 6.4 per cent, down 1.1 points from 7.5 per cent in the same period of 2010.
- Realized net earnings of $35.6 million, a decrease of 4.3 per cent from $37.2 million realized in the fourth quarter of 2010.
- Reported diluted earnings per share of $0.26, equal to the $0.26 reported in the fourth quarter of 2010.
- Generated cash flow from operations of $72.8 million, an increase of 53.2 per cent from $47.5 million generated in the same period of 2010.

	Three months ended December 31		
	2011	2010	Change
Operational highlights			
ASMs	5,328,928,405	5,021,010,134	6.1%
RPMs	4,193,629,320	3,941,660,897	6.4%
Load factor	78.7%	78.5%	0.2 pts.
Yield (cents)	18.64	17.56	6.2%
RASM (cents)	14.67	13.79	6.4%
CASM (cents)	13.55	12.51	8.3%
CASM, excluding fuel and employee profit share (cents)	9.03	8.79	2.7%
Fuel consumption (litres)	255,906,491	242,620,920	5.5%
Fuel costs per litre (dollars)	0.92	0.74	24.3%
Segment guests	3,996,593	3,803,550	5.1%
Average stage length (miles)	980	982	(0.2%)
Utilization (hours)	11.7	11.7	—
Number of full-time equivalent employees at period end	7,141	6,877	3.8%

Revenue

	Three months ended December 31		
($ in thousands)	2011	2010	Change
Guest	711,246	639,449	11.2%
Other	70,299	52,770	33.2%
	781,545	692,219	12.9%
RASM (cents)	14.67	13.79	6.4%

Total revenue for the fourth quarter of 2011 increased by 12.9 per cent to $781.5 million from $692.2 million during the same quarter of 2010. On a per unit basis, we saw an improvement in RASM of 6.4 per cent to 14.67 cents in the fourth quarter of 2011, as compared to a RASM of 13.79 cents in the same period of 2010. This increase in RASM was due to the 6.2 per cent increase in yield as well as the slight increase in load factor of 0.2 points to 78.7 per cent from 78.5 per cent in the fourth quarter of 2010.

For the three months ended December 31, 2011, overall capacity increased by 6.1 per cent, with growth reflected in each of the domestic and charter and scheduled transborder and international markets. During the fourth quarter of 2011, 45.2 per cent of ASMs were allocated to the charter and scheduled transborder and international market, which represents a 10.1 per cent increase versus the same quarter of 2011.

	Three months ended December 31				
	2011		2010		Change
	ASMs	☐ of total	ASMs	☐ of total	
Domestic	2,922,072,513	54.8%	2,834,237,544	56.4%	3.1%
Charter and scheduled transborder and international	2,406,855,892	45.2%	2,186,772,590	43.6%	10.1%
Total	5,328,928,405	100.0%	5,021,010,134	100.0%	6.1%

During the fourth quarter, our domestic traffic increased by 3.7 per cent year over year as compared to the 3.1 per cent increase in domestic capacity. Our charter and scheduled transborder and international traffic increased 9.6 per cent as compared to the 10.1 per cent increase in capacity to these areas.

Other revenue

Other revenue for the fourth quarter of 2011 increased by 33.2 per cent to $70.3 million, from $52.8 million in the comparable quarter of 2010. These improvements were driven mainly by strong improvements in our WestJet Vacations' non-air revenue as well as our ancillary revenue.

For the three months ended December 31, 2011 ancillary revenue was $31.9 million, an increase of approximately 31 per cent from $24.4 million in the same quarter 2010. On a per guest basis, ancillary fees for the quarter increased by $1.57 or 24.4 per cent to $8.00 per guest, from $6.43 per guest during the fourth quarter of 2010. These increases were mainly attributable to our second checked bag fee which was introduced in the first quarter of 2011 as well as an increase in volume of pre-reserved seating fees charged.

Expenses

CASM (cents)	Three months ended December 31 2011	2010	Change
Aircraft fuel	4.42	3.57	23.8%
Airport operations	2.01	2.00	0.5%
Flight operations and navigational charges	1.59	1.60	(0.6%)
Sales and distribution	1.25	1.33	(6.0%)
Marketing, general and administration	1.08	1.04	3.8%
Depreciation and amortization	0.83	0.85	(2.4%)
Maintenance	0.80	0.60	33.3%
Aircraft leasing	0.79	0.73	8.2%
Inflight	0.68	0.64	6.3%
Employee profit share	0.10	0.15	(33.3%)
CASM	13.55	12.51	8.3%
CASM, excluding fuel and employee profit share	9.03	8.79	2.7%

For the fourth quarter of 2011, CASM increased by 8.3 per cent to 13.55 cents compared to 12.51 cents in the same quarter of 2010 due primarily to the 23.8 per cent increase in the cost per ASM of aircraft fuel. Excluding fuel and employee profit share, CASM increased by 2.7 per cent to 9.03 cents from 8.79 cents in the same quarter of 2010 due for the most part to the increase in our maintenance cost per ASM.

Aircraft fuel

In the fourth quarter of 2011, aircraft fuel expense increased by 31.4 per cent to $235.6 million from $179.3 million. Of this increase, approximately $46 million was attributable to the price of jet fuel which remained elevated when compared to the same period of 2010. On average, the market price for jet fuel was US $125 per barrel in the fourth quarter of 2011 versus US $100 per barrel in the fourth quarter of 2010, an increase of 25.0 per cent. With the Canadian dollar slightly weaker versus the US dollar on a year-over-year basis, the average market price for jet fuel increased by approximately 27 per cent to $128 per barrel from $101 per barrel in the fourth quarter of 2010. On a per ASM basis aircraft fuel increased by 23.8 per cent to 4.42 cents per ASM in the fourth quarter of 2011 from 3.57 cents per ASM in the same period in 2010.

The following table displays our fuel costs per litre, including and excluding fuel hedging, for the three months ended December 31, 2011 and 2010. Please refer to page 40 of this MD&A for a discussion on the use of non-IFRS measures, including aircraft fuel expense, excluding hedging, which is reconciled to aircraft fuel expense in the table below:

($ in thousands)	Three months ended December 31 2011	2010	Change
Aircraft fuel expense	235,574	179,276	31.4%
Realized gain (loss) on fuel derivatives	18	(1,512)	(101.2%)
Aircraft fuel expense, excluding hedging	235,592	177,764	32.5%
Fuel consumption (litres)	255,906,491	242,620,920	5.5%
Fuel costs per litre (dollars) – including hedging	0.92	0.74	24.3%
Fuel costs per litre (dollars) – excluding hedging	0.92	0.73	26.0%

Fuel costs per litre, including hedging, increased to $0.92 per litre during the three month period ended December 31, 2011, representing an increase of 24.3 per cent from $0.74 per litre in the fourth quarter of 2010. Excluding the effects of fuel derivatives designated in an effective hedging relationship, our fuel costs per litre remained at $0.92 for the fourth quarter of 2011, an increase of 26.0 per cent from the same period in 2010.

Maintenance

Maintenance expense for the three months ended December 31, 2011 was $42.8 million, a $12.4 million or 40.7 per cent increase from $30.4 million in the comparable period of 2010. Our maintenance cost per ASM was 0.80 cents in the fourth quarter of 2011, representing an increase of 33.3 per cent from 0.60 cents in the fourth quarter of 2010. This year-over-year increase is mainly attributable to changes to the estimated timing of expected maintenance overhauls and discount rates included within our maintenance provision for leased aircraft. In accordance with IFRS, we provide for the future costs of certain overhaul maintenance activities on our leased aircraft over the term of the lease rather than expense as incurred. Our provision is calculated based on the best information available to us and includes estimates on maintenance cycle timing, total cost and discount rates. Any difference from the provided amount and the actual amount incurred is recognized in the period the activity is performed. Furthermore, IFRS requires us to adjust the provision as changes in the discount rate used to determine the present value occur. During the three months ended December 31, 2011, we incurred a $6.8 million non-cash charge for the decrease in discount rates and a $1.8 non-cash charge for a change in cycle timing and cost on our leased engine overhauls. The remaining increase in maintenance expense is a direct result of increased salaries and routine maintenance events as the fleet continues to grow and mature. Excluding the non-cash charges of $8.6 million, our 2011 fourth quarter maintenance expense increased by $3.8 million or 12.5 per cent year over year. On an ASM basis, this equates to 0.64 cents for the fourth quarter of 2011 over 0.60 cents in the comparable period of 2010.

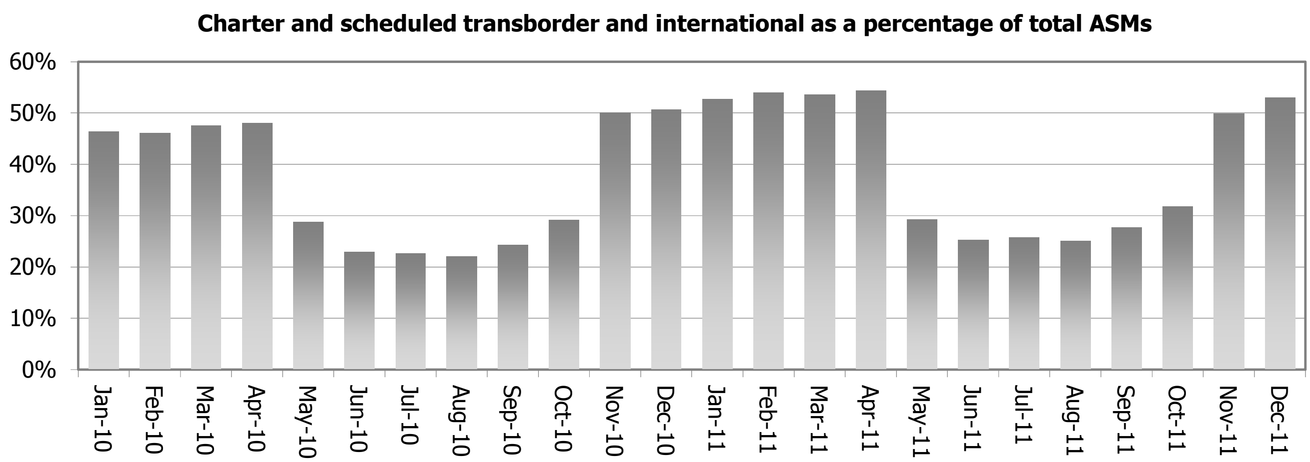
2011 RESULTS OF OPERATIONS

Revenue

($ in thousands)	2011	2010	Change
Guest	2,790,299	2,390,887	16.7%
Other	281,241	216,407	30.0%
	3,071,540	2,607,294	17.8%
RASM (cents)	14.50	13.35	8.6%

During 2011, total revenue increased by 17.8 per cent to $3,071.5 million from $2,607.3 million in 2010. This increase was primarily attributable to the increases in capacity since the prior year, along with positive variances in traffic and yield. Our RASM increased by 8.6 per cent to 14.50 cents for 2011, compared to 13.35 cents in 2010, due largely to the 8.9 per cent improvement in yield as we managed our fares to offset the impact of jet fuel prices while closely monitoring demand.

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



For the year ended December 31, 2011, our overall fleet capacity increased by 8.5 per cent, with growth in both of the domestic and charter and scheduled transborder and international markets. During 2011, 40.2 per cent of ASMs were allocated to the charter and scheduled transborder and international markets, which represents a 19.6 per cent increase in those markets versus 2010. On average, long-haul routes have lower yields; however, even with this significant capacity increase in the transborder and international markets, we experienced overall yield improvement of 8.9 per cent.

	2011		2010		Change
	ASMs	□ of total	ASMs	□ of total	
Domestic	12,670,462,757	59.8%	12,414,994,209	63.6%	2.1%
Charter and scheduled transborder and international	8,515,841,652	40.2%	7,120,297,104	36.4%	19.6%
Total	21,186,304,409	100.0%	19,535,291,313	100.0%	8.5%

During 2011, our domestic traffic increased by 1.2 per cent year over year, as compared to 2.1 per cent increase in domestic capacity. With regard to our charter and scheduled transborder and international markets, traffic increased by 19.0 per cent over 2010, relatively in line with our significant increase in capacity to these areas of 19.6 per cent.

Other revenue

Included in other revenue are amounts related to our charter and cargo operations, ancillary revenue and Westjet Vacation’s non-air revenue. For 2011, other revenues increased by 30.0 per cent to $281.2 million from $216.4 million in 2010. This improvement was driven mainly by increases in WestJet Vacation’s non-air revenue and our ancillary revenues.

WestJet Vacations continues to be successful in generating additional revenue and supporting WestJet’s overall network expansion. During 2011, we experienced year-over-year growth in our WestJet Vacations’ non-air revenue due to the increased volume in vacation packages sold to our popular transborder and international destinations in line with the increased capacity in those markets. Furthermore, we achieved higher margins year over year on the land component of these vacation packages sold.

Ancillary revenue, which includes service fees, onboard sales, and partner and program revenue, provides an opportunity to maximize our profits through the sale of higher-margin goods and services, while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. For the year ended December 31, 2011 ancillary revenue was $123.9 million, an increase of approximately 36 per cent from $91.1 million in 2010. On a per guest basis, ancillary fees for the year increased by $1.71 or 28.4 per cent to $7.74 per guest, from $6.03 per guest during 2010. These increases were mainly attributable to our second checked bag fee which was introduced in the first quarter of 2011 as well as an increase in volume of pre-reserved seating and excess baggage fees charged.

Expenses

CASM (cents)	2011	2010	2009(i)	2008(i)	2007(i)
Aircraft fuel	4.32	3.45	3.24	4.69	3.46
Airport operations	1.99	1.99	2.00	2.00	2.06
Flight operations and navigational charges	1.63	1.67	1.70	1.64	1.77
Sales and distribution	1.29	1.30	0.98	1.00	1.03
Marketing, general and administration	0.99	1.00	1.19	1.23	1.22
Depreciation and amortization	0.82	0.87	0.80	0.80	0.87
Aircraft leasing	0.78	0.73	0.59	0.50	0.52
Maintenance	0.69	0.60	0.55	0.50	0.51
Inflight	0.66	0.64	0.64	0.62	0.59
Employee profit share	0.12	0.12	0.08	0.19	0.33
CASM	13.29	12.37	11.77	13.17	12.36
CASM, excluding fuel and employee profit share	8.85	8.80	8.45	8.29	8.57

(i) Amounts have not been restated to IFRS and are presented in accordance with Canadian GAAP.

CASM (cents)	2011	2010	Change
Aircraft fuel	4.32	3.45	25.2%
Airport operations	1.99	1.99	—
Flight operations and navigational charges	1.63	1.67	(2.4%)
Sales and distribution	1.29	1.30	(0.8%)
Marketing, general and administration	0.99	1.00	(1.0%)
Depreciation and amortization	0.82	0.87	(5.7%)
Aircraft leasing	0.78	0.73	6.8%
Maintenance	0.69	0.60	15.0%
Inflight	0.66	0.64	3.1%
Employee profit share	0.12	0.12	—
CASM	13.29	12.37	7.4%
CASM, excluding fuel and employee profit share	8.85	8.80	0.6%

During 2011, CASM increased by 7.4 per cent due largely to the 25.2 per cent increase in aircraft fuel and the 15.0 per cent increase in maintenance, and to a lesser degree, the increases in inflight and aircraft leasing. These were offset by decreases in flight operations and navigational charges, and depreciation and amortization expense. Our 2011 CASM, excluding fuel and employee profit share, remained relatively flat at 8.85 cents as compared to 8.80 cents in 2010.

Aircraft fuel

Fuel remains our most significant cost, representing approximately 33 per cent of total operating costs for the year, as compared to approximately 28 per cent in 2010. For the year ended December 31, 2011, aircraft fuel expense increased by 35.8 per cent to $915.9 million from $674.6 million in 2010. On average, the market price for jet fuel was US $126 per barrel in 2011 versus US $91 per barrel in 2010, an increase of approximately 38 per cent. With the Canadian dollar stronger versus the U.S. dollar in 2011, the average market price for jet fuel in Canadian dollars increased by approximately 33 per cent to $125 per barrel from $94 per barrel in 2010. On a per ASM basis, we saw a corresponding increase of 25.2 per cent to 4.32 cents per ASM in 2011 from 3.45 cents per ASM in the same period in 2010. This increase in aircraft fuel costs was primarily due to increases in both US-dollar West Texas Intermediate (WTI) crude oil prices and refining costs, partially offset by a stronger Canadian dollar and favourable impacts from our fuel hedges in 2011.

The following table displays our fuel costs per litre, including and excluding fuel hedging, for the years ended December 31, 2011 and 2010. Please refer to page 40 of this MD&A for a discussion on the use of non-IFRS measures, including aircraft fuel expense, excluding hedging, which is reconciled to IFRS in the table below.

($ in thousands)	2011	2010	Change
Aircraft fuel expense	915,878	674,608	35.8%
Realized gain (loss) on fuel derivatives	2,656	(9,172)	(129.0%)
Aircraft fuel expense, excluding hedging	918,534	665,436	38.0%
Fuel consumption (litres)	1,027,821,192	950,341,292	8.2%
Fuel costs per litre (dollars) – including fuel hedging	0.89	0.71	25.4%
Fuel costs per litre (dollars) – excluding fuel hedging	0.89	0.70	27.1%

Our fuel costs per litre, including hedging, increased by 25.4 per cent to $0.89 per litre during the year ended December 31, 2011 from $0.71 per litre in same period of 2010. Excluding the effects of hedging, fuel cost per litre remained flat at $0.89 in 2011, an increase of 27.1 per cent from $0.70 per litre in 2010.

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. Our hedging program is designed to mitigate the risk of sudden and substantial movements in fuel prices causing volatility in our earnings and cash flows. Management continuously reviews our strategy based on market conditions and competitors' positions. We do not hold or use any derivative instruments for speculative purposes. Financial derivatives in crude-oil-based commodities (including a variety of crude oil, heating oil and jet benchmarks) that are traded directly on organized exchanges or are available over the counter can be useful in mitigating the risk of volatile fuel prices. During the year ended December 31, 2011, we entered into Canadian-dollar WTI call options with total cash premiums paid of $8.5 million (2010 – $6.2 million).

At December 31, 2011, we had Canadian-dollar WTI call options to hedge approximately 23 per cent of our anticipated jet fuel requirements for the next 12 months. The following table outlines, as at December 31, 2011, the notional volumes per barrel (bbl.) along with the weighted average contract prices for the four quarters of 2012.

Type	Year	Instrument	Notional volumes (bbl.)	WTI average call price ($CAD/bbl.)
WTI	Q1 2012	Call options	420,000	117
WTI	Q2 2012	Call options	430,000	112
WTI	Q3 2012	Call options	520,000	109
WTI	Q4 2012	Call options	240,000	115

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 hedge reserves, 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 hedge reserves are recorded in net earnings as a component of aircraft fuel expense. Our policy for fuel derivatives is to measure effectiveness based on the change in the intrinsic value of the fuel derivatives versus the change in the intrinsic value of the anticipated jet fuel purchase. We elect to exclude time value from the measurement of effectiveness; accordingly, changes in time value are recognized in non-operating income (expense) during the period the change occurs. As a result, a significant portion of the change in fair value of our options may be recorded in earnings as the change occurs.

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. Because of 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 hedge reserves will remain in hedge reserves until the anticipated jet fuel purchase occurs, at which time, the amount is recorded in net earnings under aircraft fuel expense. If the transaction is no longer expected to occur, amounts previously recorded in hedge reserves will be reclassified to non-operating income (expense). For the years ended December 31, 2011 and 2010, there were no amounts reclassified as a result of transactions no longer expected to occur.

The following table presents the financial impact and statement presentation of our fuel derivatives on the consolidated statement of financial position as at December 31, 2011 and 2010.

($ in thousands)	Statement presentation	2011	2010
Receivable from counterparties for fuel derivatives	Accounts receivable	27	445
Fair value of fuel derivatives	Prepaid expenses, deposits and other	7,611	5,244
Payable to counterparties for fuel derivatives	Accounts payable and accrued liabilities	—	(800)
Unrealized gain from fuel derivatives	Hedge reserves (before tax impact)	—	(11)

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, 2011 and 2010.

($ in thousands)	Statement presentation	2011	2010
Realized gain (loss) on designated fuel derivatives	Aircraft fuel	2,656	(9,172)
Gain (loss) on designated fuel derivatives	Loss on derivatives	(6,052)	44

During the year ended December 31, 2011, we cash settled fuel derivatives in our favour for $2.7 million (2010 – $9.0 million in favour of the counterparty).

The fair value of the call options designated in an effective hedging relationship is determined by the use of a standard option valuation using inputs, including quoted forward prices for commodities, foreign exchange rates and interest rates, which can be observed or corroborated in the marketplace. At December 31, 2011, for the period we were hedged, the closing forward price for crude oil was approximately US $99 per barrel with the average foreign exchange rate being 1.0251 Canadian to one US dollar.

For 2012, excluding the impact of fuel hedging, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately $7 million annually for every one US-dollar change per barrel of WTI crude oil. Additionally, we estimate our sensitivity to changes in fuel pricing to be approximately $11 million for every one-cent change per litre of fuel.

Sales and distribution

Included in sales and distribution expenses are commissions and incentives paid to travel agents, credit card settlement fees, Global Distribution Systems (GDS) fees, transaction fees related to our reservation system, costs of our call centre, as well as sales and distribution costs associated with WestJet Vacations.

