2018 First Quarter Report

Management's Discussion and Analysis

Management's Discussion and Analysis of Financial Condition and Operating Results

For the three months ended March 31, 2018 and 2017

WestJet Airlines Ltd.
First Quarter 2018 MD&A
May 7, 2018

Contents

About WestJet 2
Financial and Operational Highlights 3
Overview... 4
Outlook 7
Discussion of Operations.. 8
Summary of Quarterly Results................................... 15
Guest Experience 15
Liquidity and Capital Resources 16
Fleet 20
Off-Balance Sheet Arrangements 21
Related Party Transactions.. 21
Share Capital 21
Accounting 22
Controls and Procedures 25
Forward-Looking Information 26
Definition of Key Operating Indicators......................... 27
Non-GAAP and Additional GAAP Measures 28

Advisories

The following Management's Discussion and Analysis of Financial Condition and Operating Results (MD&A), dated May 7, 2018, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as WestJet's unaudited condensed consolidated interim financial statements and notes thereto for the three months ended March 31, 2018 and 2017, and our audited consolidated financial statements and notes thereto, for the years ended December 31, 2017 and 2016. 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. References to "WestJet," "the Corporation," "the Company", "we," "us" or "our" mean WestJet Airlines Ltd. and its consolidated subsidiaries and structured entities, unless the context otherwise requires. Additional information relating to WestJet, including periodic quarterly and annual reports and Annual Information Forms (AIF), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at westjet.com.

Cautionary statement regarding forward-looking information

This MD&A contains "forward-looking information" as defined under applicable Canadian securities legislation. This forward-looking information typically contains the words "anticipate," "believe," "estimate," "intend," "expect," "forecast," "may," "will," "should," "potential," "plan," "project" or other similar terms. 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 changes to 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 disclosure found under the heading "Outlook" in this MD&A, including the guidance summary for the three months ended June 30, 2018 and the year ended December 31, 2018 may contain forward-looking information that constitutes a financial outlook. The forward-looking information, including any financial outlook, contained in this MD&A, is provided to assist investors in understanding our assessment of WestJet's future plans, operations and expected results. The forward-looking information, including without limitation, the disclosure found under the heading "Outlook", contained in this MD&A may not be appropriate for other purposes and is expressly qualified by this cautionary statement. Please refer to page 26 of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development. Our assumptions and estimates relating to the forward-looking information referred to above are updated in conjunction with filing our quarterly and annual MD&A and, except as required by law, we do not undertake to update any other forward-looking information.

Non-GAAP and additional GAAP measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by Generally Accepted Accounting Principles (GAAP) and, therefore, are considered non-GAAP measures. These measures are provided to enhance the reader's overall understanding of our financial performance or current financial condition. These measures also 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 provide a more consistent basis for comparison between periods. These measures are not in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures presented by other entities.

Please refer to page 29 of this MD&A for a reconciliation of non-GAAP measures, including cost per available seat mile (CASM), excluding fuel and employee profit share; return on invested capital (ROIC); free cash flow; diluted free cash flow per share; and diluted operating cash flow per share, and for a reconciliation of additional GAAP measures, including adjusted debt-to-equity; adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR); and the cash to trailing twelve months revenue ratio.

Definitions

Various terms used throughout this MD&A are defined at page 27 under the title "Definition of key operating indicators".

About WestJet

WestJet is a Canadian airline, based in Calgary, Alberta, with expanding global operations. Through scheduled flights across a growing network, WestJet also operates WestJet Vacations, which provides air, hotel, car and excursion packages, and WestJet Encore, a regional airline which operates a fleet of turboprop aircraft in a network of destinations in Canada and the United States.

As of March 31, 2018, our airline offered scheduled service to over 100 destinations in North America, Central America, the Caribbean and Europe with a fleet of 115 Boeing 737 Next Generation (Boeing 737 NG) aircraft, six Boeing 737 MAX (Boeing MAX) aircraft, 44 Bombardier Q400 (Q400) aircraft and four Boeing 767-300 ERW (Boeing 767) aircraft. When including our airline partners, we serve over 170 destinations. We plan to continue adding new destinations and additional frequencies to our existing markets through the growth of our Boeing MAX fleet, future deliveries of Boeing 787-9 Dreamliner (Boeing 787) aircraft and new service offered by our ultra-low-cost carrier (ULCC), Swoop, starting in June 2018.