Sales and distribution expenses increased to $273.4 million in 2011, representing an increase of 6.9 per cent from $255.7 million in 2010. On an ASM basis, sales and distribution improved by 0.8 per cent to 1.29 cents in 2011, as compared to 1.30 cents in the prior year. We are pleased with this trend because as we continue to grow as an airline and vacation package provider, managing our sales and distribution expenses becomes increasingly important. During 2011, we reduced compensation paid to our travel agents and with low-cost options in mind, we enhanced our direct channel and self-serve options through website improvements and the implementation of an interactive voice response system for use in our call centre.

Maintenance

Maintenance expense for the year ended December 31, 2011 was $146.3 million, a 24.9 per cent increase from $117.1 million in the comparable period of 2010. Our maintenance cost per ASM was 0.69 cents in 2011, representing an increase of 15.0 per cent from 0.60 cents in 2010. This year-over-year increase was mainly attributable to an increase in overall maintenance events as our fleet continues to grow and mature as well as changes in estimates included within our maintenance provision for leased aircraft. In accordance with IFRS, we provide for the future costs of certain overhaul maintenance activities on our leased aircraft over the term of the lease rather than expense as incurred. Our provision is calculated based on the best information available to us and includes estimates on maintenance cycle timing, total cost and discount rates. Any difference from the provided amount and the actual amount incurred is recognized in the period the activity is performed. Furthermore, IFRS requires us to adjust the provision as changes in the discount rate used to determine the present value occur. During 2011, the $29.2 million year-over-year increase in maintenance expense included a $6.8 million non-cash charge for the decrease in discount rates used to present value the liability, a $1.8 million non-cash charge for a change in cycle timing and cost on our leased engine overhauls and a $4.9 million charge as a result of the actual cost and timing of engine overhauls differing from our estimate. The remaining increase in maintenance expense is a direct result of increased salaries and routine maintenance events as our fleet continues to grow and mature.

Compensation

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

($ in thousands)	2011	2010	Change
Salaries and benefits	481,211	439,617	9.5%
Employee share purchase plan	58,682	52,643	11.5%
Employee profit share	23,804	22,222	7.1%
Share-based payment plans	12,553	15,497	(19.0%)
	576,250	529,979	8.7%
Presentation on the statement of earnings:			
Airport operations	83,067	78,679	5.6%
Flight operations and navigational charges	184,143	171,403	7.4%
Sales and distribution	46,915	46,349	1.2%
Marketing, general and administration	86,066	76,353	12.7%
Maintenance	43,772	38,919	12.5%
Inflight	108,483	96,054	12.9%
Employee profit share	23,804	22,222	7.1%
	576,250	529,979	8.7%

Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2011, salaries and benefits increased by 9.5 per cent to $481.2 million from $439.6 million in 2010. This increase was primarily due to an increase in our total number of full-time equivalent employees of 3.8 per cent to 7,141 employees at December 31, 2011 (2010 – 6,877 employees) as well as our annual market and merit increases. This was offset by salary expenses recognized in the first quarter of 2010 related to the departure of our previous Chief Executive Officer (CEO) and incremental costs from the implementation of our reservation system. Salaries and benefits expense for each department is included in the respective department's operating expense line item.

In April 2011, we announced a new incentive plan for our employees referred to as the Owners' Performance Award. All active employees, with the exception of our senior management team, are eligible to participate in the plan. The Owners' Performance Award is designed to reward and recognize our WestJetters for their efforts in four key areas: safety – injury prevention, safely performing on time, guest experience and cost. Costs associated with the award are included in the amount above for salaries and benefits and are recorded in marketing, general and administration expenses on the consolidated statement of earnings.

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 up to a maximum of 20 per cent of their gross pay, and these acquisitions are matched by WestJet. At December 31, 2011, 84 per cent of our eligible active employees participated in the ESPP, contributing an average of 13 per cent of their gross salaries. During the year ended December 31, 2011, 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, 2011, all ESPP matching shares were acquired through the open market. For the year ended 2011, our matching expense was $58.7 million, an 11.5 per cent increase from 2010, driven largely by the increased number of WestJetters participating compared to the prior year.

Employee profit share

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost, employees receive larger awards when we are more profitable. Conversely, the amount distributed to employees is reduced and adjusted in less profitable periods. Our profit share expense for the year ended December 31, 2011, was $23.8 million, a 7.1 per cent increase from $22.2 million in 2010, bringing our total profit share payout since 1996 to approximately $224 million. The year-over-year increase was directly attributable to higher earnings eligible for profit share versus the prior year.

Share-based payment plans

We have three equity-settled share-based payment plans whereby either stock options, restricted share units or performance share units may be awarded to pilots, senior executives and certain non-executive employees. Our equity-settled share-based payments are measured at the fair value of the instrument granted and recognized as compensation expense with a corresponding increase in equity reserves on a straight-line basis over the related service period based on the number of awards expected to vest. For the year ended December 31, 2011 share-based payment expense totalled $12.6 million, representing a decrease of 19.0 per cent over 2010. This decrease related primarily to the acceleration of expense resulting from the departure of our former CEO in 2010. Share-based payment expense related to pilots' awards is included in flight operations and navigational charges, while the expense related to senior executives' and certain non-executive employees' awards is included in marketing, general and administration expense.

Foreign exchange

The gain or loss on foreign exchange included in our consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary liabilities. At December 31, 2011, US-dollar-denominated net monetary liabilities totalled approximately US $21.5 million (2010 – US $18.8 million). These net monetary liabilities consist mainly of monetary assets of US-dollar cash and cash equivalents, security deposits on various leased and financed aircraft, and maintenance reserves paid to lessors, offset by monetary liabilities of US-dollar accounts payable and accrued liabilities and maintenance provisions. We reported a foreign exchange gain of $2.5 million in 2011, as compared to a foreign exchange gain of $2.6 million in 2010, on the revaluation of our US-dollar-denominated net monetary assets.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At December 31, 2011, to offset a portion of our US-dollar denominated aircraft lease payments, we entered into foreign exchange forward contracts for an average of $13.4 million per month for the period of January to December 2012 for a total of US $160.4 million at a weighted average contract price of 0.9914 Canadian dollars to one US dollar. Upon proper qualification, we designated the forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in hedge reserves. Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves are recorded in net earnings as a component of aircraft leasing expense. At December 31, 2011, no portion of the forward contracts was considered ineffective.

The following table presents the financial impact and statement presentation of our foreign exchange derivatives on the consolidated statement of financial position as at December 31, 2011 and 2010.

($ in thousands)	Statement presentation	2011	2010
Fair value of foreign exchange derivatives	Prepaid expenses, deposits and other	4,662	—
Fair value of foreign exchange derivatives	Accounts payable and accrued liabilities	—	(3,579)
Unrealized gain (loss) from foreign exchange derivatives	Hedge reserves (before tax impact)	4,662	(3,579)

The following table presents the financial impact and statement presentation of our foreign exchange derivatives on the consolidated statement of earnings for the years ended December 31, 2011 and 2010.

($ in thousands)	Statement presentation	2011	2010
Realized loss on foreign exchange derivatives	Aircraft leasing	(4,840)	(2,143)
Loss on undesignated foreign exchange derivatives	Loss on derivatives	—	(78)

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.

For 2012, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $14 million on our annual operating costs (approximately $10 million for fuel, $2 million for aircraft leasing and $2 million related to other US-dollar denominated operating expenses).

Income taxes

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

Our effective consolidated income tax rate for 2011 was 28.5 per cent, as compared to 32.4 per cent in 2010. The decrease in our effective tax rate was primarily due to higher comparative earnings. As earnings increase, the impact of relatively fixed permanent differences (expenses which are non-deductible from taxable income) on the overall effective tax rate is less pronounced, resulting in a corresponding decrease in the rate.

The 2011 effective consolidated income tax rate fell slightly below our previously-communicated range of 29 to 30 per cent, due mainly to higher-than-forecasted earnings. For 2012, we anticipate that our annual effective consolidated income tax rate will range between 28 and 30 per cent and that we will begin accruing current taxes which will become cash payable in early 2013.

GUEST EXPERIENCE

At WestJet, we are focused on meeting the needs of our guests while maintaining the highest safety standards. We are committed to delivering a positive guest experience at every stage of our service, from the time the flight is booked to its completion.

Key performance indicators

On-time performance and completion rates are calculated based on the U.S. Department of Transportation's standards of measurement for the North American airline industry. On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring our guest experience. The completion rate indicator represents the percentage of flights completed from flights originally scheduled. Our bag ratio represents the number of delayed or lost baggage claims made per 1,000 guests.

	Three months ended December 31			Twelve months ended December 31		
	2011	2010	Change	2011	2010	Change
On-time performance	77.9%	75.4%	2.5 pts.	76.8%	77.8%	(1.0 pts.)
Completion rate	99.5%	99.2%	0.3 pts.	99.3%	99.1%	0.2 pts.
Bag ratio	2.50	3.02	17.2%	2.68	3.39	20.9%

During the fourth quarter of 2011, our on-time performance increased by 2.5 points due to our focus and improvement with our first flight of the day; our completion rate increased by 0.3 points and our bag ratio improved by 17.2 per cent. The improvement we saw in our bag ratio in the fourth quarter was in-line with the trend we saw throughout the year as our 2011 bag ratio significantly declined by 20.9 per cent to 2.68 from 3.39 in 2010 which was mainly attributable to the introduction of new scanning technologies in Calgary and Toronto during 2011. Our completion rate remained strong for 2011 at 99.3 per cent versus 99.1 per cent in 2010 and our on-time performance decreased slightly by 1.0 points to 76.8 per cent from 77.8 per cent in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. We continued to maintain one of the most favourable balance sheets in the North American airline industry in 2011.

We completed 2011 with a healthy cash and cash equivalents balance of $1,243.6 million, compared to $1,159.3 million at December 31, 2010. This increase in our cash position was a result of our positive cash flow from operations of $506.4 million more than offsetting the $118.4 million in capital expenditures, the $199.2 million in debt repayments and the combined total of $109.6 million spent on our dividend and share buy-back programs in 2011.

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, 2011, was $432.2 million, an increase of 28.3 per cent from $336.9 million at December 31, 2010. Typically, we have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities, when due, under both normal and stressed conditions. At December 31, 2011, we had cash on hand of 2.88 (2010 – 3.44) times our advance ticket sales balance. Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are invested primarily in debt instruments from highly-rated financial institutions, many with provincial-government-backed guarantees. At December 31, 2011, 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 at December 31, 2011 was 1.51, which took into consideration $1,241.8 million in off-balance-sheet aircraft operating leases. This is an improvement of 5.6 per cent from our adjusted debt-to-equity of 1.60 at December 31, 2010, mainly due to the increase in shareholders' equity as a result of net earnings offsetting the net increase in our aircraft financing and equity costs associated with our share buy-back and dividend programs. At December 31, 2011, our adjusted net debt to EBITDAR ratio improved by 25.7 per cent to 1.39, compared to 1.87 at December 31, 2010, attributable to the increase in our EBITDAR and cash and cash equivalents. Both of these ratios remain strong relative to the North American airline industry, and have exceeded our internal targets for December 31, 2011 and 2010, of an adjusted debt-to-equity measure and an adjusted net debt to EBITDAR ratio of no more than 3.00.

We have available a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available to a maximum of $76.5 million (2010 – $80.8 million), is secured by our Calgary Campus facility and expires in May 2012. The line of credit bears interest at prime plus 0.50 per cent per annum, or a banker's 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 an annual standby fee of 15 basis points, based on the average unused portion of the line of credit for the previous quarter, payable quarterly. At December 31, 2011, no amounts were drawn on this facility (2010 - $nil).

Operating cash flows

During 2011, cash from operations increased to $506.4 million compared to $418.8 million in 2010, representing an improvement of 20.9 per cent. This year-over-year increase was a direct result of higher net earnings from operations compared to prior year. Similarly, on a per share basis, our operating cash flow increased to $3.60 per share, as compared to

$2.89 per share in 2010, representing an increase of 24.6 per cent year over year. The increase in our operating cash flow per share also relates to higher net earnings in 2011 compared to 2010.

Included in operating activities for the year ended December 31, 2011, was an increase in restricted cash of $19.7 due to the increase in WestJet Vacation's requirement to place cash in trust in accordance with regulatory requirements governing advance ticket sales for certain travel-related activities. At December 31, 2011 restricted cash consists of $41.4 million (2010 - $21.6 million) for cash held in trust by WestJet Vacations; $6.6 million (2010 - $6.7 million) for security on letters of guarantee; and, in accordance with US regulatory requirements, $0.3 million (2010 –$0.3 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

Cash used in investing activities for 2011 totalled $118.4 million, as compared to $48.6 million in 2010. In 2011, investing cash flow activities consisted of $61.3 million in aircraft related additions, an increase of $31.4 million over the $29.9 million in the prior year. This increase was due mainly to the new 737-700 aircraft purchased in January 2011, whereas 2010 related mostly to deposits paid on aircraft during the year. At December 31, 2011, the 737-700 aircraft we purchased in the first quarter of 2011 remains unencumbered. In 2011, we incurred $57.1 million in other property and equipment and intangibles additions as compared to $18.7 million in the prior year due primarily to the US $17.6 million paid for the eight landing slot pairs at New York's LaGuardia airport and $18.9 million in expenditures on spare engines and standard rotable parts.

Financing cash flows

During 2011, our financing cash outflow of $302.6 million consisted largely of long-term debt repayments of $199.2 million, dividends paid of $35.0 million as well as shares repurchased pursuant to our normal course issuer bid of $74.6 million. Included within the $199.2 million in long-term debt repayments was US $21.8 million associated with the early repayment of the US-dollar denominated long-term facility which was originally scheduled for maturity in 2014 and used to finance one 800 series aircraft. In the prior year, financing cash outflow of $204.0 million was attributable to long-term debt repayments of $165.0 million as well as share repurchases of $31.4 million.

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 total number of aircraft financed with loan guarantees is 52, with an outstanding debt balance of $828.1 million associated with those aircraft. All of this debt has been financed in Canadian dollars at fixed interest rates, 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 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 our financial statements for the year ended December 31, 2011 and 2010.

At December 31, 2011, we had 37 remaining purchased aircraft commitments, for delivery between 2012 and 2018. We regularly review financing alternatives available to us for our future direct aircraft deliveries. On February 2, 2012, Ex-Im Bank authorized a final commitment of US $77.6 million to support the financing of the two 737-800 aircraft to be delivered in February and June of 2012. The final commitment amount provides for an exposure fee of 4.0 per cent on the financed portion of the aircraft price to be included under the guarantee. We will be charged a commitment fee of 0.2 per cent per annum on the non-cancelled and non-disbursed portion of the final commitment, and in accordance with the 2011 Aircraft Sector Understanding, the commitment fee shall accrue as of January 31, 2011. Upon delivery of the second aircraft in June of 2012, any unused portion of the final commitment will be cancelled.

In connection with the guarantee from Ex-Im Bank, we arranged for funding with a Canadian chartered bank in December 2011. The facilities will be financed in Canadian dollars and amortized over a 12-year term, each repayable in fixed principal instalments plus a floating rate of interest equal to the three month Canadian dealer offer rate plus 75 basis points. To mitigate the impact of floating interest rates on our earnings, we entered into swap agreements with the same Canadian chartered bank to fix the interest rates over the 12-year term at rates of 2.89 per cent and 2.99 per cent, inclusive of the margin of 75 basis points, for the February and June 2012 deliveries, respectively. Refer to Financial instruments – Interest rate risk on page 22 of this MD&A for further information.

We have yet to pursue financing for our aircraft commitments for 2013 and onwards.

Free cash flow

Free cash flow is a measure that represents the cash that a company is able to generate after meeting its requirements to maintain or expand its asset base. It is a calculation of operating cash flow, less the amount of cash used in investing activities related to property and equipment. Our free cash flow for the year ended December 31, 2011, was $388.0 million, as compared to $370.2 million in the prior year, representing an increase of 4.8 per cent. Our 2011 free cash flow per share was $2.76 as compared to $2.55 in 2010, a year-over-year increase of 8.2 per cent. These increases were due to the improvement in our cash flow from operations more than offsetting the increase in our investments in property and equipment. Free cash flow per share further benefited from the year-over-year reduction in our diluted weighted average shares outstanding as a result of shares repurchased during the year pursuant to our normal course issuer bid.

Please refer to page 41 of this MD&A for a reconciliation of the non-IFRS measures listed above, including free cash flow and free cash flow per share, to the nearest measure under IFRS.

Contractual obligations and commitments

At December 31, 2011, our contractual obligations, which do not include commitments for goods and services required in the ordinary course of business, are indicated in the following table:

($ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years
Long-term debt repayments	828,712	158,832	319,100	222,194	128,586
Obligations under finance leases	5,596	245	490	490	4,371
Operating leases and commitments [(i)]	1,161,047	219,271	400,588	279,747	261,441
Purchase obligations [(ii)]	1,638,569	101,240	428,392	715,907	393,030
Total contractual obligations	3,633,924	479,588	1,148,570	1,218,338	787,428

(i) Relates to operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming. Included within the amounts are US dollar obligations, converted at the period exchange rate of 1.0169 Canadian dollars to one US dollar, of: within one year - US $191,462; 1 – 3 years - US $371,634 (2013 – US $186,694 and 2014 - US $184,940); 3 – 5 years – US $262,846 (2015 - US $150,010 and 2016 - US $112,836) and Over 5 years – US $215,642.

(ii) Relates to purchased aircraft. The purchase obligations in US dollars, converted at the period exchange rate of 1.0169 Canadian dollars to one US dollar are: within one year - US $99,550; 1 – 3 years - US $421,238 (2013 – US $220,525 and 2014 - US $200,713); 3 – 5 years – US $703,952 (2015 - US $363,251 and 2016 - US $340,701) and Over 5 years– US $386,466.

Capital requirements

During 2011, we took delivery of five leased aircraft: three 737-700s and two 737-800s and purchased one new 737-700 series aircraft, funded by cash from operations, increasing our total registered fleet to 97 aircraft at December 31, 2011. Under our current fleet plan, we have 33 aircraft leases expiring between 2013 and 2018, each with the option to renew, and firm commitments to take delivery of an additional 38 aircraft (one leased and 37 direct purchases). This provides us with the flexibility to end 2018 with a fleet size between 102 and 135 aircraft, dependent on the exercise of the lease renewal options. Subsequent to year end, we exercised our option to convert one owned 737-700 to a 737-800 aircraft, set for delivery in January 2013. The following table illustrates our current fleet commitments out to 2018:

	Series												Lease expiries with options to renew
	600s			700s			800s			Total Fleet			
	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total	Leased	Owned	Total	Total
Fleet at December 31, 2010	—	13	**13**	27	38	**65**	11	2	**13**	**38**	**53**	**91**	**—**
Fleet at December 31, 2011	—	13	**13**	30	39	**69**	13	2	**15**	**43**	**54**	**97**	**—**
Commitments:													
2012	—	—	—	—	—	—	1	2	**3**	**1**	**2**	**3**	**—**
2013	—	—	—	—	4[(i)]	**4**	—	1	**1**	**—**	**5**	**5**	**(3)**
2014	—	—	—	—	4[(i)]	**4**	—	—	**—**	**—**	**4**	**4**	**—**
2015	—	—	—	—	9[(i)]	**9**	—	—	**—**	**—**	**9**	**9**	**(12)**
2016	—	—	—	—	8[(i)]	**8**	—	—	**—**	**—**	**8**	**8**	**(8)**
2017	—	—	—	—	6[(i)]	**6**	—	—	**—**	**—**	**6**	**6**	**(6)**
2018	—	—	—	—	3[(i)]	**3**	—	—	**—**	**—**	**3**	**3**	**(4)**
Total Commitments	—	—	—	—	34	**34**	1	3	**4**	**1**	**37**	**38**	
Committed fleet as of 2018	—	13	**13**	30	73	**103**	14	5	**19**	**44**	**91**	**135**	**(33)**

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

OFF BALANCE SHEET ARRANGEMENTS

Aircraft operating leases

We currently have 43 aircraft under operating leases. We have entered into agreements with an independent third party to lease one additional 737-800 aircraft for a term of eight years, to be delivered in 2012. Cash flow commitments in connection with these aircraft and other operating commitments totalled $1,161.0 million at December 31, 2011 (2010 - $1,041.6 million), which we expect to fund through cash from operations. Although the current obligations related to our aircraft operating lease agreements are not recognized on our consolidated statement of financial position, we include these commitments in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios discussed previously.

Fuel facility corporations

We have entered into nine arrangements whereby we participate under contract in fuel facility corporations, along with other airlines, to obtain fuel services at major Canadian airports. The fuel facility corporations operate on a cost-recovery basis. The purpose of these corporations is to own and finance the system that distributes fuel to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including the debt service requirements, of the fuel facility corporations are shared pro rata among the contracting airlines. The nine fuel facility corporations are not consolidated within our accounts. In the remote event that all other contracting airlines withdraw from the arrangements and we remained as sole member, we would be responsible for the costs of the fuel facility corporations, including debt service requirements. At November 30, 2011, the nine fuel facility corporations have combined total assets of approximately $436 million and liabilities of approximately $401 million.

Contingencies

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

RELATED-PARTY TRANSACTIONS

During 2010, we engaged a relocation firm to purchase a single family residence from the President and CEO for a guaranteed price of US $1.5 million. On September 30, 2011, the residence was sold for US $1.1 million to an independent third party. We recognized an expense of US $0.5 million plus closing charges of US $0.1 million on the transaction under marketing, general and administration expense for 2011. Additionally, in connection with the relocation, we granted the President and CEO 38,256 RSUs pursuant to our executive share unit plan with a total value of US $0.5 million.

SHARE CAPITAL

Outstanding share data

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

	Number of shares	
	January 31, 2012	December 31, 2011
Issued and outstanding:		
Common voting shares	131,252,093	130,827,446
Variable voting shares	7,034,510	7,453,110
Total voting shares issued and outstanding	138,286,603	138,280,556
Voting shares potentially issuable:		
Stock options	7,333,284	7,350,756
RSUs – Key employee and pilot plan	347,324	353,348
RSUs – Executive share unit plan	201,716	201,716
PSUs	250,941	250,941
Total voting shares potentially issuable	8,133,265	8,156,761
Total outstanding and potentially issuable voting shares	146,419,868	146,437,317

Quarterly dividend policy

On February 7, 2012, our Board of Directors declared our 2012 first quarter dividend of $0.06 per common voting share and variable voting share, an increase of 20 per cent from our previous quarterly amount of $0.05 per share. This is our first increase since the initiation of our dividend program in November 2010. We believe this demonstrates our confidence in delivering continued profitable results and is consistent with our objective of creating and returning value to our shareholders. Our dividend policy is reviewed on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant.

Normal course issuer bid

On November 2, 2010, we filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid (2010 bid) to purchase outstanding shares on the open market. As approved by the TSX, we were authorized to purchase up to 7,264,820 common voting shares and variable voting shares during the period of November 5, 2010 to November 4, 2011. Any shares purchased under the 2010 bid were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. As of August 9, 2011, we successfully completed the 2010 bid with 7,264,820 shares repurchased and cancelled for total consideration of $106.0 million. During the year ended December 31, 2011, we repurchased and cancelled 4,926,090 shares for total consideration $74.6 million.

Subsequent to year end, on February 7, 2012 we filed a notice with the TSX for a further normal course issuer bid (2012 bid) to purchase outstanding shares on the open market. As approved by the TSX, we are authorized to purchase up to 6,914,330 common voting shares and variable voting shares (representing approximately 5 per cent of our issued and outstanding at the time of the bid) during the period of February 10, 2012 to February 9, 2013, or until such time as the bid is completed or terminated at our option. Any shares purchased under the 2012 bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transactions. Common voting shares and variable voting shares acquired under the 2012 bid will be cancelled.

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

OUTLOOK

Our strong 2011 results are indicative of our ability to consistently execute on our strategy of profitable growth. Our capacity increases continue to be absorbed by the market and we have managed to maintain a healthy load factor while improving yield. Despite ongoing broader economic uncertainty, we have not seen any negative impact to our forward bookings and expect modest year-over-year RASM growth for the first quarter of 2012.

We will add three 737 aircraft to our fleet in 2012, with deliveries scheduled for February, June and December. This will bring our total fleet count to 100 Boeing 737 aircraft by the end of this year. We anticipate capacity growth of approximately four per cent for the full-year 2012. Capacity increases are expected to be between eight and nine per cent year-over-year in the first quarter of 2012 and more moderate in the remaining quarters. We are projecting limited domestic capacity growth of between 0.5 to one per cent for the full-year, and a four to five per cent year-over-year increase in the first quarter of 2012.

We expect fuel costs, excluding hedging, to range between $0.93 and $0.95 per litre for the first quarter of 2012. This is based on current forecasted jet fuel prices of US $131 per barrel and an average foreign exchange rate of approximately 1.01 Canadian dollars to one US dollar. We anticipate our full-year 2012 CASM, excluding fuel and employee profit share, to be flat to up one per cent when compared to 2011.

For the full-year 2012, capital expenditures of approximately $165 to $175 million are projected, with the majority of the spending related to the two direct owned aircraft deliveries, deposits on future aircraft, overhauls on owned engines and rotable purchases. For the first quarter of 2012, we expect our capital expenditures to range between approximately $45 and $50 million.

It will be an exciting year for WestJet in 2012 as we continue to grow our airline partnerships, increase the value we provide for business travellers, improve on our self-service options and prepare for the launch of a new low-cost short-haul regional airline, which could be as early as 2013. We are thrilled about the opportunity to provide more Canadians with access to lower fares and our friendly guest experience. With the support of our engaged WestJetters, we look forward to applying our proven, low-cost business model to regional flying. Our enviable balance sheet and healthy underlying fundamentals have us well positioned to continue to generate value for our shareholders and grow profitably.

Guidance Summary (i)

	Three months ended March 31, 2012	Year ended December 31, 2012
RASM	Modest growth	
Fuel cost per litre	$0.93 to $0.95	
CASM, excluding fuel and profit share		Flat to up 1.0%
System capacity	8.0% to 9.0%	Approximately 4.0%
Domestic capacity	4.0% to 5.0%	0.5% to 1.0%
Effective tax rate		28.0% to 30.0%
Capital expenditures	$45 to $50 million	$165 to $175 million

(i) Guidance excludes any possible impacts from the launch of a regional airline.

FINANCIAL INSTRUMENTS

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

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

Overall, our Board of Directors has responsibility for the establishment and approval of our risk management policies. 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 affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. In accordance with our fuel hedging policy, in order to provide management with reasonable foresight and predictability into operations and future cash flows, we periodically use fuel derivatives to hedge a portion of our future anticipated jet fuel requirements. Upon proper qualification, we designate 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, 2011 and 2010, including the business purposes they serve; risk management activities; the financial statement classification and amount of income, expense, gain and loss associated with the instruments; and the significant assumptions made in determining their fair value, please refer to 2011 Results of operations – Aircraft fuel on page 11 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 liabilities and our US-dollar-denominated operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operation costs. To manage our exposure, we periodically use financial derivative instruments, including US-dollar foreign exchange forward contracts 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 derivatives, including the business purposes they serve; risk management activities; the financial statement classification and amount of income, expense, gain and loss associated with the instruments; and the significant assumptions made in determining their fair value, please refer to 2011 Results of operations – Foreign exchange on page 14 of this MD&A.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on short-term investments included in our cash and cash equivalents balance. A change of 50 basis points in the market interest rate would have had an approximate impact on net earnings of $4.4 million for the year ended December 31, 2011 (2010 – $3.8 million) as a result of our cash and cash equivalents. We are also exposed to interest rate fluctuations on our deposits that relate to purchased aircraft and airport operations which, at December 31, 2011, totalled $28.4 million (2010 – $28.3 million). A reasonable change in market interest rates at December 31, 2011, would not have significantly impacted our net earnings due to the small size of these deposits. The fixed-rate nature of the majority of our long-term debt mitigates the impact of interest rate fluctuations over the term of the outstanding debt. We account for our long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates at December 31, 2011, would not impact net earnings. During 2011, we entered into two interest rate swap contracts to fix the interest rate on the two variable-rate facilities we secured in December 2011 on the aircraft deliveries scheduled for February and June 2012. At December 31, 2011, the fair value of the interest rate swaps was $0.5 million, of which $0.1 million was recorded in accounts payable and accrued liabilities and $0.4 million in other long-term liabilities.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2011, 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.

($ in thousands)	2011	2010
Cash and cash equivalents (i)	1,243,605	1,159,316
Restricted cash (i)	48,341	28,583
Accounts receivable (ii)	34,122	17,518
Deposits (iii)	28,386	28,258
Derivative financial instruments (iv)	12,273	5,689

(i) Consists of bank balances and short-term investments with terms of up to one year, with the majority having terms less than 97 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions, some with provincial-government-backed guarantees. We manage our exposure by assessing the financial strength of our counterparties and by limiting the total exposure to any one individual counterparty.

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

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

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

Liquidity risk

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

The table below presents a maturity analysis of our undiscounted contractual cash flow for our non-derivative and derivative financial liabilities as at December 31, 2011. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date, and includes both principal and interest cash flows for long-term debt and obligations under capital leases.

($ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years
Accounts payable and accrued liabilities (i)	284,902	284,902	–	–	–
Long-term debt	975,770	204,770	382,271	250,723	138,006
Obligations under finance leases	5,596	245	490	490	4,371
Total	1,266,268	489,917	382,761	251,213	142,377

(i) Excludes current portion of maintenance provisions of $245, deferred frequent guest program revenue of $22,020 and interest rate derivative liabilities of $112.

Fair value of financial instruments

Fair value represents a point-in-time estimate. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities included in the statement of financial position approximate their fair values because of the short-term nature of the instruments. 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, 2011, the fair value of our fixed-rate long-term debt was approximately $937.3 million (2010 – $1,142.0 million). The fair value of our fixed-rate long-term debt is determined by discounting the future contractual cash flow under current financing arrangements at discount rates obtained from the lender, which represent borrowing rates presently available to us for loans with similar terms and remaining maturities. At December 31, 2011, rates used in determining the fair value ranged from 1.28 per cent to 1.61 per cent (2010 – 2.00 per cent to 2.74 per cent). Though interest rates have dropped, our fair value of long-term debt decreased due to the decline in our long-term debt balances. The fair value of our variable-rate long-term debt approximates its carrying value, as it is at a floating market rate of interest. Please refer to 2011 Results of operations – Aircraft fuel and 2011 Results of Operations – Foreign exchange on pages 11 and 14, 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.

RISKS AND UNCERTAINTIES

The risks described below are not intended to be an exhaustive list of all risks facing the Company. Other risks of which we are not currently aware or which we currently deem immaterial may surface and have a material adverse impact on our business. Management performs a risk assessment on a continual basis to ensure that significant risks related to our airline have been reviewed and assessed.

Risks relating to the business

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

Fuel price volatility continues to represent a significant risk, as the cost of fuel has seen historically elevated levels throughout the past few years and is largely unpredictable. Fuel prices are affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity and global demand and supply. A small change in the price of fuel can significantly affect profitability. Our ability to react to fuel price volatility may be delayed and affected by factors outside our control and by factors such as our low-cost high value philosophy, the portion of our customer segment that travels on a discretionary basis for leisure, and the demand impact resulting from fare increases.

Our fuel costs constitute our largest single expense category, representing approximately 33 per cent of operating costs in 2011 and approximately 28 per cent in 2010. Our low cost structure has been one of our core strategic advantages and facilitates our ability to offer our customers lower fares, which in turn allows us to increase market share and yield, and impact our growth strategy. Therefore, the price of fuel has affected, and could continue to affect, the timing and nature of our growth initiatives, and our ability to hedge our fuel costs on a cost-effective basis may be limited and the effects of accounting for hedges could adversely affect our financial results.

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

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

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

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

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

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

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

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

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

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

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

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

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

We are dependent on single aircraft and engine suppliers. 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 if Boeing was 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 of aircraft to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs and, additionally, aircraft may not be available at similar prices or received during the same scheduled delivery dates, which could adversely affect our business, operating results and financial condition. In addition, we would be materially adversely affected in the event of a mechanical or regulatory issue associated with the Boeing 737 aircraft type, including negative perceptions from the travelling community.

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

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

Inability to retain key personnel could harm our business.

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

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

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

We are exposed to foreign exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated net monetary assets and our operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs and a portion of airport operation costs. Since our 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 purchase of the remaining 37 737 aircraft for which we have purchase commitments. Historically, the purchase of our aircraft is financed by funds drawn in Canadian dollars; however, the aircraft are paid for in US funds at the date of each aircraft delivery. As a result, we are exposed to foreign currency fluctuations prior to each delivery date. We took delivery of one purchased 737-700 in January 2011, which was funded by cash from operations. We continuously review financing alternatives available to us for our future direct aircraft deliveries. We are also exposed to general market fluctuations of interest rates, as we have future aircraft purchase commitments that will be financed at prevailing market rates.

Our maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2011, was 5.8 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, 2011, 70 aircraft have come off warranty, with an additional six coming off warranty in 2012.

In 2012, we expect to overhaul six engines and 14 sets of landing gear, at an estimated cost of approximately US $25 million and US $3.6 million, respectively. The engines that are scheduled for overhaul in 2012 are owned and in accordance with our accounting policies the costs are separately capitalized and amortized over the period until the next overhaul.

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

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

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

Our debt and other fixed obligations could impact our ability to obtain additional financing to support capital expansion plans and working capital requirements on suitable terms. Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cash flow. The failure to generate sufficient operating cash flow to meet our fixed obligations could harm our business. Changes in the conditions of the equity capital markets, the debt capital markets and the commercial bank market, as well as regulatory or other government-imposed changes, could adversely impact WestJet's access to and cost of financing which could harm our ability to meet our growth strategy.

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

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

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

The airline business is labour intensive. Salaries and benefits represented approximately 17 per cent of WestJet's operating expenses for the year ended December 31, 2011. Employment-related issues that may impact WestJet's results of operations include hiring/retention rates, pay rates, outsourcing costs and the costs of employee benefits. Significantly increased labour costs, combined with curtailed growth, could negatively impact WestJet's competitive position.

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

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

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

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

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

Risks relating to the airline industry

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

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

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

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

There is a possibility that a significant terrorist attack, pandemic or geological event could have a material impact on our operations, which could also negatively impact the insurance market and our ability to obtain coverage at current terms.

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

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

General worldwide economic conditions have experienced a downturn due to the effects of the European debt crisis, unfavourable U.S. economic conditions and slowing growth in certain Asian economies, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. 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.

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

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

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

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

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

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

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

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

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

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

After the terrorist attacks of September 11, 2001, the airline industry experienced a 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. Any future incidents causing a heightened concern over potential terrorist attacks could cause a further decrease in guest traffic and yields, and an increase in security measures and related costs for the airline industry generally. Additional terrorist attacks would likely have a 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 due to weather conditions and work stoppages or strikes by airport workers, baggage handlers, air traffic controllers and other workers not employed by us could have a material adverse impact on our financial condition and operating results. Delays contribute to increased costs and decreased aircraft utilization, which negatively affect profitability.

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

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

A widespread outbreak of widespread illness (whether domestic or international) or any governmental or World Health Organization travel advisories (whether relating to Canadian or international cities or regions) could affect our ability to continue full operations and could materially adversely affect demand for air travel. We cannot predict the likelihood of such a public health emergency or the effect that it may have on our business or the market price of our securities. However, any significant reduction in guest traffic on our network could have a material adverse effect on our business, results from operations and financial condition.

Governmental fee increases discourage air travel.

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

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

ACCOUNTING

Critical accounting estimates and judgments

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

Judgments

(i) Componentization

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

(ii) Depreciation and amortization

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

(iii) Impairment

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

(iv) Lease classification

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

Estimates

(i) Depreciation and amortization

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

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

Included in intangible assets are costs related to software and landing rights, which are carried at cost less accumulated amortization and are amortized on a straight-line basis over their respective useful life of five and 20 years.

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

(ii) Maintenance provisions

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

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

(iii) Fair value of awards and breakage associated with the Frequent Guest Program (FGP)

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

(iv) Income taxes

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

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

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

(v) Impairment of assets

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

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

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

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

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

(v) Fair value of derivative instruments

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

The fair value of derivative instruments is estimated using inputs, including forward commodity prices, foreign exchange rates, interest rates and volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of our derivative instruments are subject to regular changes in fair value each reporting period. Refer to 2011 Results of operations – Aircraft fuel and 2011 Results of Operations – Foreign exchange on pages 11 and 14, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of our derivatives designated in an effective hedging relationship.

Transition to IFRS

We transitioned to IFRS effective January 1, 2011 with the 2010 comparable information restated for IFRS. The adoption of IFRS has not changed our strategy nor has it impacted our underlying business activities. The following discussion describes the principal adjustments we made in restating our Canadian GAAP consolidated financial statements to IFRS for the year ended December 31, 2010 as well as the opening statement of financial position as at January 1, 2010.

Exemptions applied

IFRS 1 contains mandatory and optional exemptions required by publicly accountable enterprises adopting IFRS for the first time. We assessed each of the mandatory and optional exemptions in detail and concluded there was no impact to the recognition, measurement, presentation or disclosure of past transactions related to these exemptions.

We applied the optional transitional exemption under IFRS 1 – First-time Adoption of International Financial Reporting Standards in the preparation of these consolidated financial statements. IFRS 1 provides the option to apply International Financial Reporting Interpretations Committee (IFRIC) 4 – Determining Whether an Arrangement Contains a Lease, to arrangements existing at the transition date on the basis of facts and circumstances at that date. The result of this election allows us to determine whether an arrangement contains a lease at the date of transition based on the facts and circumstances existing at that date instead of making this determination at the original inception of the arrangement. Based on the analysis performed, there are no effects to our accounts from the adoption of IFRIC 4.

Transition impacts

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed our actual cash flows, it has resulted in changes to our reported financial position and results of operations.

Recast information

Since the first IFRS interim condensed consolidated financial statements were reported as at and for the periods ending March 31, 2011 and 2010, we have amended our opening statement of financial position balance for maintenance provisions to reflect an adjustment to the pre-tax, risk-free discount rate as at January 1, 2010. This adjustment reflects a discount rate equal to the remaining term until cash flow instead of the full term of the aircraft lease. The resulting effect is an adjustment of $6.5 million to the opening statement of financial position balances for long-term maintenance provisions, $1.7 million to deferred income tax and $4.8 million to retained earnings from those amounts reported at March 31, 2011.

Significant IFRS accounting policy differences

IAS 16 – Property, Plant and Equipment

Aircraft are required to have periodic maintenance performed at predetermined time intervals to maintain the integrity and efficiency of the aircraft and its major components, including the airframe, landing gear, and engines.

(i) Componentization

Canadian GAAP: Maintenance and repair costs for owned aircraft and aircraft under operating leases, including major overhauls, were charged to expense at the time maintenance was performed.

IFRS: For owned aircraft, each item of property and equipment with a significant cost in relation to the total cost and/or a different useful life is required to be depreciated separately. The costs of activities that restore the service potential of airframes, engines and landing gear are considered components of the aircraft and are separately capitalized and amortized over the period until the next overhaul.

For aircraft under operating leases, where we are required to return the aircraft to the lessor in a specified condition, a provision is recorded. See discussion under section IAS 37 – Provisions, contingent liabilities and contingent assets for more information.

Impact: More aircraft components with different useful lives were recognized under IFRS. This resulted in increased depreciation expense, as certain components have a shorter useful life than under Canadian GAAP. However, this increase is offset by a decrease in maintenance expense, as the costs to perform major maintenance are now capitalized whereas they were previously expensed. There is no change to the cost of maintenance activities and no overall impact to earnings over the life of the aircraft, only a timing difference in expense recognition.

(ii) Depreciation

Canadian GAAP: Depreciation of owned aircraft was based on aircraft cycles. Aircraft were amortized over a range of 30,000 to 50,000 cycles with one cycle being defined as the aircraft leaving the ground and landing.

IFRS: As a result of componentization described above, we were required to assess the useful lives and depreciation methods of each newly identified aircraft component. The result was a change to the depreciation method for aircraft components to the straight-line method. We have determined that the expected useful life of the aircraft under IFRS is 20 years based on the expected pattern of consumption of future economic benefits embodied in the aircraft components. The useful life of an overall component ranges depending upon the time intervals required between planned major maintenance events.

Impact: Total depreciation over the life of the aircraft is unchanged under IFRS. There is only a timing difference in expense recognition.

(iii) Asset retirement obligations (ARO)

Canadian GAAP: For aircraft under operating leases, amounts relating to future lease return obligations including the painting of the tail and the removal of the in-flight entertainment and passenger briefing system were initially measured at fair value and recorded as a liability with a corresponding increase to the carrying value of the related asset (aircraft), which was amortized on a straight line basis over the term of the lease.

IFRS: Future lease return obligations are assessed as a provision under IAS 37. There is no property and equipment asset recognized related to future lease return obligations for our aircraft under operating lease.

Impact: On transition, the ARO asset and liability previously recorded under Canadian GAAP were written off to retained earnings. The amortization expense and accretion expense recognized on the ARO asset and liability under Canadian GAAP in 2010 was reversed under IFRS. The obligation to return aircraft under operating lease in a specified condition previously recorded as a liability under Canadian GAAP was reclassified as a provision under IAS 37.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

(i) Maintenance provisions for aircraft under operating lease

Aircraft leasing agreements require us to return aircraft to the lessor in a specified condition. This requires us to incur maintenance costs related to the aircraft's engines, landing gear and airframe as well as the painting of the tail and the removal of the in-flight entertainment and passenger briefing systems.

Canadian GAAP: Maintenance costs on leased aircraft were expensed as incurred as the definition of a liability was not met under Canadian GAAP until the time the maintenance activity was performed.

IFRS: The definition of a provision under IFRS has a broader scope as compared to Canadian GAAP. As such, a maintenance provision is recognized for leased aircraft. Both a current and long-term provision is recognized based on the expected timing of maintenance costs to be incurred. Accretion expense is recognized each period on the maintenance provisions for the unwinding of the present value discount. Provision amounts denominated in US dollars are revalued to Canadian dollars at each reporting period until settlement.