WestJet's mission is to enrich the lives of everyone in WestJet's world. We believe that focusing on metrics such as safety, on-time performance, profitability, guest satisfaction and employee engagement will lead us to this goal.

In 2017, we rolled out our 2022 vision which focusses on three bold claims:

- We are team WestJet. WestJet is people powered.
- We are caring at our core. Air travel is better with WestJet.
- We are a global airline. Authentically Canadian. Uniquely WestJet.

This vision was co-created with WestJetters across the country and reflects our shared beliefs and values across the organization. Guiding us every day toward accomplishing our mission and vision are our core values of acting like an owner, caring from the heart, rising to the challenge and working together as one team.

Our focus on our people has always been fundamental to the success of our Company. In an industry that has become largely commoditized, we recognize that WestJetters are an essential part of our business and that their commitment to caring for our guests supports our profitable results. We remain committed to our goal to attract, train, motivate, develop and retain the right people.

Financial and operational highlights

The financial and operational highlights for WestJet for the first quarter of 2018 are as follows:

	($ in thousands, except per share amounts and unless otherwise noted)	Three months ended March 31		
		2018	2017[(i)]	Change
Financial highlights	Revenue	1,191,724	1,114,671	6.9%
	Operating expenses	1,136,157	1,035,843	9.7%
	Earnings from operations	55,567	78,828	(29.5%)
	Operating margin (per cent)	4.7%	7.1%	(2.4 pts.)
	Earnings before income taxes (EBT)	53,394	66,094	(19.2%)
	EBT margin (per cent)	4.5%	5.9%	(1.4 pts.)
	Net earnings	37,198	46,706	(20.4%)
	Earnings per share:			
	Basic	0.33	0.40	(17.5%)
	Diluted	0.32	0.40	(20.0%)
	ROIC (per cent)	9.5%	10.1%	(0.6 pts.)

		Three months ended March 31		
		2018	2017[(i)]	Change
Operational highlights	ASMs	8,028,866,429	7,699,062,691	4.3%
	RPMs	6,809,877,224	6,392,656,135	6.5%
	Load factor	84.8%	83.0%	1.8 pts.
	Yield (cents)	17.50	17.44	0.3%
	RASM (cents)	14.84	14.48	2.5%
	CASM (cents)	14.15	13.45	5.2%
	CASM, excluding fuel and employee profit share (cents)	10.57	10.30	2.6%
	Fuel consumption (litres)	382,879,010	370,356,715	3.4%
	Fuel costs per litre (cents)	73	64	14.1%
	Segment guests	6,088,954	5,687,659	7.1%
	Average stage length (miles)	897	921	(2.6%)
	Departures	63,186	59,149	6.8%
	Utilization (hours)	11.4	11.6	(1.7%)
	Number of full-time equivalent employees at period end	11,459	10,430	9.9%
	Fleet size at period end	169	155	9.0%

(i) We have adopted IFRS 15 *Revenue from contracts with customers* (IFRS 15) effective January 1, 2018 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 15. Please refer to page 22 for a description of the restatements performed under IFRS 15.

(ii) Please refer to page 29 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

Overview

Our 2018 first quarter financial results represent our 52nd consecutive quarter of reported profitability with net earnings of $37.2 million and quarterly diluted earnings per share of $0.32. Total revenue increased by 6.9 per cent year over year primarily driven by increases in guest revenue due to year over year improvements in both load factor and yield. Our operating margin was 4.7 per cent, down 2.4 percentage points when compared to the first quarter of 2017, as a result of the continuing increase in aircraft fuel costs, increased salaries and benefits expenses, sales and marketing expenses, as well as increased other operating expenses due to the compounding effect of significant severe weather in the first two months of 2018.