Impact: The adoption of this standard created a maintenance provision on the consolidated statement of financial position. There is no overall increase to maintenance expense over the term of the lease, only a timing difference in expense recognition. Finance costs are also increased due to the recording of accretion expense for the unwinding of the discount on the maintenance provision liabilities. A foreign exchange gain or loss is recognized on the revaluation of the US-dollar denominated maintenance liabilities at each reporting period.

(ii) Maintenance reserves

Certain aircraft lease agreements require us to pay maintenance deposits to the lessor based on predefined cycle and flight hour formulas. These payments are intended to provide the lessor with collateral should an aircraft not be returned in the condition specified in the lease agreement. When qualifying maintenance is performed, we are entitled to be reimbursed by the lessor up to a maximum of the amounts previously deposited with the lessor.

Canadian GAAP: Payments made to the lessor were expensed as incurred and reimbursements were recognized as receivables and a related reduction to maintenance expense when qualifying maintenance was performed.

IFRS: To the extent maintenance deposits paid to the lessor are expected to be recoverable through qualifying maintenance activities, a maintenance reserve asset is recorded. As qualifying maintenance is performed and reimbursed, the maintenance reserve is drawn down. Any amounts deposited that are not expected to be recoverable through future qualifying maintenance activities are expensed as incurred. We recognize both a current and long-term maintenance reserve based on the expected timing of reimbursements. Maintenance deposits denominated in US dollars are revalued to Canadian dollars at each reporting period until settlement.

Impact: Creation of a maintenance reserve asset on the consolidated statement of financial position and a one-time reduction in maintenance expense recognized on transition. A foreign exchange gain or loss is recognized at each reporting period for the revaluation of the US-dollar denominated maintenance reserve asset.

(iii) Soft dollar credit files

Credit files are presented on the consolidated statement of financial position as non-refundable guest credits. These credits are made up of both soft dollar and hard dollar credit files. Soft dollar credit files are provided to guests for inconveniences such as flight and baggage delays as a sign of goodwill to be used towards future travel. Hard dollar credit files are provided to guests for flight changes and cancellations, as well as for the purchase of gift certificates.

Canadian GAAP: Soft dollar credit files issued were recorded as an expense and related liability upon issuance at the incremental cost of flying an additional guest.

IFRS: Soft dollar credit files do not require a performance obligation to be fulfilled by us nor are they issued as part of a sales transaction. As a result, no obligation or liability is recognized under IFRS at the time when a soft dollar credit file is issued. When soft dollar credit files are redeemed by the guest they are recognized as a reduction to guest revenue for the full amount of the credit.

Impact: Elimination of the soft dollar credit file liability on transition with a related increase to retained earnings. There was no effect on hard dollar credit files due to the adoption of IFRS.

IAS 39 – Financial Instruments: Recognition and Measurement

WestJet has incurred various transaction costs, including agency, advisory and legal fees, related to its aircraft debt financing.

Canadian GAAP: As permitted under Canadian GAAP, these transaction costs were expensed as incurred.

IFRS: Requires costs that are incremental and directly attributable to the acquisition of a financial liability to be included in the initial measurement of the financial liability. These costs are recorded against the liability and amortized using the effective interest rate method over the term of the debt. The expense is recorded as a finance cost in the consolidated statement of earnings.

Impact: On transition, current and long-term debt was reduced with a related increase to retained earnings. Finance costs are increased for the amortization of the transaction costs.

Other IFRS Adjustments

Other IFRS transitional adjustments relate to changes in the measurement of share-based payment expense and leases, specifically sale and leaseback transactions, among others.

Share-based payment expense for our stock options is now recognized over a longer service period for certain employees, and incorporates an estimated forfeiture rate on the number of instruments expected to vest at the date of grant. There is no change to total expense from these IFRS changes, only a difference in the period of expense allocation.

IFRS requires the gain from the sale and leaseback of aircraft to be recognized immediately. We previously deferred and amortized this gain over the term of the lease. There was no change to the total gain, only a timing difference in its recognition.

The share-based payment expense, lease and other changes under IFRS are not material individually or in aggregate to the consolidated financial statements.

Changes to deferred income tax assets and liabilities and the related deferred tax expense or benefit are the direct result of changes to the accounting values from Canadian GAAP to IFRS. There is no recognition and measurement difference between Canadian GAAP and IFRS related to our deferred tax accounts. There are some presentation and disclosure differences under IFRS including the derecognition of any current deferred income tax assets or liabilities in favour of disclosing only a long-term deferred income tax asset or liability.

Future accounting pronouncements

The International Accounting Standards Board (IASB) and IFRIC have issued the following standards and amendments that have not been applied in preparing our annual 2011 consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standards and amendments	Description	Previous standard	Effective date (i)
IFRS 10 – Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	SIC-12 – Consolidation – Special Purpose Entities IAS 27 – Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 – Interests in Joint Ventures SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-balance-sheet vehicles.	Various – no direct replacement	January 1, 2013
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various – no direct replacement	January 1, 2013
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

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

We continue to evaluate the potential qualitative impact of these new standards on financial statement measurements and disclosures. We do not anticipate early adopting these standards at this time.

CONTROLS AND PROCEDURES

Disclosure controls and procedures (DC&P)

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the 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 design of our DC&P was conducted, as at December 31, 2011, 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, 2011, our DC&P, as in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

Internal control over financial reporting (ICFR)

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. 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 IFRS, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our annual consolidated financial statements.

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

Management, under the supervision of the CEO and the CFO, has evaluated the design of our ICFR using the framework and criteria established in Internal Controls – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO has concluded that as at December 31, 2011, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2011 that have materially affected, or are reasonably likely to affect, our ICFR.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of WestJet's future plans and operations and contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation: our belief that a short-haul aircraft combined with the WestJet brand, balance sheet strength and low cost structure will allow us to profitability accomplish four main goals, referred to under the heading "Expanding our reach" on page 4; our belief that the launch of a regional airline will be a significant undertaking that will materially impact our future results of operations, financial position and cash flows, referred to under the heading "Expanding our reach" on page 4; our plan to move to the next stage of implementation of a low-cost regional airline by sending requests for proposal to two aircraft manufactures, referred to under the heading "Expanding our reach" on page 4; our long-term goal of establishing partnerships with airlines from all major geographical regions, referred to under the heading "Expanding our reach" on page 4; our expectations with respect to frequent year-round service to New York City, referred to under the heading "Expanding our reach" on page 4; our estimated sensitivity to fuel costs and changes in fuel pricing, referred to under the heading "Aircraft fuel" on page 11; our sensitivity to the change in value of the Canadian dollar versus the US dollar, referred to under the heading "Foreign exchange" on page 14; our expected annual effective tax rate for 2012, referred to under the heading "Income taxes" on page 15; our expectation that we will begin accruing current taxes in 2012 which will become cash payable in early 2013, referred to under the heading "Income taxes" on page 15; our expectation that upon delivery of the second aircraft in June of 2012, any unused portion of the final commitment from Ex-Im bank will be cancelled, referred to under the heading "Financing cash flows" on page 17; our expectation that the two loan facilities will be financed in Canadian dollars and amortized over a 12-year term, each repayable in fixed principal instalments plus a floating rate of interest equal to the three month Canadian dealer offer rate plus 75 basis points, referred to under the heading "Financing cash flows" on page 17; our expectation that we will fund operating leases and commitments through cash from operations, referred to under the heading "Aircraft operating leases" on page 19; our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flow, referred to under the heading "Contingencies" on page 19; our intention to pay our first-quarter dividend to shareholders of record on March 14, 2012 on March 30, 2012, referred to under the heading "Quarterly dividend policy" on page 20; our intention to purchase shares pursuant to the normal course issuer bid on the open market through the facilities of the TSX, referred to under the heading "Normal course issuer bid" on page 20; our intention to cancel any shares purchased under the normal course issuer bid, referred to under the heading "Normal course issuer bid" on page 20; our expectation of modest year-over-year RASM growth in the first quarter of 2012, referred to under the heading "Outlook" on page 21; our plans to add three 737 aircraft to our fleet in 2012, referred to under the heading "Outlook" on page 21; our expectation that our year-over-year capacity will increase by approximately four per cent for full-year 2012, referred to under the heading "Outlook" on page 21; our expectation that system capacity will increase between and eight and nine per cent in the first quarter of 2012, referred to under the heading "Outlook" on page 21; our projection of limited domestic capacity growth year over year between 0.5 and one per cent for the full year, and a four to five per cent year-over-year increase in the first quarter of 2012, referred to under the heading "Outlook" on page 21; our projected first quarter 2012 fuel costs, referred to under the heading "Outlook" on page 21; our expectation that our 2012 full-year CASM, excluding employee profit share, to be flat to up one per cent when compared to 2011, referred to under the heading "Outlook" on page 21; our expectation that our full-year 2012 capital expenditures will range between $165 million and $175 million, with the majority of the spending related to our two direct owned aircraft, deliveries deposits on future aircraft, overhauls on owned engines and rotable purchases, referred to under the heading "Outlook" on page 21; our expectation that our first quarter of 2012 capital expenditures to range between approximately $45 and $50 million, referred to under the heading "Outlook" on page 21; our projection that 2012 will be an eventful year for WestJet as we continue to grow our airline partnerships, increase the value we provide for business travellers, improve on our self-service options and prepare for the launch of a new short-haul regional airline which could be as early as 2013, referred to under the heading "Outlook" on page 21; our expectations with respect to the overhaul of six engines and 14 sets of landing gear in 2012, referred to under the heading "Our maintenance costs will increases as our fleet ages" on page 26; our expectations with respect to the impact of future accounting policy standards, amendments and interpretations, referred to under the heading "Future accounting pronouncements" on page 36.

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 belief that a short-haul aircraft combined with the WestJet brand, balance sheet strength and low cost structure will allow us to profitability accomplish four main goals is based on strategic plans and forecasts;
- our belief that the launch of a regional airline will be a significant undertaking that will materially impact our future results of operations, financial position and cash flows is based on the strategic plans and forecasts;
- our plan to move to the next stage of implementation of a low-cost regional airline by sending requests for proposal to two aircraft manufactures is based on the approval of the Board of Directors and our strategic plans;
- our long-term goal of establishing partnerships with airlines from all major geographical regions is based on our current strategic plan;
- our expectations with respect to frequent year-round service to New York City is based on our successful bid for 16 landing slots at LaGuardia airport;
- our sensitivity to changes in fuel prices is based on our fuel consumption for our existing schedule and historical fuel burn, as well as a Canadian-US dollar exchange rate similar to the current rate;
- our sensitivity to the change in the value of the Canadian dollar versus the US dollar is based on forecasted operating expenses denominated in US dollars for 2011, excluding a portion of aircraft leasing expenses hedged under foreign exchange forward contracts, as well as the exchange rate for the Canadian dollar similar to the current market rate;
- our expected annual effective tax rate for 2012 is based on forecasted financial information, tax rates, current legislation, and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- our expectation that we will begin accruing current taxes in 2012 which will become cash payable in early 2013 is 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 that upon delivery of the second aircraft in June of 2012, any unused portion of the final commitment from Ex-Im bank will be cancelled, is based on our agreement with Ex-Im Bank;
- our expectation that the two loan facilities will be financed in Canadian dollars and amortized over a 12-year term, each repayable in fixed principal instalments plus a floating rate of interest equal to the three month Canadian dealer offer rate plus 75 basis points is based on our executed term sheet;
- our expectation that we will fund operating leases and commitments through cash from operations is based on our current strategic plan, budget and forecast;
- our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect upon our financial position, results of operations or cash flow is based on a review of current legal proceedings by management and legal counsel;
- our intention to pay our first-quarter dividend to shareholders of record on March 14, 2012 on March 30, 2012 is based on the declaration and terms of the dividend by our Board of Directors;
- our intention to purchase shares pursuant to the normal course issuer bid on the open market through the facilities of the TSX is based on our current strategic plan and TSX requirements pursuant to normal course issuer bids;
- our intention to cancel any shares purchased under the normal course issuer bid is based on our current strategic plan and TSX requirements pursuant to normal course issuer bids;
- our expectation of modest year-over-year RASM growth for the first quarter of 2012 is based on our current forecast;
- our plans to add three 737 aircraft to our fleet in 2012 is based on our current aircraft delivery schedule and fleet plan;
- our expectation that capacity will increase by approximately four per cent year over year is based on our current network plans;
- our projection of domestic capacity growth between 0.5 and one per cent for 2012, and a four to five per cent year-over-year increase in the first quarter of 2012 is based on current network plans;
- our projected first quarter 2012 fuel costs is based on current forecasted jet fuel prices of US $131 per barrel and an average foreign exchange rate of approximately 1.01 Canadian dollars to one US dollar;
- our expectation that our 2012 full-year CASM, excluding employee profit share, to be flat to up one per cent when compared to 2011 is based on our current forecast;
- our expectation that our full-year 2012 capital expenditures will range between $165 million and $175 million, with the majority of the spending related to our two direct owned aircraft, deliveries deposits on future aircraft, overhauls on owned engines and rotable purchases is based on our 2012 capital budget;
- our expectation that our first quarter of 2012 capital expenditures to range between approximately $45 and $50 million is based on our 2012 capital budget;
- our projection that 2012 will be an eventful year for WestJet as we continue to grow our airline partnerships, increase the value we provide for business travellers, improve on our self-service options and prepare for the launch of a new short-haul regional airline in 2013 is based on our current operational and financial results as well our strategic plan;
- our expectation with respect to the overhaul of six engines and 14 sets of landing gear in 2012 and the approximate cost of such overhauls is based on our current shop plan and 2012 capital budget;
- our expectations with respect to the impact of future accounting policy standards, amendments and interpretations is based on our current accounting policies and the assessment of those standards on our policies.

DEFINITION OF KEY OPERATING INDICATORS

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

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

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

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

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

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

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

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

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

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

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

Utilization: Operating hours per day per operating aircraft.

NON-IFRS MEASURES

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

Adjusted debt: The sum of long-term debt, obligations under finance leases and off-balance-sheet aircraft operating leases. Our practice, consistent with common airline industry practice, is to multiply the trailing 12 months of aircraft leasing expense by 7.5 to derive a present value debt equivalent. This measure is used in the calculation of adjusted debt-to-equity and adjusted net debt to EBITDAR, as defined below.

Adjusted equity: The sum of share capital, equity reserves and retained earnings, excluding hedge reserves. This measure is used in the calculation of adjusted debt-to-equity.

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

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

Net earnings and diluted earnings per share, excluding special items: We believe excluding special items is useful for investors to evaluate our recurring operational performance.

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

Aircraft fuel expense, excluding hedging: As presented in the non-IFRS measures on page 8 of this MD&A under the heading Fourth quarter results of operations - Aircraft fuel and page 11 of this MD&A under the heading 2011 Results of operations – Aircraft fuel, we believe it is useful to reflect aircraft fuel expense excluding hedging, which excludes the effective portion of realized gains/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 the reader. This reconciliation table has not been repeated in this section.

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

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

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

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

RECONCILIATION OF NON-IFRS MEASURES TO IFRS

($ in thousands, except share and per share amounts)	2011	2010	Change
Net earnings, excluding special items			
Net earnings	148,702	90,197	58,505
Special items:			
CEO departure (net of tax)	—	3,700	(3,700)
Income tax rate reductions and estimate change	—	2,372	(2,372)
Net earnings, adjusted	148,702	96,269	52,433
Weighted average number of shares outstanding - diluted	140,638,659	145,080,105	(4,441,446)
Diluted earnings per share, excluding special items	1.06	0.66	60.6%

	Three months ended December 31			Twelve months ended December 31		
($ in thousands)	2011	2010	Change	2011	2010	Change
CASM, excluding fuel and employee profit share						
Operating expenses	722,294	628,307	93,987	2,814,989	2,415,940	399,049
Aircraft fuel expense	(235,574)	(179,726)	(55,848)	(915,878)	(674,608)	(241,270)
Employee profit share expense	(5,662)	(7,442)	1,780	(23,804)	(22,222)	(1,582)
Operating expenses, adjusted	481,058	441,139	39,919	1,875,307	1,719,110	156,197
ASMs	5,328,928,405	5,021,010,134	6.1%	21,186,304,409	19,535,291,313	8.5%
CASM, excluding above items (cents)	9.03	8.79	2.7%	8.85	8.80	0.6%

($ in thousands, except ratio amounts)	2011	2010	Change
Adjusted debt-to-equity			
Long-term debt(i)	828,712	1,026,802	(198,090)
Obligations under finance leases(ii)	3,249	3,357	(108)
Off-balance-sheet aircraft leases(iii)	1,241,783	1,075,358	166,425
Adjusted debt	2,073,744	2,105,517	(31,773)
Total shareholders' equity	1,370,217	1,304,233	65,984
Add: Hedge reserves	3,353	10,470	(7,117)
Adjusted equity	1,373,570	1,314,703	58,867
Adjusted debt-to-equity	1.51	1.60	(5.6%)

(i) At December 31, 2011, long-term debt includes the current portion of long-term debt of $158,832 (2010 – $178,337) and long-term debt of $669,880 (2010 – $848,465).

(ii) At December 31, 2011, obligations under finance leases includes the current portion of obligations under finance leases of $75 (2010 – $108) and obligations under finance leases of $3,174 (2010 – $3,249).

(iii) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2011, the trailing 12 months of aircraft leasing costs totalled $165,571 (2010 – $143,381).

($ in thousands, except ratio amounts)	2011	2010	Change
Adjusted net debt to EBITDAR(i)			
Net earnings	148,702	90,197	58,505
Add:			
Net finance costs(ii)	44,924	61,004	(16,080)
Taxes	59,304	43,268	16,036
Depreciation and amortization	174,751	170,462	4,289
Aircraft leasing	165,571	143,381	22,190
Other(iii)	3,567	(2,545)	6,112
EBITDAR	596,819	505,767	91,052
Adjusted debt	2,073,744	2,105,517	(31,773)
Less: Cash and cash equivalents	(1,243,605)	(1,159,316)	(84,289)
Adjusted net debt	830,139	946,201	(116,062)
Adjusted net debt to EBITDAR	1.39	1.87	(25.7%)

(i) The trailing 12 months are used in the calculation of EBITDAR.

(ii) At December 31, 2011, net interest includes the trailing 12 months of interest income of $15,987 (2010 – $9,910) and the trailing 12 months of interest expense of $60,911 (2010 – $70,914).

(iii) At December 31, 2011, other includes the trailing 12 months of foreign exchange gain of $2,485 (2010 – gain of $2,579) and the trailing 12 months of non-operating loss on derivatives of $6,052 (2010 – loss of $34).

($ in thousands, except percentage amounts)	2011	2010	Change
Return on invested capital(i)			
Earnings before income taxes	208,006	133,465	74,541
Add:			
Special items before tax(ii)	-	5,368	(5,368)
Finance costs	60,911	70,914	(10,003)
Implicit interest in operating leases(iii)	86,925	75,275	11,650
	355,842	285,022	70,820
Invested capital:			
Average long-term debt(iv)	927,757	1,110,039	(182,282)
Average obligations under finance leases(v)	3,303	3,730	(427)
Average shareholders' equity	1,337,225	1,268,205	69,020
Off-balance-sheet aircraft leases(vi)	1,241,783	1,075,358	166,425
	3,510,068	3,457,332	52,736
Return on invested capital	10.1%	8.2%	1.9 pts.

(i) The trailing 12 months are used in the calculation of ROIC.

(ii) For the year ended December 31, 2010, special items before tax include $4,136 for CEO departure and $1,232 for revisions to the calculation of capital taxes.

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

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

(v) Average capital lease obligations include the current portion and long-term portion.

(vi) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2011, the trailing 12 months of aircraft leasing costs totalled $165,571 (2010 – $143,381).

($ in thousands, except share and per share data)	2011	2010	Change
Operating cash flow per share			
Cash flow from operating activities	506,384	418,766	87,618
Weighted average number of shares outstanding - diluted	140,638,659	145,080,105	(4,441,446)
Diluted operating cash flow per share	3.60	2.89	24.6%

($ in thousands, except share and per share data)	2011	2010	Change
Free cash flow			
Cash flow from operating activities	506,384	418,766	87,618
Adjusted for:			
Aircraft additions	(61,265)	(29,884)	(31,381)
Other property and equipment and intangible additions	(57,108)	(18,675)	(38,433)
Free cash flow	388,011	370,207	17,804
Weighted average number of shares outstanding - diluted	140,638,659	145,080,105	(4,441,446)
Diluted free cash flow per share	2.76	2.55	8.2%

WESTJET

Consolidated Financial Statements and Notes

For the years ended December 31, 2011 and 2010

MANAGEMENT’S REPORT TO THE SHAREHOLDERS

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When a choice between accounting methods exists, management has chosen those they deem conservative and appropriate in the circumstances. Financial statements will, by necessity, include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis so that the consolidated financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

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

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

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

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

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

Calgary, Canada
February 7, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of WestJet Airlines Ltd.

We have audited the accompanying consolidated financial statements of WestJet Airlines Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statement of earnings, other comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of WestJet Airlines Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Calgary, Canada

February 7, 2012

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

	Note	2011	2010
Revenues:			
Guest		2,790,299	2,390,887
Other		281,241	216,407
		3,071,540	2,607,294
Expenses:			
Aircraft fuel		915,878	674,608
Airport operations		421,561	388,112
Flight operations and navigational charges		344,442	325,582
Sales and distribution		273,364	255,732
Marketing, general and administration		209,880	194,481
Depreciation and amortization		174,751	170,462
Aircraft leasing		165,571	143,381
Maintenance		146,260	117,057
Inflight		139,478	124,303
Employee profit share		23,804	22,222
		2,814,989	2,415,940
Earnings from operations		256,551	191,354
Non-operating income (expense):			
Finance income	16	15,987	9,910
Finance costs	16	(60,911)	(70,914)
Gain on foreign exchange		2,485	2,579
(Loss) gain on disposal of property and equipment		(54)	570
Loss on derivatives		(6,052)	(34)
		(48,545)	(57,889)
Earnings before income tax		208,006	133,465
Income tax expense:	12		
Current		1,236	1,573
Deferred		58,068	41,695
		59,304	43,268
Net earnings		148,702	90,197
Earnings per share:	15		
Basic		1.06	0.62
Diluted		1.06	0.62

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

Consolidated Statement of Financial Position
(Stated in thousands of Canadian dollars)

	Note	December 31 2011	December 31 2010	January 1 2010
Assets				
Current assets:				
Cash and cash equivalents	5	1,243,605	1,159,316	994,989
Restricted cash	6	48,341	28,583	10,192
Accounts receivable	20	34,122	17,518	27,654
Prepaid expenses, deposits and other	20	66,936	53,761	64,868
Inventory	20	31,695	26,095	31,505
		1,424,699	1,285,273	1,129,208
Non-current assets:				
Property and equipment	7	1,911,227	1,989,522	2,108,351
Intangible assets	8	33,793	13,018	14,087
Other assets	20	103,959	96,167	98,451
Total assets		3,473,678	3,383,980	3,350,097
Liabilities and shareholders’ equity				
Current liabilities:				
Accounts payable and accrued liabilities	20	307,279	287,710	228,911
Advance ticket sales	20	432,186	336,926	297,720
Non-refundable guest credits	20	43,485	36,381	63,164
Current portion of long-term debt	10	158,832	178,337	165,111
Current portion of obligations under finance leases	11	75	108	744
		941,857	839,462	755,650
Non-current liabilities:				
Maintenance provisions	9	151,645	113,206	97,722
Long-term debt	10	669,880	848,465	1,028,165
Obligations under finance leases	11	3,174	3,249	3,358
Other liabilities	20	10,449	8,958	9,517
Deferred income tax	12	326,456	266,407	223,509
Total liabilities		2,103,461	2,079,747	2,117,921
Shareholders’ equity:				
Share capital	13	630,408	647,637	633,075
Equity reserves		74,184	66,726	75,866
Hedge reserves		(3,353)	(10,470)	(14,852)
Retained earnings		668,978	600,340	538,087
Total shareholders’ equity		1,370,217	1,304,233	1,232,176
Commitments	18			
Total liabilities and shareholders’ equity		3,473,678	3,383,980	3,350,097

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

On behalf of the Board:

Gregg Saretsky, Director

Hugh Bolton, Director

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

	Note	2011	2010
Operating activities:			
Net earnings		148,702	90,197
Items not involving cash:			
Depreciation and amortization		174,751	170,462
Change in long-term maintenance provisions		38,522	27,927
Change in other liabilities		(313)	(685)
Amortization of hedge settlements		1,400	1,400
Loss on derivative instruments		6,052	34
Loss (gain) on disposal of property and equipment		54	(763)
Share-based payment expense	13	12,553	15,497
Income tax credit		–	(1,667)
Deferred income tax expense		58,068	41,695
Unrealized foreign exchange loss		1,453	337
Change in non-cash working capital		88,410	98,382
Change in restricted cash		(19,758)	(18,391)
Change in other assets		(3,510)	(5,659)
		506,384	418,766
Investing activities:			
Aircraft additions		(61,265)	(29,884)
Other property and equipment and intangible additions		(57,108)	(18,675)
		(118,373)	(48,559)
Financing activities:			
Repayment of long-term debt		(199,225)	(164,989)
Decrease in obligations under finance leases		(108)	(744)
Shares repurchased	13	(74,570)	(31,391)
Dividends paid	14	(35,000)	–
Issuance of common shares	13	34	520
Change in other assets		(836)	(2,947)
Change in non-cash working capital		7,106	(4,526)
		(302,599)	(204,077)
Cash flow from operating, investing and financing activities		85,412	166,130
Effect of foreign exchange on cash and cash equivalents		(1,123)	(1,803)
Net change in cash and cash equivalents		84,289	164,327
Cash and cash equivalents, beginning of year		1,159,316	994,989
Cash and cash equivalents, end of year	5	1,243,605	1,159,316
Cash taxes (paid) received		26	(2,958)
Cash interest received		14,631	8,343
Cash interest paid		(51,722)	(61,280)

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

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

	Note	2011	2010
Share capital:	13		
Balance, beginning of year		647,637	633,075
Issuance of shares pursuant to stock option plan		34	520
Transfer of share-based payment expense		5,095	24,637
Shares repurchased		(22,358)	(10,595)
		630,408	647,637
Equity reserves:	13		
Balance, beginning of year		66,726	75,866
Share-based payment expense		12,553	15,497
Transfer of share-based payment expense		(5,095)	(24,637)
		74,184	66,726
Hedge reserves:			
Balance, beginning of year		(10,470)	(14,852)
Other comprehensive income		7,117	4,382
		(3,353)	(10,470)
Retained earnings:			
Balance, beginning of year		600,340	538,087
Dividends declared	14	(27,852)	(7,148)
Shares repurchased	13	(52,212)	(20,796)
Net earnings		148,702	90,197
		668,978	600,340
Total shareholders' equity		1,370,217	1,304,233

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

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

	2011	2010
Net earnings	148,702	90,197
Items to be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Amortization of hedge settlements to aircraft leasing	1,400	1,400
Net unrealized gain (loss) on foreign exchange derivatives under cash flow hedge accounting (i)	2,532	(3,460)
Reclassification of net realized loss on foreign exchange derivatives to net earnings (ii)	3,590	1,557
Net unrealized loss on interest rate derivatives under cash flow hedge accounting (iii)	(397)	–
Net unrealized gain (loss) on fuel derivatives under cash flow hedge accounting (iv)	1,966	(1,778)
Reclassification of net realized (gain) loss on fuel derivatives to net earnings (v)	(1,974)	6,663
	7,117	4,382
Total comprehensive income	155,819	94,579

(i) Net of income taxes of $(870) (2010 – $1,224).
(ii) Net of income taxes of $(1,250) (2010 – $(586)).
(iii) Net of income taxes of $135 (2010 – $nil).
(iv) Net of income taxes of $(679) (2010 – $670).
(v) Net of income taxes of $682 (2010 – $(2,509)).

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

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

1. Statement of significant accounting policies

The consolidated annual financial statements of WestJet Airlines Ltd. (the Corporation) for the years ended December 31, 2011 and 2010, were authorized for issue by the Board of Directors on February 7, 2012. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline service and travel packages. The Corporation's shares are publicly traded on the Toronto Stock Exchange. The principal business address is 22 Aerial Place N.E., Calgary, Alberta, T2E 3J1 and the registered office is Suite 1400, 350 - 7 Avenue SW, Calgary, Alberta, T2P 3N9.

(a) Basis of presentation

These consolidated annual financial statements and the notes thereto have been prepared in accordance with IAS 1 – Presentation of financial statements under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These are the Corporation's first consolidated annual financial statements prepared in accordance with IFRS. For all periods up to and including December 31, 2010, the Corporation prepared its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). In accordance with IFRS 1 – First-time adoption of IFRS, the Corporation has restated all required prior period financial information to be in accordance with IFRS.

For a description of the accounting policy and financial statement presentation transitional adjustments together with the reconciliation of financial statement balances from Canadian GAAP to IFRS refer to note 22.

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

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

(b) Principles of consolidation

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

(c) Seasonality

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

(d) Revenue recognition

(i) Guest

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

(ii) Other

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

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

Revenue for the land component of vacation packages is generated from providing agency services equal to the amount paid by the guest for products and services, less payment to the travel supplier, and is reported at the net amount received. Revenue from the land component is deferred as advance ticket sales and recognized in earnings on completion of the vacation.

Ancillary revenues are recognized when the services and products are provided to the guests. Included in ancillary revenues are fees associated with guest itinerary changes or cancellations, second checked baggage fees, excess baggage fees, buy-on-board sales, pre-reserved seating fees, and ancillary revenue from the Frequent Guest Program (FGP).

1. Statement of significant accounting policies (continued)

(d) Revenue recognition (continued)

(iii) Frequent Guest Program

The Corporation has a frequent guest program that allows guests to accumulate credits that entitle them to a choice of various rewards, primarily discounted travel. Revenue received in relation to credits issued is deferred as a liability at fair value until a reward is ultimately utilized at which time it is recognized in guest revenue. Revenue associated with credits expected to expire (breakage) is recognized in other revenue at the time the revenue is received.

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

(iv) Non-refundable guest credits

The Corporation issues future travel credits to guests for flight changes and cancellations 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 have expiry dates dependent upon the nature of the credit, except for gift certificates which do not contain an expiry date. The Corporation records a liability at the face value for credits issued for flight changes, cancellations and gift certificates. No liability is recorded at issuance for travel credits related to flight delays, missing baggage or other inconveniences as these credits are issued as goodwill gestures by the Corporation and do not represent a performance obligation. Revenue related to flight changes, cancellations and gift certificates is recorded in other revenue when the credit is utilized or upon expiry. Credits issued as a sign of goodwill are recorded as a reduction to guest revenue when the credit is utilized.

(e) Financial instruments

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

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

Financial instrument	Category	Measurement method
Cash and cash equivalents	At fair value through profit or loss	Fair value
Restricted cash	At fair value through profit or loss	Fair value
Deposits	At fair value through profit or loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Finance lease obligations	Other financial liabilities	Amortized cost
Derivative instruments	At fair value through profit or loss	Fair value

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition at fair value through profit or loss. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as effective hedging instruments. As at December 31, 2011, 2010, and January 1, 2010, the Corporation did not hold any financial instruments classified as held-for-trading. Financial assets and liabilities designated upon initial recognition at fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recorded in net earnings. The Corporation uses trade-date accounting for initial recognition of financial instruments in this category.

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

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

1. Statement of significant accounting policies (continued)

(e) Financial instruments (continued)

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

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

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

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

(f) Cash flow hedges

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

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

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

The Corporation excludes time value from the measurement of effectiveness; accordingly, changes in time value are recognized in non-operating income (expense) during the period the change occurs.

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

(g) Foreign currency

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

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments that are highly liquid in nature and have maturity dates of up to 97 days.

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

1. Statement of significant accounting policies (continued)

(i) Inventory

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

(j) Property and equipment

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

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

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

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

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

(k) Intangible assets

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

(l) Impairment

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

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

1. Significant accounting policies (continued)

(m) Maintenance provisions and reserves

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

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

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

(n) Leases

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

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

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

(o) Borrowing costs

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

To the extent the Corporation borrows funds generally for the purpose of obtaining a qualifying asset, a capitalization rate is determined and added to the cost of the qualifying asset.

Interest and other borrowing costs are capitalized beginning when the Corporation incurs expenditures for the qualifying asset, and undertakes activities necessary to prepare the asset for its intended use. Capitalization ceases during any extended periods of suspension of development or when substantially all activities necessary to prepare the qualifying asset for its intended use are complete.

1. Significant accounting policies (continued)

(p) Income taxes

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

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

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

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

(q) Share-based payment plans

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

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

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

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

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

(r) Earnings per share

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

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

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates

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

Judgments

(i) Componentization

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

(ii) Depreciation and amortization

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

(iii) Impairment

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

(iv) Lease classification

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

Estimates

(v) Depreciation and amortization

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

(vi) Maintenance provisions

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

(vii) Fair value of awards and breakage associated with the Frequent Guest Program

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

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates (continued)

(viii) Income taxes

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

(ix) Impairment of assets

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

(x) Fair value of share-based payments

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

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

(xi) Fair value of derivative instruments

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

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2. New accounting standards and interpretations

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

Proposed standards	Description	Previous standard	Effective date (i)
IFRS 10 – Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	SIC-12 – Consolidation – Special Purpose Entities IAS 27 – Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 – Interests in Joint Ventures SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	Various – no direct replacement	January 1, 2013
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various – no direct replacement	January 1, 2013
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

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

Management continues to evaluate the potential qualitative and quantitative impact of these new standards on the Corporation's financial statement measurements and disclosures. The Corporation does not anticipate early adopting these standards at this time.

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3. Capital management

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

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

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

The Corporation monitors its capital structure on a number of bases, including adjusted debt-to-equity and adjusted net debt to earnings before net finance costs, taxes, depreciation and amortization and aircraft leasing (EBITDAR). EBITDAR is a non-IFRS financial measure commonly used in the airline industry to evaluate results by excluding differences in the method an airline finances its aircraft. In addition, the Corporation will adjust EBITDAR for one-time special items, for non-operating gains and losses on derivatives and for gains and losses on foreign exchange. The calculation of EBITDAR is a measure that does not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other issuers. The Corporation adjusts debt to include its off-balance-sheet aircraft operating leases. Common industry practice is to multiply the trailing 12 months of aircraft leasing expense by 7.5 to derive a present-value debt equivalent. The Corporation defines adjusted net debt as adjusted debt less cash and cash equivalents. The Corporation defines equity as total shareholders' equity, excluding hedge reserves.

	2011	2010	Change
Adjusted debt-to-equity			
Long-term debt (i)	828,712	1,026,802	(198,090)
Obligations under finance leases (ii)	3,249	3,357	(108)
Off-balance-sheet aircraft leases (iii)	1,241,783	1,075,358	166,425
Adjusted debt	2,073,744	2,105,517	(31,773)
Total shareholders' equity	1,370,217	1,304,233	65,984
Add: Hedge reserves	3,353	10,470	(7,117)
Adjusted equity	1,373,570	1,314,703	58,867
Adjusted debt-to-equity	1.51	1.60	(5.6%)
Adjusted net debt to EBITDAR (iv)			
Net earnings	148,702	90,197	58,505
Add:			
Net finance costs (v)	44,924	61,004	(16,080)
Taxes	59,304	43,268	16,036
Depreciation and amortization	174,751	170,462	4,289
Aircraft leasing	165,571	143,381	22,190
Other (vi)	3,567	(2,545)	6,112
EBITDAR	596,819	505,767	91,052
Adjusted debt (as above)	2,073,744	2,105,517	(31,773)
Less: Cash and cash equivalents	(1,243,605)	(1,159,316)	(84,289)
Adjusted net debt	830,139	946,201	(116,062)
Adjusted net debt to EBITDAR	1.39	1.87	(25.7%)

(i) As at December 31, 2011, long-term debt includes the current portion of long-term debt of $158,832 (2010 – $178,337) and long-term debt of $669,880 (2010 – $848,465).

(ii) As at December 31, 2011, obligations under finance leases includes the current portion of obligations under finance leases of $75 (2010 – $108) and obligations under finance leases of $3,174 (2010 – $3,249).

(iii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. As at December 31, 2011, the trailing 12 months of aircraft leasing costs totaled $165,571 (2010 – $143,381).

(iv) The trailing 12 months are used in the calculation of EBITDAR.

(v) As at December 31, 2011, net finance costs includes the trailing 12 months of finance income of $15,987 (2010 – $9,910) and the trailing 12 months of finance costs of $60,911 (2010 – $70,914).

(vi) As at December 31, 2011, other includes the trailing 12 months foreign exchange gain of $2,485 (2010 – gain of $2,579) and the trailing 12 months non-operating loss on derivatives of $6,052 (2010 – loss of $34).

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3. Capital management (continued)

As at December 31, 2011 and 2010, the Corporation exceeded its internal targets of an adjusted debt-to-equity measure of no more than 3.00 and an adjusted net debt to EBITDAR measure of no more than 3.00.

There are no financial covenant compliance requirements for the facilities guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) related to aircraft purchases.

4. Employee counts and compensation

The Corporation employed 7,141 full-time equivalent employees as at December 31, 2011 (2010 – 6,877). The following table reconciles the Corporation's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

	Note	2011	2010
Salaries and benefits (i)		481,211	439,617
Employee share purchase plan	13	58,682	52,643
Employee profit share (ii)		23,804	22,222
Share-based payment expense	13	12,553	15,497
		576,250	529,979
Presented on the consolidated statement of earnings as follows:			
Airport operations		83,067	78,679
Flight operations and navigational charges		184,143	171,403
Sales and distribution		46,915	46,349
Marketing, general and administration		86,066	76,353
Maintenance		43,772	38,919
Inflight		108,483	96,054
Employee profit share		23,804	22,222
		576,250	529,979

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

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

5. Cash and cash equivalents

	December 31 2011	December 31 2010	January 1 2010
Cash and cash equivalents (i):			
Bank balances	337,289	201,234	181,774
Short-term investments	906,316	958,082	813,215
	1,243,605	1,159,316	994,989

(i) Included in these balances, as at December 31, 2011, the Corporation has US-dollar cash and cash equivalents totaling US $55,357 (December 31 2010 – US $111,351; January 1 2010 – US $32,858).

6. Restricted cash

	December 31 2011	December 31 2010	January 1 2010
Restricted cash:			
Cash held in trust for WestJet Vacations Inc.	41,438	21,578	4,564
Security on facilities for letters of guarantee	6,610	6,691	4,491
Passenger facility charges	293	314	1,137
	48,341	28,583	10,192

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7. Property and equipment

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

	January 1 2010	Net additions	Depreciation(i)	Transfers	December 31 2010
Aircraft (ii)	1,748,250	10,483	(145,635)	3,165	1,616,263
Ground property and equipment	67,591	3,429	(10,741)	19	60,298
Spare engines and rotables	71,846	6,334	(5,228)	–	72,952
Deposits on aircraft	81,001	17,343	–	–	98,344
Buildings	126,385	324	(3,312)	(735)	122,662
Leasehold improvements	7,009	115	(507)	–	6,617
Assets under finance leases	3,672	–	(429)	–	3,243
Assets under development	2,597	9,772	–	(3,226)	9,143
	2,108,351	47,800	(165,852)	(777)	1,989,522

(i) For the year ended December 31, 2011, total aircraft depreciation expense was $61,659 (2010 - $60,739) for overhaul components and $87,362 (2010 - $84,896) for aircraft, including live satellite television equipment.

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

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

December 31, 2010	Cost	Accumulated depreciation	Net book value
Aircraft	2,463,536	(847,273)	1,616,263
Ground property and equipment	124,674	(64,376)	60,298
Spare engines and rotables	106,903	(33,951)	72,952
Deposits on aircraft	98,344	–	98,344
Buildings	135,817	(13,155)	122,662
Leasehold improvements	9,965	(3,348)	6,617
Assets under finance leases	4,413	(1,170)	3,243
Assets under development	9,143	–	9,143
	2,952,795	(963,273)	1,989,522

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7. Property and equipment (continued)

January 1, 2010	Cost	Accumulated depreciation	Net book value
Aircraft	2,449,634	(701,384)	1,748,250
Ground property and equipment	122,675	(55,084)	67,591
Spare engines and rotables	100,567	(28,721)	71,846
Deposits on aircraft	81,001	–	81,001
Buildings	136,228	(9,843)	126,385
Leasehold improvements	9,886	(2,877)	7,009
Assets under finance leases	5,882	(2,210)	3,672
Assets under development	2,597	–	2,597
	2,908,470	(800,119)	2,108,351

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was $1,403,422 as at December 31, 2011 (December 31, 2010 – $1,592,871; January 1, 2010 – $1,731,123).

8. Intangible assets

Cost	Software	Landing rights	Assets under development	Total
Balance at January 1, 2010	36,307	–	4,085	40,392
Additions	2,230	–	1,393	3,623
Disposals	(435)	–	(31)	(466)
Transfers	3,296	–	(3,296)	–
Balance at December 31, 2010	41,398	–	2,151	43,549
Additions	2,788	17,782	4,465	25,035
Disposals	(4,782)	–	–	(4,782)
Transfers	5,741	–	(5,741)	–
Balance at December 31, 2011	45,145	17,782	875	63,802
Accumulated amortization				
Balance at January 1, 2010	(26,305)	–	–	(26,305)
Amortization	(4,610)	–	–	(4,610)
Disposals	384	–	–	384
Balance at December 31, 2010	(30,531)	–	–	(30,531)
Amortization	(4,251)	–	–	(4,251)
Disposals	4,773	–	–	4,773
Balance at December 31, 2011	30,009	–	–	(30,009)
Net book value				
At January 1, 2010	10,002	–	4,085	14,087
At December 31, 2010	10,867	–	2,151	13,018
At December 31, 2011	15,136	17,782	875	33,793

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9. Maintenance provisions and reserves

The Corporation's operating aircraft lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The maintenance provision liability represents the present value of the expected future cost. A maintenance expense is recognized over the term of the provision based on aircraft usage and the passage of time, while the unwinding of the present value discount is recognized as a finance cost.

	2011	2010
Opening balance (i)	125,578	105,753
Additions	27,758	24,275
Change in estimate (ii)	8,675	–
Foreign exchange	2,775	(6,372)
Accretion (iii)	5,078	4,725
Settled	(17,974)	(2,803)
Ending balance	151,890	125,578
Current portion (iv)	(245)	(12,372)
Long-term portion	151,645	113,206

(i) At January 1, 2010, includes current portion of $8,031 and long-term portion of $97,722.

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

(iii) At December 31, 2011, all of the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.20% to reflect the weighted average remaining term of approximately 43 months until cash outflow.

(iv) The current portion of maintenance provisions is included in accounts payable and accrued liabilities.

A certain number of operating aircraft leases also require the Corporation to pay a maintenance reserve to the lessor. Maintenance reserves are either refunded when qualifying maintenance is performed or offset against end of lease obligations for returning leased aircraft in a specified operating condition. Where the amount of maintenance reserves paid exceeds the estimated amount recoverable from the lessor, the non-recoverable amount is recorded as maintenance expense in the period it is incurred.

As at December 31, 2011, the current portion of maintenance reserves included in prepaid expenses, deposits and other is $nil (December 31, 2010 – $12,045; January 1, 2010 – $8,629) and the long-term portion of maintenance reserves included in other assets is $49,655 (December 31, 2010 – $41,736; January 1, 2010 – $44,084).

10. Long-term debt

	December 31 2011	December 31 2010	January 1 2010
Term loans – purchased aircraft (i)	828,104	985,571	1,142,304
Term loan – purchased aircraft (ii)	–	25,729	33,207
Term loan – flight simulator (iii)	–	5,575	6,392
Term loan – live satellite television equipment (iv)	–	41	493
Term loan – Calgary hangar facility (v)	–	8,707	9,202
Term loan – Calgary hangar facility (vi)	608	1,179	1,678
	828,712	1,026,802	1,193,276
Current portion	158,832	178,337	165,111
	669,880	848,465	1,028,165

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

(ii) US dollar denominated term loan paid in full in November 2011. Total amount settled was US $21,804 which consisted of US $21,571 in aggregate outstanding principal of the loan and US $233 in transaction costs on the loan accrued to the scheduled payoff date. This facility was secured by one 800 series aircraft.

(iii) Five-year term loan matured in September 2011 with a final payment of $5,123. This facility was secured by one flight simulator.

(iv) Five-year term loan matured in January 2011 with a final payment of $41. This facility was for the purchase of live satellite television equipment, was guaranteed by the Ex-Im Bank and was secured by certain 700-series and 600-series aircraft.

(v) Ten-year term loan matured in April 2011 with a final payment of $8,575. This facility was secured by the Calgary hangar.

(vi) Term loan repayable in monthly instalments of $50, including floating interest at the bank's prime rate plus 0.50%, with an effective interest rate of 3.50% as at December 31, 2011, maturing April 2013, secured by the Calgary hangar facility.

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10. Long-term debt (continued)

Future scheduled repayments of long-term debt as at December 31, 2011 are as follows:

Within 1 year	158,832
1 – 3 years	319,100
3 – 5 years	222,194
Over 5 years	128,586
	828,712

Held within the special-purpose entities, as identified in note 1, Summary of significant accounting policies, are liabilities of $842,976 (December 31, 2010 – $1,005,719; January 1, 2010 – $1,168,907) related to the acquisition of the 52 purchased aircraft and live satellite television equipment, which are included above in the long-term debt balances.

11. Obligations under finance leases

The Corporation has entered into finance leases relating to a fuel storage facility and ground handling equipment. Future scheduled repayments of obligations under finance leases as at December 31, 2011 are as follows:

Within 1 year	245
1 – 3 years	490
3 – 5 years	490
Over 5 years	4,371
Total minimum lease payments	5,596
Less: Weighted average imputed interest at 5.28%	(2,347)
Net minimum lease payments	3,249
Less: Current portion of obligations under finance leases	(75)
Long term obligations under finance leases	3,174

12. Income taxes

(a) Reconciliation of total tax expense

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

	2011	2010
Earnings before income tax	208,006	133,465
Combined Canadian federal and provincial income tax rate	27.26%	29.46%
Expected income tax provision	56,702	39,319
Add (deduct):		
Non-deductible expenses	3,344	2,380
Non-deductible share-based payment expense	3,430	4,534
Effect of tax rate changes	(4,539)	(3,726)
Other	367	761
Actual income tax provision	59,304	43,268
Effective tax rate	28.51%	32.42%

The decrease in the effective tax rate for year ended December 31, 2011 was primarily due to higher comparative earnings. As earnings increase, the impact of relatively fixed permanent differences on the overall effective tax rate is less pronounced, resulting in a corresponding decrease in the effective tax rate.

The Corporation has included in its reconciliation a deduction of $4,539 for the year ended December 31, 2011 (2010 – $3,726) for the effect of tax rate changes. This amount primarily reflects the impact of changes to the timing of when the Corporation expects certain temporary differences to reverse and differences between current statutory rates used in the reconciliation and future rates at which the deferred income tax liability is recorded.

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12. Income taxes (continued)

(b) Tax on earnings from continuing operations

	2011	2010
Current tax:		
Current tax	1,443	1,573
Adjustments of current tax of a prior year	(207)	–
	1,236	1,573
Deferred tax:		
Origination and reversal of temporary differences	57,991	41,695
Change in tax rate(i)	89	–
Adjustment for prior year	(12)	–
	58,068	41,695
	59,304	43,268

(i) Effect of substantively enacted corporate income tax rate changes

(c) Deferred tax

Components of the net deferred tax liability are as follows:

	December 31 2011	December 31 2010	January 1 2010
Deferred tax liability:			
Property and equipment	(278,003)	(280,899)	(274,853)
Deferred partnership income	(67,473)	(43,437)	(11,913)
Net unrealized gain on derivatives designated in a hedging relationship	(1,062)	–	–
Deferred tax asset:			
Share issue costs	747	1,143	1,561
Net unrealized loss on effective portion of derivatives designated in a hedging relationship	–	919	2,120
Non-capital losses(i)	7,348	45,010	50,200
Credit carry forwards(ii)	11,987	10,857	9,376
	(326,456)	(266,407)	(223,509)

(i) Non-capital losses will begin to expire in 2014.

(ii) Credit carry forwards recognized for unused corporate minimum tax credits will begin to expire in 2013.

13. Share capital

(a) Authorized

Unlimited number of common voting shares

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

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

Unlimited number of variable voting shares

The variable voting shares may be beneficially owned and controlled only by a person who is not Canadian and are entitled to one vote per variable voting share unless (i) the number of issued and outstanding variable voting shares exceed 25% of the total number of all issued and outstanding variable voting shares and common voting shares collectively, including securities currently convertible into such a share and currently exercisable options and rights to acquire such shares (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*) or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting exceeds 25% (or any higher percentage the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes cast that may be cast at such meeting.

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

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

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

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

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

13. Share capital (continued)

(b) Issued and outstanding

	2011		2010	
	Number	**Amount**	**Number**	**Amount**
Common and variable voting shares:				
Balance, beginning of year	142,958,414	647,637	144,359,383	633,075
Issuance of shares pursuant to stock option plan	173,584	34	741,014	520
Share-based payment expense on stock options exercised	–	4,011	–	21,860
Issuance of shares pursuant to key employee and pilot plan	18,681	–	2,298	–
Share-based payment expense on settled key employee and pilot units	–	252	–	29
Issuance of shares pursuant to executive share unit plan	55,967	–	194,449	–
Share-based payment expense on executive share units exercised	–	832	–	2,748
Shares repurchased	(4,926,090)	(22,358)	(2,338,730)	(10,595)
Balance, end of year	138,280,556	630,408	142,958,414	647,637

As at December 31, 2011, the number of common voting shares outstanding was 130,827,446 (2010 – 137,489,456) and the number of variable voting shares was 7,453,110 (2010 – 5,468,958).

On November 2, 2010, the Corporation filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation was authorized to purchase up to 7,264,820 shares (representing 5% of its issued and outstanding shares at the time of the bid) during the period of November 5, 2010, to November 4, 2011, or until such earlier time as the bid was completed or terminated at the option of the Corporation. Shares purchased under the bid were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid were cancelled. As of August 9, 2011, the Corporation successfully completed the 2010 bid.

During the year ended December 31, 2011, the Corporation purchased and subsequently cancelled 4,926,090 shares under its normal course issuer bid for total consideration of $74,570. The average book value of the shares repurchased of $4.54 per share was charged to share capital with the $52,212 excess of the market price over the average book value, including transaction costs, charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2011, 11,520,284 (2010 – 11,693,868) voting shares were reserved for issuance to officers and employees of the Corporation, subject to the following limitations:

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

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

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

In May 2011, the Board approved amendments to the stock option plan to extend the maximum permitted expiry date from five years to seven years for all new options granted. Stock options are granted at a price equal to the five day weighted average market value of the Corporation’s voting shares preceding the date of grant and vest completely or on a graded basis on the first, second and third anniversary from the date of grant.

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13. Share capital (continued)

(c) Stock option plan (continued)

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

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	8,083,431	14.21	11,521,844	13.42
Granted	1,856,471	14.85	2,024,143	12.78
Exercised	(1,033,254)	12.56	(5,100,279)	11.83
Forfeited	(21,564)	13.36	(32,607)	12.58
Expired	(1,534,328)	16.32	(329,670)	14.77
Stock options outstanding, end of year	7,350,756	14.17	8,083,431	14.21
Exercisable, end of year	5,044,598	14.03	3,348,164	16.49

Under the terms of the Corporation's stock option plan, with the approval of the Corporation, option holders can either (i) elect to receive shares by delivering cash to the Corporation in the amount of the exercise price of the options, or (ii) choose a cashless settlement alternative, whereby they can elect to receive a number of shares equivalent to the market value of the options over the exercise price. For the year ended December 31, 2011, option holders exercised 1,030,565 options (2010 – 5,056,288 options) on a cashless settlement basis and received 170,895 shares (2010 – 697,023 shares). For the year ended December 31, 2011, 2,689 options were exercised on a cash basis and received 2,689 shares (2010 – 43,991 options and 43,991 shares, respectively).

The following table summarizes the options outstanding and exercisable as at December 31, 2011:

	Outstanding options			Exercisable options	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$11.00–$12.50	2,017,450	1.58	12.48	1,992,745	12.48
$12.51–$15.50	3,572,614	4.46	13.88	1,291,161	12.79
$15.51–$19.99	1,760,692	0.35	16.69	1,760,692	16.69
	7,350,756	2.69	14.17	5,044,598	14.03

The fair value of the options is expensed over the service period, with an offsetting entry to equity reserves. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Upon the exercise of stock options, consideration received, together with amounts previously recorded in equity reserves, is recorded as an increase to share capital.

The fair value of options granted during the years ended December 31, 2011 and 2010, and the assumptions used in their determination are as follows:

	2011	2010
Weighted average fair value per option	4.30	4.02
Weighted average risk-free interest rate	2.3%	2.5%
Weighted average expected volatility	38%	38%
Expected life of options (years)	4.0	3.6
Weighted average dividend yield	1.4%	0.02%

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13. Share capital (continued)

(d) Key employee and pilot plan

The Corporation has a key employee and pilot (KEP) plan, whereby restricted share units (RSUs) are issued to key employees and pilots of the Corporation. The fair market value of the RSUs at the time of grant is equal to the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the grant date. Each RSU entitles the employee to receive payment upon vesting in the form of voting shares of the Corporation. The Corporation intends to settle all RSUs with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury; however, wholly at its own discretion, the Corporation may settle the units in cash. The RSU's time vest at the end of a two or three-year period, with compensation expense being recognized in net earnings over the service period. As at December 31, 2011, 979,021 (2010 – 997,702) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2011, the Corporation settled all RSUs with shares issued from treasury.

	2011		2010	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	171,129	12.77	–	–
Granted	201,391	14.77	177,440	12.77
Units, in lieu of dividends	5,308	13.31	–	–
Settled	(18,677)	13.62	(2,298)	12.77
Forfeited	(5,803)	13.48	(4,013)	12.77
Units outstanding, end of year	353,348	13.86	171,129	12.77
Vested, end of year	–	–	–	–

(e) Executive share unit plan

The Corporation has an equity-based executive share unit (ESU) plan, whereby RSUs and performance share units (PSU) may be issued to senior executive officers. As at December 31, 2011, 959,425 (2010 – 805,551) voting shares of the Corporation were reserved for issuance under the ESU plan.

The fair market value of the RSUs and PSUs at the time of grant is equal to the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the grant date.

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

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

	2011				2010			
	RSUs		PSUs		RSUs		PSUs	
	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	187,875	13.73	199,486	13.90	143,461	14.10	191,276	14.10
Granted	75,213	15.39	91,450	15.44	127,750	13.57	119,323	13.79
Exercised	(55,321)	15.04	–	–	(83,336)	14.13	(111,113)	14.13
Forfeited	(6,051)	15.44	(39,995)	18.49	–	–	–	–
Units outstanding, end of year	201,716	13.94	250,941	13.73	187,875	13.73	199,486	13.90
Vested, end of year	46,902	14.20	50,087	13.28	17,211	14.16	22,948	14.16

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13. Share capital (continued)

(f) Share-based payment expense

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

	2011	2010
Stock option plan	8,506	10,756
Key employee and pilot plan	2,378	1,153
Executive share unit plan	1,669	3,588
Total share-based payment expense	12,553	15,497
Presented on the consolidated statement of earnings as follows:		
Flight operations and navigational charges	5,042	8,785
Marketing, general and administration	7,511	6,712
Total share-based payment expense	12,553	15,497

(g) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for independent members of the Corporation's Board of Directors. Each DSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. The number of DSUs granted is determined based on the closing price of the Corporation's common shares on the trading day immediately prior to the date of grant. Total compensation expense is recognized at the time of grant. Fluctuations in the market value are recognized in the period in which the fluctuations occur. For the year ended December 31, 2011, 21,146 (2010 – 20,565) DSUs were granted, with $108 (2010 – $344) of expense included in marketing, general and administration expense. During the years ended December 31, 2011 and 2010, the Corporation did not settle any DSUs. The carrying amount of the liability, included in trade and other payables, relating to the cash-settled DSUs as at December 31, 2011 is $966 (2010 - $858). As at December 31, 2011, 82,134 (2010 – 60,988) DSUs are vested and outstanding. DSUs are redeemable upon the Director's retirement from the Board.

(h) Employee share purchase plan

The Corporation has an employee share purchase plan (ESPP), whereby the Corporation matches every dollar contributed by each employee. Under the terms of the ESPP, employees may contribute up to a maximum of 20% of their gross pay and acquire voting shares of the Corporation at the current fair market value of such shares. Shares acquired for the ESPP are restricted for one year. Employees may offer to sell shares, which have not been held for at least one year to the Corporation, four times per year. The purchase price of the voting shares shall be equal to 50% of the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the employee's notice to the Corporation.

The Corporation has the option to acquire voting shares on behalf of employees through open market purchases or to issue new shares from treasury at the current market price, which is determined based on the volume weighted average trading price of the Corporation's voting shares for the five trading days preceding the issuance.

For the years ended December 31, 2011 and 2010, all shares were acquired through open market purchases.

The Corporation's share of the contributions in 2011 amounted to $58,682 (2010 – $52,643) and is recorded as compensation expense within the related business unit.

14. Dividends

During the year ended December 31, 2011 the Corporation declared quarterly cash dividends of $0.05 per share to its shareholders of common and variable voting shares. For the year ended December 31, 2011, the Corporation paid dividends totaling $35,000 (2010 - $nil). In aggregate, dividends of $27,852 (2010 - $7,148) were declared for the year ended December 31, 2011.

Subsequent to year end, on February 7, 2012, the Corporation's Board of Directors declared the 2012 first quarter dividend of $0.06 per common voting share and variable voting share, representing an increase of 20% from the Corporation's previous quarterly amount of $0.05 per share. The dividend is payable on March 30, 2012 to shareholders of record on March 14, 2012.

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15. Earnings per share

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

	2011	2010
Weighted average number of shares outstanding – basic	139,902,637	144,852,548
Effect of dilution		
Employee stock options	332,489	26,077
Key employee and pilot - Restricted share units	226,704	73,433
Executive - Restricted share units	126,742	105,099
Executive - Performance share units	50,087	22,948
Weighted average number of shares outstanding – diluted	140,638,659	145,080,105

For the year ended December 31, 2011, 3,646,624 employee stock options (2010 – 7,105,619 employee stock options) were not included in the calculation of dilutive potential shares as the result would be anti-dilutive.

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

16. Finance income and cost

	2011	2010
Finance income:		
Interest on cash and cash equivalents	15,987	9,910

	Note	2011	2010
Finance cost:			
Interest on term loans and finance leases		55,833	66,189
Accretion on aircraft lease return obligations	9	5,078	4,725
		60,911	70,914

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17. Financial instruments and risk management

(a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives both designated and not designated in an effective hedging relationship, deposits, accounts payable and accrued liabilities, long-term debt and obligations under finance leases. The following tables set out the Corporation's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at December 31, 2011 and 2010, and January 1, 2010:

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

	Fair value		**Amortized cost**		**Totals**	
December 31, 2010	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents (i)	1,187,899	–	–	–	1,187,899	1,187,899
Accounts receivable	–	–	17,518	–	17,518	17,518
Foreign exchange derivatives (ii)	–	(3,579)	–	–	(3,579)	(3,579)
Fuel derivatives (iii)	–	4,889	–	–	4,889	4,889
Deposits (v)	28,258	–	–	–	28,258	28,258
Accounts payable and accrued liabilities (vi)	–	–	–	(264,136)	(264,136)	(264,136)
Long-term debt (vii)	–	–	–	(1,026,802)	(1,026,802)	(1,141,961)
Obligations under finance leases (viii)	–	–	–	(3,357)	(3,357)	(3,357)
	1,216,157	1,310	17,518	(1,294,295)	(59,310)	(174,469)

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17. Financial instruments and risk management (continued)

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

	Fair value		**Amortized cost**		**Totals**	
January 1, 2010	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents (i)	1,005,181	–	–	–	1,005,181	1,005,181
Accounts receivable	–	–	27,654	–	27,654	27,654
Foreign exchange derivatives (ii)	–	(1,249)	–	–	(1,249)	(1,249)
Fuel derivatives (iii)	–	(8,667)	–	–	(8,667)	(8,667)
Deposits (v)	27,264	–	–	–	27,264	27,264
Accounts payable and accrued liabilities (vi)	–	–	–	(210,687)	(210,687)	(210,687)
Long-term debt (vii)	–	–	–	(1,193,276)	(1,193,276)	(1,319,990)
Obligations under finance leases (viii)	–	–	–	(4,102)	(4,102)	(4,102)
	1,032,445	(9,916)	27,654	(1,408,065)	(357,882)	(484,596)

(i) Includes restricted cash of $48,341 (December 31, 2010 – $28,583; January 1, 2010 – $10,192)

(ii) Includes $4,662 (December 31, 2010 – $nil; January 1, 2010 – $181) classified in prepaid expenses, deposits and other, and $nil (December 2010 – $3,579; January 2010 – $1,430) classified in accounts payable and accrued liabilities.

(iii) Includes $7,611 (December 31, 2010 – $5,689; January 1, 2010 – $96) classified in prepaid expenses, deposits and other, and $nil (December 2010 – $800; January 2010 – $8,763) classified in accounts payable and accrued liabilities.

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

(v) Includes $16,278 (December 31, 2010 – $14,752; January 1, 2010 – $11,249) classified in prepaid expenses, deposits and other, and $12,108 (December 31, 2010 – $13,506; January 1, 2010 – $16,015) classified in other assets.

(vi) Excludes current portion of maintenance provisions of $245 (December 31, 2010 – $12,372; January 1, 2010 – $8,031), deferred FGP revenue of $22,020 (December 31, 2010 – $6,823; January 1, 2010 – $nil), foreign exchange derivative liabilities of $nil (December 31, 2010 – $3,579; January 1, 2010 – $1,430), fuel derivative liabilities of $nil (December 31, 2010 – $800; January 1, 2010 – $8,763) and interest rate derivative liabilities of $112 (December 31, 2010 – $nil; January 1, 2010 – $nil).

(vii) Includes current portion of long-term debt of $158,832 (December 31, 2010 – $178,337; January 1, 2010 – $165,111) and long-term debt of $669,880 (December 31, 2010 – $848,465; January 1, 2010 – $1,028,165).

(viii) Includes current portion of obligations under finance leases of $75 (December 31, 2010 – $108; January 1, 2010 – $744) and obligations under finance leases of $3,174 (December 31, 2010 – $3,249; January 1, 2010 – $3,358).

The following items shown in the consolidated statement of financial position as at December 31, 2011 and 2010, and January 1, 2010, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The fair value of the financial assets and liabilities at December 31, 2011, using level 3 inputs, was $nil (December 31, 2010 – $nil; January 1, 2010 – $nil).

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

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17. Financial instruments and risk management (continued)

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

December 31, 2010	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	1,187,899	–	1,187,899
Foreign exchange derivatives	–	(3,579)	(3,579)
Fuel derivatives	–	4,889	4,889
Deposits	28,258	–	28,258
	1,216,157	1,310	1,217,467

January 1, 2010	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	1,005,181	–	1,005,181
Foreign exchange derivatives	–	(1,249)	(1,249)
Fuel derivatives	–	(8,667)	(8,667)
Deposits	27,264	–	27,264
	1,032,445	(9,916)	1,022,529

During the years ended December 31, 2011 and 2010, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

Cash and cash equivalents: Consist of bank balances and short-term investments, primarily highly liquid debt instruments, with terms up to 97 days. Classified in level 1, as measurement inputs are derived from observable, unadjusted quoted prices in active markets. Interest income is recorded in the consolidated statement of earnings as finance income. Due to their short-term nature, the carrying value of cash and cash equivalents approximates their fair value.

Foreign exchange derivatives: Foreign exchange derivatives consist of forward and option contracts. The fair value of the foreign exchange forward contracts is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty. Classified in level 2, as the significant measurement inputs used in the valuation models are observable in active markets. At December 31, 2011, the average contracted rate on the forward contracts was 0.9914 (December 31, 2010 – 1.0264; January 1, 2010 – 1.0671) Canadian dollars to US dollars, and the average forward rate used in determining the fair value was 1.0201 (December 31, 2010 – 0.9995; January 1, 2010 – 1.0512) Canadian dollars to one US dollar.

The fair value of the foreign exchange option contracts is determined through a standard option valuation technique used by the counterparty based on market inputs, including foreign exchange rates, interest rates and volatilities. Classified in level 2, as the significant measurement inputs are observable in active markets. There are no foreign exchange option contracts outstanding at December 31, 2011 (December 31, 2010 – $nil; January 1, 2010 – $(211)).

Fuel derivatives: Fuel derivatives consist of swaps, collars and call option contracts. The fair value of the fuel derivatives is determined using inputs, including quoted forward prices for commodities, quoted volatility curves, foreign exchange rates and interest rates, which can be observed in the marketplace. The fair value of the swap contracts is estimated by discounting the difference between the contractual strike price and the current forward price. These instruments are classified in level 2, as the significant measurement inputs are observable in an active market.

The fair value of the collar and call option contracts are estimated by the use of a standard option valuation technique using the inputs noted above. These instruments are classified in level 2, as the significant measurement inputs are observable in an active market. As at December 31, 2011, for the period that the Corporation is hedged, the closing forward curve for crude oil averaged approximately US $99 per barrel (December 31, 2010 – US $94; January 1, 2010 – US $82), with the average forward foreign exchange rate used in determining the fair value being 1.0251 (December 31, 2010 – 1.0032; January 1, 2010 – 1.0536) Canadian dollars to one US dollar.

Interest rate derivatives: Interest rate derivatives consist of swap contracts that exchange a floating rate of interest with a fixed rate of interest. The fair value of the interest rate swaps is determined by measuring the difference between the fixed contracted rate and the forward curve for the applicable floating interest rates obtained from the counterparty. Classified in level 2, as the significant measurement inputs used in the valuation models, such as forward interest rate curves, are observable in active markets. At December 31, 2011, the weighted average fixed interest rate on the Corporation's contractual nominal notional debt is 2.19% and the closing average forward interest rate for the three month CDOR for the term of the debt is 2.60%.

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17. Financial instruments and risk management (continued)

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

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

Long-term debt: The fair value of the Corporation's fixed-rate long-term debt is determined by discounting the future contractual cash flows under the current financing arrangements at discount rates presently available to the Corporation for loans with similar terms and remaining maturities. At December 31, 2011, the rates used in determining the fair value ranged from 1.28% to 1.61% (December 31, 2010 – 2.00% to 2.74%; January 1, 2010 – 2.28% to 3.27%).

(b) Risk management related to financial instruments

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

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

Market Risk

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

(i) Fuel price risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, the Corporation is exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside the Corporation's control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. For the year ended December 31, 2011, aircraft fuel expense represented approximately 33% (2010 – 28%) of the Corporation's total operating expenses.

Under the Corporation's fuel price risk management policy, the Corporation is permitted to hedge a portion of its future anticipated jet fuel purchases for up to 36 months, as approved by the Board of Directors. The hedging program is designed to mitigate the risk of sudden and substantial movements in fuel prices causing volatility in earnings and cash flows. Management continuously reviews its hedging positions based on market conditions and competitors' positions. Financial derivatives in crude-oil-based commodities (including a variety of crude oil, heating oil and jet fuel benchmarks) that are traded directly on organized exchanges or are available over the counter are used by the Corporation to mitigate the risk of volatile fuel prices.

As at December 31, 2011, the Corporation had Canadian-dollar West Texas Intermediate (WTI) call options to hedge approximately 23% of its anticipated jet fuel requirements for the next 12 months. The following table outlines, per year, as at December 31, 2011, the notional volumes per barrel (bbl.) along with the weighted average contract prices:

Type	Period	Instrument	Notional volumes (bbl.)	WTI average strike price (□CAD□bbl.)
WTI	Q1 2012	Call options	420,000	117
WTI	Q2 2012	Call options	430,000	112
WTI	Q3 2012	Call options	520,000	109
WTI	Q4 2012	Call options	240,000	115

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

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17. Financial instruments and risk management (continued)

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

Market Risk (continued)

(i) Fuel price risk (continued)

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

	Statement presentation	December 31 2011	December 31 2010	January 1 2010
Receivable from counterparties for fuel derivatives	Accounts receivable/Prepaid expenses, deposits and other	27	445	96
Fair value of fuel derivatives	Prepaid expenses, deposits and other	7,611	5,244	–
Fair value of fuel derivatives	Accounts payable and accrued liabilities	–	–	(7,521)
Payable to counterparties for fuel derivatives	Accounts payable and accrued liabilities	–	(800)	(1,242)
Unrealized (gain)/loss from fuel derivatives (i)	Hedge reserves – before tax impact	–	(11)	6,713

(i) The estimated amount reported in hedge reserves 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 $nil (December 31, 2010 – gain before tax of $11; January 1, 2010 – loss before tax of $6,713).

The following table presents the financial impact and statement presentation of the Corporation's fuel derivatives on the consolidated statement of earnings for the 12 months ended December 31, 2011 and 2010:

	Statement presentation	2011	2010
Realized gain (loss) on designated fuel derivatives	Aircraft fuel	2,656	(9,172)
Gain (loss) on designated fuel derivatives	Loss on derivatives	(6,052)	44

During the year ended December 31, 2011, the Corporation cash settled fuel derivatives in its favour of $2,732 (2010 – $8,980 in favour of the counterparties). The Corporation paid cash premiums for option contracts of $8,506 for the year ended December 31, 2011 (2010 – $6,189).

The following table presents the exposure, net of tax, to earnings and other comprehensive income (OCI) of a 10% increase in the forward curve for WTI, the underlying commodity of the Corporation's fuel derivatives:

			10□ Increase in WTI Gain (Loss)		10□ Decrease in WTI Gain (Loss)	
Year	Instrument	December 31 Fair Value	Income	OCI	Income	OCI
2011	Fuel derivatives	7,611	–	4,974		(2,986)
2010	Fuel derivatives	5,244	–	4,896	–	(2,455)

This sensitivity analysis assumes that 100% of the change in price is considered effective under cash flow hedge accounting. Should some or all of the change in price be considered ineffective under hedge accounting, the ineffective portion would be recorded in non-operating income (expense). It also assumes that all other variables remain constant, particularly foreign exchange and interest rates. These assumptions may not be representative of actual movements.

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17. Financial instruments and risk management (continued)

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

Market Risk (continued)

(ii) Foreign exchange risk

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

US dollar monetary assets and liabilities

The gain on foreign exchange included in the Corporation's consolidated statement of earnings is mainly attributable to the effect of the changes in the value of the Corporation's US-dollar-denominated monetary assets and liabilities. As at December 31, 2011, US-dollar-denominated net monetary liabilities totaled approximately US $21,528 (December 31, 2010 – US $18,798; January 1, 2010 – US $32,867).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar as at December 31, 2011, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2011, by $154 (2010 – $127), as a result of the Corporation's US-dollar-denominated net monetary liability balance.

US dollar aircraft leasing costs

As at December 31, 2011 the Corporation has entered into foreign exchange forward contracts for an average of US $13,367 (2010 – US $11,535) per month for the period of January to December 2012 for a total of US $160,400 (2010 – US $138,420) at a weighted average contract price of 0.9914 Canadian dollars to US dollars to offset a portion of its US-dollar-denominated aircraft lease payments. As at December 31, 2011, no portion of the forward contracts was considered ineffective.

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

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

	Statement presentation	December 31 2011	December 31 2010	January 1 2010
Fair value of foreign exchange derivatives	Prepaid expenses, deposits and other	4,662	–	181
Fair value of foreign exchange derivatives	Accounts payable and accrued liabilities	–	(3,579)	(1,219)
Unrealized gain (loss) from foreign exchange derivatives	Hedge reserves – before tax impact	4,662	(3,579)	(1,038)

The following table presents the financial impact and statement presentation of the Corporation's foreign exchange derivatives on the consolidated statement of earnings for the 12 months ended December 31, 2011 and 2010:

	Statement presentation	2011	2010
Realized loss on designated foreign exchange derivatives	Aircraft leasing	(4,840)	(2,143)
Loss on undesignated foreign exchange derivatives	Loss on derivatives	–	(78)

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2011, would impact OCI, net of taxes, by $1,192 (2010 – $1,028) as a result of the Corporation's foreign exchange derivatives.

(iii) Interest rate risk

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

Cash and cash equivalents

The Corporation is exposed to interest rate fluctuations on its short-term investments, included in cash and cash equivalents. A change of 50 basis points in the market interest rate would have had an approximate impact on net earnings of $4,375 (December 31, 2010 – $3,762; January 1, 2010 – $2,555) as a result of the Corporation's short-term investment activities.

17. Financial instruments and risk management (continued)

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

Market Risk (continued)

(iii) Interest rate risk (continued)

Deposits

The Corporation is exposed to interest rate fluctuations on its deposits that relate to purchased aircraft and airport operations, which, as at December 31, 2011, totaled $28,386 (December 31, 2010 – $28,258; January 1, 2010 – $27,264). A reasonable change in market interest rates as at December 31, 2011, would not have significantly impacted the Corporation's net earnings due to the small size of these deposits.

Long-term debt

The fixed-rate nature of the majority of the Corporation's long-term debt mitigates the impact of interest rate fluctuations over the term of the outstanding debt. The Corporation accounts for its long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates as at December 31, 2011, would not impact net earnings.

At December 31, 2011, the Corporation had two interest rate swap contracts outstanding with a 12 year term beginning in February 2012 and June 2012, respectively, to fix the interest rate on future variable interest rate debt at 2.89% and 2.99% respectively, inclusive of a 75 basis point spread. The variable interest rate debt in question relates to the purchase of two future aircraft in 2012 and has yet to be drawn and is therefore not recorded in the Corporation's accounts at December 31, 2011. However, for purposes of valuing the interest rate derivatives at December 31, 2011, an average contractual nominal notional amount of $35,000 per swap contract was used.

Upon delivery of the two aircraft in 2012, the Corporation will draw on the available loan amounts. Once drawn, the contractual nominal notional amount becomes equal to the amount drawn on the loan.

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

At December 31, 2011 the unrealized loss on interest rate derivatives recorded in accumulated other comprehensive income, before tax, was $532 (December 31, 2010 – $nil; January 1, 2010 – $nil) with $112 (December 31, 2010 – $nil; January 1, 2010 – $nil) classified in accounts payable and accrued liabilities and $420 (December 31, 2010 – $nil; January 1, 2010 – $nil) classified in other long-term liabilities.

A reasonable change in market interest rates at December 31, 2011 would not significantly impact the earnings or equity of the Corporation due to the insignificant fair value balance of the interest rate derivative.

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

17. Financial instruments and risk management (continued)

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

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, 2011, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, accounts receivable, deposits and the fair value of derivative financial assets.

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

	December 31 2011	December 31 2010	January 1 2010
Cash and cash equivalents (i)	1,243,605	1,159,316	994,989
Restricted cash(i)	48,341	28,583	10,192
Accounts receivable (ii)	34,122	17,518	27,654
Deposits (iii)	28,386	28,258	27,264
Derivative financial assets (iv)	12,273	5,689	277

(i) Consist of bank balances and short-term investments with terms of up to 97 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions, some with provincial-government-backed guarantees. The Corporation manages its exposure by assessing the financial strength of its counterparties and by limiting the total exposure to any one individual counterparty.

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

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

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

The Corporation's allowance for doubtful accounts provision relates to a disputed balance with a cargo operation counterparty that has yet to be settled. The provision was recorded in a prior year as a bad debt. There were no new bad debts recorded for the year ended December 31, 2011 and 2010.

Liquidity risk

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

The table below presents a maturity analysis of the Corporation's undiscounted contractual cash flows for its non-derivative and derivative financial liabilities as at December 31, 2011. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date, and includes both principal and interest cash flows for long-term debt and obligations under finance leases.

	Total	Within 1 year	1–3 years	3–5 years	Over 5 years
Accounts payable and accrued liabilities (i)	284,902	284,902	–	–	–
Long-term debt	975,770	204,770	382,271	250,723	138,006
Obligations under finance leases	5,596	245	490	490	4,371
	1,266,268	489,917	382,761	251,213	142,377

(i) Excludes current portion of maintenance provisions of $245, deferred FGP revenue of $22,020 and interest rate derivative liabilities of $112.

A portion of the Corporation's cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2011 was $432,186 (December 31, 2010 – $336,926; January 1, 2010 – $297,720). Typically, the Corporation has cash and cash equivalents on hand to have sufficient liquidity to meet its liabilities, when due, under both normal and stressed conditions. As at December 31, 2011 the Corporation had cash and cash equivalents on hand of 2.88 times (December 31, 2010 – 3.44; January 1, 2010 – 3.34) the advance ticket sales balance.

The Corporation aims to maintain a current ratio, defined as current assets over current liabilities, of at least 1.00. As at December 31, 2011, the Corporation's current ratio was 1.51 (December 31, 2010 – 1.53; January 1, 2010 – 1.49). As at December 31, 2011, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.

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18. Commitments

(a) Purchased aircraft

As at December 31, 2011, the Corporation is committed to purchase 35 737-700 and two 737-800 aircraft for delivery between 2012 and 2018. The remaining estimated amounts to be paid in deposits and purchase prices for the 37 aircraft in US dollars and Canadian dollar equivalents are as follows:

	USD	CAD
Within 1 year	99,550	101,240
1 – 3 years	421,238	428,392
3 – 5 years	703,952	715,907
Over 5 years	386,466	393,030
	1,611,206	1,638,569

(b) Operating leases and commitments

The Corporation has entered into operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming. As at December 31, 2011 the future payments in US dollars, where applicable, and Canadian dollar equivalents under operating leases and commitments are as follows:

	USD	CAD
Within 1 year	191,462	219,271
1 – 3 years	371,634	400,588
3 – 5 years	262,846	279,747
Over 5 years	215,642	261,441
	1,041,584	1,161,047

As at December 31, 2011, the Corporation is committed to lease one additional 737-800 aircraft for a term of eight years in US dollars. This aircraft has been included in the above totals.

(c) Letters of guarantee

As at December 31, 2011, the Corporation has available two revolving letter of credit facilities with a Canadian charter bank totaling $38,000 (December 31, 2010 – $38,000; January 1, 2010 – $38,000). One facility is unsecured for $8,000 and the other is a facility for $30,000 that requires funds to be assigned and held in cash security for the full value of letters of guarantee issued by the Corporation. As at December 31, 2011 $6,610 (December 31, 2010 – $6,691; January 1, 2010 – $12,491) of letters of guarantee were issued under these facilities with restricted cash of $6,610 (December 31, 2010 – $6,691; January 1, 2010 – $4,491).

(d) Operating line of credit

The Corporation has available a three-year revolving operating line of credit with a syndicate of three Canadian banks. The line of credit is available for up to a maximum of $76,500 (December 31, 2010 – $80,750; January 1, 2010 – $85,000) and is secured by the Corporation's campus facility. The line of credit bears interest at prime plus 0.50% per annum, or a banker's acceptance rate at 2.0% annual stamping fee or equivalent, and is available for general corporate expenditures and working capital purposes. The Corporation is required to pay a standby fee of 15 basis points, based on the average unused portion of the line of credit for the previous quarter, payable quarterly. As at December 31, 2011, no amounts were drawn (December 31, 2010 – $nil; January 1, 2010 – $nil).

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19. Related parties

(a) Subsidiaries and partnership

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

WestJet Investment Corp.
WestJet Operations Corp.
WestJet Vacations Inc.
WestJet Partnership

WestJet Partnership is the primary operating entity of the Corporation.

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

(b) Key management personnel

The Corporation has defined key management personnel as senior executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2011 and 2010.

	2011	2010
Short-term fees and other short-term benefits	4,401	3,546
Termination and post-employment benefits	1,116	1,618
Share-based payment expense (i)	3,293	5,354
	8,810	10,518

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

(c) Transactions with other related parties

During 2010, the Corporation engaged a relocation firm to purchase a single family residence from the President and Chief Executive Officer (CEO) for a guaranteed price of US $1,525 in accordance with the Corporation's relocation policy, and in addition, granted RSUs pursuant to the Corporation's ESU plan in connection with the relocation. On September 30, 2011, the residence was sold for US $1,050 to a third party. The Corporation recognized an expense of US $475 plus closing charges of US $100 on the transaction, this difference was made payable to the relocation firm and recognized in 2011 under marketing, general and administrative expense.

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20. Additional financial information

(a) Assets

	Note	December 31 2011	December 31 2010	January 1 2010
Accounts receivable (i):				
Trade		19,193	12,620	15,940
Industry		15,665	5,242	11,384
Other		1,632	2,024	2,698
Allowance (ii)		(2,368)	(2,368)	(2,368)
		34,122	17,518	27,654
Prepaid expenses, deposits and other:				
Prepaid expenses		27,288	9,082	29,797
Short-term deposits (iii)		27,322	26,892	26,113
Maintenance reserves – current portion		–	12,045	8,629
Derivatives	17	12,273	5,689	276
Other		53	53	53
		66,936	53,761	64,868
Inventory:				
Fuel		21,479	17,967	24,777
Aircraft expendables		7,525	5,914	5,457
De-icing fluid		240	537	533
Other		2,451	1,677	738
		31,695	26,095	31,505
Other Assets:				
Aircraft deposits (iv)		45,515	45,268	50,975
Maintenance reserves – long term		49,655	41,736	44,084
Other		8,789	9,163	3,392
		103,959	96,167	98,451

(i) Trade receivables relate to day-to-day operations. Industry receivables include receivables relating to travel agents, interline agreements with other airlines and partnerships. All significant services and counterparties are reviewed and approved for credit on a regular basis. Trade receivables are generally settled in less than 30 days. Industry receivables are generally settled within 30 to 60 days.

(ii) The Corporation recorded a bad debt provision in 2009 in relation to its cargo operations. There were no new provisions recorded in 2011 or 2010.

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

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

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20. Additional financial information (continued)

(b) Liabilities

	Note	December 31 2011	December 31 2010	January 1 2010
Accounts payable and accrued liabilities:				
Trade and industry		268,624	237,668	198,828
Frequent guest program		22,020	6,823	–
Maintenance provision - current	9	245	12,372	8,031
Derivatives	17	112	4,379	10,193
Dividend payable		–	7,148	–
Other		16,278	19,320	11,859
		307,279	287,710	228,911
Other current liabilities:				
Advanced ticket sales		432,186	336,926	297,720
Non-refundable guest credits		43,485	36,381	63,164
		475,671	373,307	360,884
Other liabilities:				
Deferred contract incentives (i)		9,299	8,794	9,421
Derivatives	17	420	–	–
Other		730	164	96
		10,449	8,958	9,517

(i) Deferred contract incentives relate to discounts received on aircraft related items as well as land leases. Incentives are amortized over the terms of the related contracts.

21. Subsequent events

(a) Aircraft financing

On February 2, 2012, the Ex-Im Bank authorized a final commitment of $77,559 to support the financing of the two 737-800 aircraft to be delivered in February and June of 2012. The final commitment is drawn down at the time the Corporation takes delivery of the aircraft. Upon delivery of the second aircraft, any unused portion of the final commitment will be cancelled. In conjunction with the final commitment, the Corporation secured two new term credit facilities with a Canadian chartered bank. The facilities will be financed in Canadian dollars and amortized over a 12-year term, each repayable in fixed principal instalments plus a floating rate of interest equal to the three month Canadian dealer offer rate plus 75 basis points. As disclosed in note 17, the Corporation has entered into swap contracts to fix the interest rate over the 12 year term of the loans at a rate of 2.89% and 2.99%, respectively, inclusive of the 75 basis points.

(b) Normal course issuer bid

On February 7, 2012, the Corporation filed a notice with the TSX to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation is authorized to purchase up to 6,914,330 common voting shares and variable voting shares (representing approximately 5 per cent of the Corporation's issued and outstanding shares at the time of the bid) during the period February 10, 2012 to February 9, 2013, or until such time as the bid is completed or terminated at the Corporation's option. Any shares purchased under this bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid will be cancelled.

22. Transition to IFRS

The following discussion describes the principal adjustments made by the Corporation in restating its Canadian GAAP consolidated financial statements to IFRS for the year ended December 31, 2010 as well as the opening statement of financial position as at January 1, 2010. Tables reconciling the balances from Canadian GAAP to IFRS are also provided following the narrative discussion below.

Exemptions applied

IFRS 1 contains mandatory and optional exemptions required by publicly accountable enterprises adopting IFRS for the first time. The Corporation has assessed each of the mandatory and optional exemptions in detail and concluded there was no impact to the recognition, measurement, presentation or disclosure of past transactions related to these exemptions.

The Corporation has applied the optional transitional exemption under IFRS 1 – First-time Adoption of International Financial Reporting Standards in the preparation of these consolidated financial statements. IFRS 1 provides the option to apply IFRIC 4, Determining Whether an Arrangement Contains a Lease, to arrangements existing at the transition date on the basis of facts and circumstances at that date. The result of this election is to allow the Corporation to determine whether an arrangement contains a lease at the date of transition based on the facts and circumstances existing at that date instead of making this determination at the original inception of the arrangement. Based on the analysis performed, there are no effects to the accounts of the Corporation from the adoption of IFRIC 4.

Transition impacts

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Corporation's actual cash flows, it has resulted in changes to the Corporation's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Corporation's Canadian GAAP consolidated statement of financial position as at January 1, 2010 and December 31, 2010, and the Corporation's consolidated statement of earnings, consolidated statement of cash flows and consolidated statement of comprehensive income for the 12 months ended December 31, 2010, have been reconciled to IFRS with the resulting differences explained.

Recast information

Since the first IFRS interim condensed consolidated financial statements were reported by the Corporation as at and for the periods ending March 31, 2011 and 2010, the Corporation has amended its opening statement of financial position balance for maintenance provisions to reflect a correction to the pre-tax, risk-free discount rate as at January 1, 2010. This adjustment reflects a discount rate equal to the remaining term until cash flow instead of the full term of the aircraft lease. The resulting effect is an adjustment to the opening statement of financial position balances for long-term maintenance provisions of $6,495, $1,662 to deferred income tax and $4,833 to retained earnings from those amounts reported at March 31, 2011. The tables in this note reflect the amended opening statement of financial position.

Significant IFRS accounting policy differences

IAS 16 – Property, Plant and Equipment

Aircraft are required to have periodic maintenance performed at predetermined time intervals to maintain the integrity and efficiency of the aircraft and its major components, including the airframe, landing gear, and engines.

(i) Componentization

Canadian GAAP: Maintenance and repair costs for owned aircraft and aircraft under operating leases, including major overhauls, were charged to expense at the time maintenance was performed.

IFRS: For owned aircraft, each item of property and equipment with a significant cost in relation to the total cost and/or a different useful life is required to be depreciated separately. The costs of activities that restore the service potential of airframes, engines and landing gear are considered components of the aircraft and are separately capitalized and amortized over the period until the next overhaul.

For aircraft under operating leases, where the Corporation is required to return the aircraft to the lessor in a specified condition, a provision is recorded. See discussion under section IAS 37 – Provisions, contingent liabilities and contingent assets for more information.

Impact: More aircraft components with different useful lives were recognized under IFRS. This resulted in increased depreciation expense, as certain components have a shorter useful life than under Canadian GAAP. However, this increase is offset by a decrease in maintenance expense, as the costs to perform major maintenance are now capitalized whereas they were previously expensed. There is no change to the cost of maintenance activities and no overall impact to earnings over the life of the aircraft, only a timing difference in expense recognition.

22. Transition to IFRS (continued)

Significant IFRS accounting policy differences (continued)

(ii) Depreciation

Canadian GAAP: Depreciation of owned aircraft was based on aircraft cycles. Aircraft were amortized over a range of 30,000 to 50,000 cycles with one cycle being defined as the aircraft leaving the ground and landing.

IFRS: As a result of componentization described above, the Corporation was required to assess the useful lives and depreciation methods of each newly identified aircraft component. The result was a change to the depreciation method for aircraft components to the straight-line method. The Corporation determined that the expected useful life of the aircraft under IFRS is 20 years based on the expected pattern of consumption of future economic benefits embodied in the aircraft components. The useful life of an overall component ranges depending upon the time intervals required between planned major maintenance events.

Impact: Total depreciation over the life of the aircraft is unchanged under IFRS. There is only a timing difference in expense recognition.

(iii) Asset retirement obligations (ARO)

Canadian GAAP: For aircraft under operating leases, amounts relating to future lease return obligations including the painting of the tail and the removal of the in-flight entertainment and passenger briefing system were initially measured at fair value and recorded as a liability with a corresponding increase to the carrying value of the related asset (aircraft), which was amortized on a straight line basis over the term of the lease.

IFRS: Future lease return obligations are assessed as a provision under IAS 37. There is no property and equipment asset recognized related to future lease return obligations for the Corporation's aircraft under operating lease.

Impact: On transition, the ARO asset and liability previously recorded under Canadian GAAP were written off to retained earnings. The amortization expense and accretion expense recognized on the ARO asset and liability under Canadian GAAP in 2010 was reversed under IFRS. The obligation to return aircraft under operating lease in a specified condition previously recorded as a liability under Canadian GAAP was reclassified as a provision under IAS 37.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

(i) Maintenance provisions for aircraft under operating lease

Aircraft leasing agreements require the Corporation to return aircraft to the lessor in a specified condition. This requires the Corporation to incur maintenance costs related to the aircraft's engines, landing gear and airframe as well as the painting of the tail and the removal of the in-flight entertainment and passenger briefing systems.

Canadian GAAP: Maintenance costs on leased aircraft were expensed as incurred as the definition of a liability was not met under Canadian GAAP until the time the maintenance activity was performed.

IFRS: The definition of a provision under IFRS has a broader scope as compared to Canadian GAAP. As such, a maintenance provision is recognized for leased aircraft. Current and long-term provisions are recognized based on the expected timing of maintenance costs to be incurred. Accretion expense is recognized each period on the maintenance provisions for the unwinding of the present value discount. Provision amounts denominated in US dollars are revalued to Canadian dollars at each reporting period until settlement.

Impact: The adoption of this standard created a maintenance provision on the consolidated statement of financial position. There is no overall increase to maintenance expense over the term of the lease, only a timing difference in expense recognition. Finance costs are also increased due to the recording of accretion expense for the unwinding of the discount on the maintenance provision liabilities. A foreign exchange gain or loss is recognized on the revaluation of the US-dollar denominated maintenance liabilities at each reporting period.

(ii) Maintenance reserves

Certain aircraft lease agreements require the Corporation to pay maintenance deposits to the lessor based on predefined cycle and flight hour formulas. These payments are intended to provide the lessor with collateral should an aircraft not be returned in the condition specified in the lease agreement. When qualifying maintenance is performed, the Corporation is entitled to be reimbursed by the lessor up to a maximum of the amounts previously deposited with the lessor.

Canadian GAAP: Payments made to the lessor were expensed (maintenance expense) as incurred and reimbursements were recognized as receivables (and a related reduction to maintenance expense) when qualifying maintenance was performed.

22. Transition to IFRS (continued)

Significant IFRS accounting policy differences (continued)

(ii) Maintenance reserves (continued)

IFRS: To the extent maintenance deposits paid to the lessor are expected to be recoverable through qualifying maintenance activities, a maintenance reserve asset is recorded. As qualifying maintenance is performed and reimbursed, the maintenance reserve is drawn down. Any amounts deposited that are not expected to be recoverable through future qualifying maintenance activities are expensed as incurred. The Corporation recognizes both a current and long-term maintenance reserve based on the expected timing of reimbursements. Maintenance deposits denominated in US dollars are revalued to Canadian dollars at each reporting period until settlement.

Impact: Creation of a maintenance reserve asset on the consolidated statement of financial position and a one-time reduction in maintenance expense recognized on transition. A foreign exchange gain or loss is recognized at each reporting period for the revaluation of the US-dollar denominated maintenance reserve asset.

(iii) Soft dollar credit files

Credit files are presented on the consolidated statement of financial position as non-refundable guest credits. These credits are made up of both soft dollar and hard dollar credit files. Soft dollar credit files are provided to guests for inconveniences such as flight and baggage delays as a sign of goodwill to be used towards future travel. Hard dollar credit files are provided to guests for flight changes and cancellations, as well as for the purchase of gift certificates.

Canadian GAAP: Soft dollar credit files issued were recorded as an expense and related liability upon issuance at the incremental cost of flying an additional guest.

IFRS: Soft dollar credit files do not require a performance obligation to be fulfilled by the Corporation nor are they issued as part of a sales transaction. As a result, no obligation or liability is recognized under IFRS at the time when a soft dollar credit file is issued. When soft dollar credit files are redeemed by the guest they are recognized as a reduction to guest revenue for the full amount of the credit.

Impact: Elimination of the soft dollar credit file liability on transition with a related increase to retained earnings. There was no effect on hard dollar credit files due to the adoption of IFRS.

IAS 39 – Financial Instruments: Recognition and Measurement

WestJet has incurred various transaction costs, including agency, advisory and legal fees, related to its aircraft debt financing.

Canadian GAAP: As permitted under Canadian GAAP, these transaction costs were expensed as incurred.

IFRS: Requires costs that are incremental and directly attributable to the acquisition of a financial liability to be included in the initial measurement of the financial liability. These costs are recorded against the liability and amortized using the effective interest rate method over the term of the debt. The expense is recorded as a finance cost in the consolidated statement of earnings.

Impact: On transition, current and long-term debt was reduced with a related increase to retained earnings. Finance costs are increased for the amortization of the transaction costs.

22. Transition to IFRS (continued)

Significant IFRS accounting policy differences (continued)

Other IFRS Adjustments

Other IFRS transitional adjustments relate to changes in the measurement of share-based payment expense and leases, specifically sale and leaseback transactions, among others.

Share-based payment expense for the Corporation's stock options is now recognized over a longer service period for certain employees, and incorporates an estimated forfeiture rate on the number of instruments expected to vest at the date of grant. There is no change to total expense from these IFRS changes, only a difference in the period of expense allocation.

IFRS requires the gain from the sale and leaseback of aircraft to be recognized immediately. The Corporation previously deferred and amortized this gain over the term of the lease. There was no change to the total gain, only a timing difference in its recognition.

The share-based payment expense, lease and other changes under IFRS are not material individually or in aggregate to the consolidated financial statements.

Changes to deferred income tax assets and liabilities and the related deferred tax expense or benefit are the direct result of changes to the accounting values from Canadian GAAP to IFRS. There is no recognition and measurement difference between Canadian GAAP and IFRS related to the Corporation's deferred tax accounts. There are some presentation and disclosure differences under IFRS including the derecognition of any current deferred income tax assets or liabilities in favour of disclosing only a long-term deferred income tax asset or liability.

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

22. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Financial Position as at January 1, 2010

	Canadian GAAP balance	IAS 16	IAS 37	IAS 39	Other	IFRS balance
Assets						
Current assets:						
Cash and cash equivalents	994,989	–	–	–	–	994,989
Restricted cash	10,192	–	–	–	–	10,192
Accounts receivable	27,654	–	–	–	–	27,654
Prepaid expenses, deposits and other	56,239	–	8,629	–	–	64,868
Inventory	26,048	–	–	–	5,457	31,505
Deferred income tax	2,560	–	–	–	(2,560)	–
	1,117,682	–	8,629	–	2,897	1,129,208
Non-current assets:						
Property and equipment	2,307,566	(199,215)	–	–	–	2,108,351
Intangible assets	14,087	–	–	–	–	14,087
Other assets	54,367	–	44,084	–	–	98,451
Total assets	3,493,702	(199,215)	52,713	–	2,897	3,350,097
Liabilities and shareholders' equity						
Current liabilities:						
Accounts payable and accrued liabilities	220,042	–	8,031	838	–	228,911
Advance ticket sales	297,720	–	–	–	–	297,720
Non-refundable guest credits	64,506	–	(1,342)	–	–	63,164
Current portion of long-term debt	171,223	–	–	(6,112)	–	165,111
Current portion of obligations under finance leases	744	–	–	–	–	744
	754,235	–	6,689	(5,274)	–	755,650
Non-current liabilities:						
Maintenance provisions	–	–	97,722	–	–	97,722
Long-term debt	1,048,554	–	–	(20,389)	–	1,028,165
Obligations under finance leases	3,358	–	–	–	–	3,358
Other liabilities	19,628	(4,926)	–	–	(5,185)	9,517
Deferred income tax	278,999	(49,318)	(13,093)	6,644	277	223,509
Total liabilities	2,104,774	(54,244)	91,318	(19,019)	(4,908)	2,117,921
Shareholders' equity:						
Share capital	633,075	–	–	–	–	633,075
Equity reserves	71,503	–	–	–	4,363	75,866
Hedge reserves	(14,852)	–	–	–	–	(14,852)
Retained earnings	699,202	(144,971)	(38,605)	19,019	3,442	538,087
Total shareholders' equity	1,388,928	(144,971)	(38,605)	19,019	7,805	1,232,176
Total liabilities and shareholders' equity	3,493,702	(199,215)	52,713	–	2,897	3,350,097

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

22. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Financial Position as at December 31, 2010

	Canadian GAAP balance	IAS 16	IAS 37	IAS 39	Other	IFRS balance
Assets						
Current assets:						
Cash and cash equivalents	1,159,316	–	–	–	–	1,159,316
Restricted cash	28,583	–	–	–	–	28,583
Accounts receivable	17,518	–	–	–	–	17,518
Prepaid expenses, deposits and other	41,716	–	12,045	–	–	53,761
Inventory	20,181	–	–	–	5,914	26,095
Deferred income tax	1,396	–	–	–	(1,396)	–
	1,268,710	–	12,045	–	4,518	1,285,273
Non-current assets:						
Property and equipment	2,226,685	(237,163)	–	–	–	1,989,522
Intangible assets	13,018	–	–	–	–	13,018
Other assets	54,431	–	41,736	–	–	96,167
Total assets	3,562,844	(237,163)	53,781	–	4,518	3,383,980
Liabilities and shareholders' equity						
Current liabilities:						
Accounts payable and accrued liabilities	274,603	–	12,372	735	–	287,710
Advance ticket sales	337,002	–	(76)	–	–	336,926
Non-refundable guest credits	36,778	–	(397)	–	–	36,381
Current portion of long-term debt	183,681	–	–	(5,344)	–	178,337
Current portion of obligations under finance leases	108	–	–	–	–	108
	832,172	–	11,899	(4,609)	–	839,462
Non-current liabilities:						
Maintenance provisions	–	–	113,206	–	–	113,206
Long-term debt	863,496	–	–	(15,031)	–	848,465
Obligations under finance leases	3,249	–	–	–	–	3,249
Other liabilities	18,838	(5,903)	–	–	(3,977)	8,958
Deferred income tax	337,410	(58,667)	(18,082)	5,084	662	266,407
Total liabilities	2,055,165	(64,570)	107,023	(14,556)	(3,315)	2,079,747
Shareholders' equity:						
Share capital	647,637	–	–	–	–	647,637
Equity reserves	62,534	–	–	–	4,192	66,726
Hedge reserves	(10,470)	–	–	–	–	(10,470)
Retained earnings	807,978	(172,593)	(53,242)	14,556	3,641	600,340
Total shareholders' equity	1,507,679	(172,593)	(53,242)	14,556	7,833	1,304,233
Total liabilities and shareholders' equity	3,562,844	(237,163)	53,781	–	4,518	3,383,980

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

22. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Earnings for the year ended December 31, 2010

	Canadian GAAP balance	IAS 16	IAS 37	IAS 39	Other	IFRS balance
Revenues:						
Guest	2,405,281	–	(14,394)	–	–	2,390,887
Other	203,980	–	12,427	–	–	216,407
	2,609,261	–	(1,967)	–	–	2,607,294
Expenses:						
Aircraft fuel	674,608	–	–	–	–	674,608
Airport operations	388,392	–	(280)	–	–	388,112
Flight operations and navigational charges	325,754	–	–	–	(172)	325,582
Sales and distribution	255,777	–	(45)	–	–	255,732
Marketing, general and administration	195,185	–	(773)	–	69	194,481
Depreciation and amortization	132,894	37,568	–	–	–	170,462
Aircraft leasing	142,242	–	–	–	1,139	143,381
Maintenance	100,339	(216)	17,391	–	(457)	117,057
Inflight	124,303	–	–	–	–	124,303
Employee profit share	22,222	–	–	–	–	22,222
	2,361,716	37,352	16,293	–	579	2,415,940
Earnings from operations	247,545	(37,352)	(18,260)	–	(579)	191,354
Non-operating income (expense):						
Finance income	9,910	–	–	–	–	9,910
Finance costs	(60,164)	–	(4,725)	(6,025)	–	(70,914)
Gain (loss) on foreign exchange	(780)	–	3,359	–	–	2,579
Gain on disposal of property and equipment	190	380	–	–	–	570
Loss on derivatives	(34)	–	–	–	–	(34)
	(50,878)	380	(1,366)	(6,025)	–	(57,889)
Earnings before income taxes	196,667	(36,972)	(19,626)	(6,025)	(579)	133,465
Income tax expense:						
Current	1,573	–	–	–	–	1,573
Deferred	58,374	(9,350)	(4,988)	(1,562)	(779)	41,695
	59,947	(9,350)	(4,988)	(1,562)	(779)	43,268
Net earnings	136,720	(27,622)	(14,638)	(4,463)	200	90,197
Earnings per share:						
Basic	0.94					0.62
Diluted	0.94					0.62

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

22. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Cash Flows for the year ended December 31, 2010

	Canadian GAAP balance	IAS 16	IAS 37	IAS 39	Other	IFRS balance
Operating activities:						
Net earnings	136,720	(27,622)	(14,638)	(4,463)	200	90,197
Items not involving cash:						
Depreciation and amortization	132,894	37,568	–	–	–	170,462
Change in long-term maintenance provisions	–	–	27,927	–	–	27,927
Change in other liabilities	(1,891)	–	–	–	1,206	(685)
Amortization of hedge settlements	1,400	–	–	–	–	1,400
Loss on derivative instruments	34	–	–	–	–	34
Gain on disposal of property and equipment	(167)	(596)	–	–	–	(763)
Share-based payment expense	15,668	–	–	–	(171)	15,497
Income tax credit	(1,667)	–	–	–	–	(1,667)
Deferred income tax expense	58,374	(9,350)	(4,988)	(1,562)	(779)	41,695
Unrealized foreign exchange loss	3,696	–	(3,359)	–	–	337
Change in non-cash working capital	98,222	–	716	(101)	(455)	98,382
Change in restricted cash	(18,391)	–	–	–	–	(18,391)
Change in other assets	–	–	(5,658)	–	–	(5,658)
	424,892	–	–	(6,126)	–	418,766
Investing activities:						
Aircraft additions	(29,884)	–	–	–	–	(29,884)
Other property and equipment and intangible additions	(18,675)	–	–	–	–	(18,675)
	(48,559)	–	–	–	–	(48,559)
Financing activities:						
Repayment of long-term debt	(171,115)	–	–	6,126	–	(164,989)
Decrease in obligations under finance leases	(744)	–	–	–	–	(744)
Shares repurchased	(31,391)	–	–	–	–	(31,391)
Issuance of common shares	520	–	–	–	–	520
Change in other assets	(2,947)	–	–	–	–	(2,947)
Change in non-cash working capital	(4,526)	–	–	–	–	(4,526)
	(210,203)	–	–	6,126	–	(204,077)
Cash flow from operating, financing and investing activities	166,130	–	–	–	–	166,130
Effect of foreign exchange on cash and cash equivalents	(1,803)	–	–	–	–	(1,803)
Net change in cash and cash equivalents	164,327	–	–	–	–	164,327
Cash and cash equivalents, beginning of year	994,989	–	–	–	–	994,989
Cash and cash equivalents, end of year	1,159,316	–	–	–	–	1,159,316

Notes to Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Stated in thousands of Canadian dollars, except share and per share amounts)

22. Transition to IFRS (continued)

Reconciliation of Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

	Canadian GAAP balance	Adjustments	**IFRS balance**
Net earnings	136,720	(46,523)	90,197
Other comprehensive income, net of tax:			
Amortization of hedge settlements to aircraft leasing	1,400	–	1,400
Net unrealized loss on foreign exchange derivatives	(3,460)	–	(3,460)
Reclassification of net realized loss on foreign	1,557	–	1,557
Net unrealized loss on fuel derivatives under cash	(1,778)	–	(1,778)
Reclassification of net realized loss on fuel derivatives	6,663	–	6,663
	4,382	–	4,382
Total comprehensive income	141,102	(46,523)	94,579

(i) Net of income taxes of $1,224.
(ii) Net of income taxes of $(586).
(iii) Net of income taxes of $670.
(iv) Net of income taxes of $(2,509).

EXHIBIT "D"

[Redacted]

PUBLIC

CT-2010-010

THE COMPETITION TRIBUNAL

IN THE MATTER OF the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

AND IN THE MATTER OF an application by the Commissioner of Competition pursuant to section 76 of the *Competition Act*;

AND IN THE MATTER OF certain agreements or arrangements implemented or enforced by Visa Canada Corporation and MasterCard International Incorporated.

BETWEEN:

THE COMMISSIONER OF COMPETITION

Applicant

- and -

VISA CANADA CORPORATION and MASTERCARD INTERNATIONAL INCORPORATED

Respondents

- and -

THE TORONTO-DOMINION BANK
THE CANADIAN BANKERS ASSOCIATION

Intervenors

WITNESS STATEMENT OF CANDICE LI
(MARCH 7, 2012)

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