We returned approximately $16.0 million to our shareholders through our dividend program in the first quarter of 2018. Since our dividend and share buy-back programs began in 2010, we have returned approximately $1,113.6 million to our shareholders. Our 12-month ROIC of 9.5 per cent at March 31, 2018 represents a decrease of 0.6 percentage points compared to our restated March 31, 2017 ROIC of 10.1 per cent. We remain committed to returning to our targeted long-term ROIC range of 13.0 to 16.0 per cent by growing revenues and reducing costs to improve our earnings, and expect to return to within our targeted range in the year 2020.

We have adopted IFRS 15 *Revenue from contracts with customers* (IFRS 15) effective January 1, 2018 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 15.

First quarter overview

- Recognized total revenues of $1,191.7 million, an increase of 6.9 per cent from $1,114.7 million in the first quarter of 2017.
- Increased capacity, measured in available seat miles (ASMs), by 4.3 per cent over the first quarter of 2017.
- Increased traffic, measured in revenue passenger miles (RPMs), by 6.5 per cent over the first quarter of 2017.
- Realized yield of 17.50 cents, up 0.3 per cent from 17.44 cents in the first quarter of 2017.
- Realized RASM of 14.84 cents, up 2.5 per cent from 14.48 cents in the first quarter of 2017.
- Realized CASM of 14.15 cents, up 5.2 per cent from 13.45 cents in the first quarter of 2017.
- Realized CASM, excluding fuel and employee profit share, of 10.57 cents, up 2.6 per cent from 10.30 cents in the first quarter of 2017.
- Recorded an operating margin of 4.7 per cent, down 2.4 per cent from 7.1 per cent in the first quarter of 2017.
- Recorded earnings before tax (EBT) margin of 4.5 per cent, down 1.4 per cent from 5.9 per cent in the first quarter of 2017.
- Reported net earnings of $37.2 million, a decrease of 20.4 per cent from $46.7 million in the first quarter of 2017.
- Reported diluted earnings per share of $0.32, a decrease of 20.0 per cent from $0.40 per share in the first quarter of 2017.

Please refer to page 29 of this MD&A for a reconciliation of the non-GAAP measures and additional GAAP measures.

WestJetters

As a result of the dedication of our over 13,000 WestJetters to exceeding our guests' travel expectations, we were recognized, for the second consecutive year, for our award-winning brand of service by the 2018 TripAdvisor Travellers' Choice awards. WestJet is proud to be the only Canadian airline to win the TripAdvisor's Best Airline in Canada recognition, and in addition to this award, WestJet was also the recipient of the Travellers' Choice Winner – North America and Travellers' Choice Winner – Economy, North America. Additionally, as a result of our WestJetters' continuing hard work in ensuring our strong operational performance, we have been named a winner in Bombardier's Commercial Aircraft's 2017 Airline Reliability Performance awards which recognizes the operators of Bombardier's Q-Series turboprops and CRJ regional jets that have achieved at least 99 per cent dispatch reliability throughout the year.

On February 9, 2018, the Air Line Pilots Association (ALPA) served a Notice of Dispute on WestJet, on behalf of WestJet pilots, excluding WestJet Encore pilots, asking the Minister of Labour to appoint conciliators from the Federal Mediation and Conciliation Services to assist with collective bargaining. The Notice of Dispute and related appointment of the conciliators by the Minister commenced the conciliation process under the Canada Labour Code, which process is a maximum of 60 days unless extended by the mutual consent of the parties. The conciliation period ended on April 27, 2018 as ALPA did not agree to an extension. Accordingly, a 21-day cooling off period has commenced. On April 25, 2018, ALPA commenced a strike authorization vote amongst WestJet pilots in the bargaining unit.

Unless an agreement is reached in the interim, following (i) the expiry of the 21-day cooling off period; (ii) the receipt of a positive mandate from the strike vote of WestJet pilots in the bargaining unit; and (iii) the provision to WestJet of a 72-hour notice of the intention to strike, ALPA would be in a lawful position to strike (and the Company would be in a lawful position to lockout). The earliest date that a strike or lockout could occur is May 19, 2018. We remain focused on successfully negotiating an agreement.

On March 8, 2018, we announced that Gregg Saretsky came to an agreement with the Board to retire as President and CEO of WestJet and named Ed Sims, our former EVP, Commercial, as his replacement. Ed has also been appointed as a Director of the Company. Further to these changes, we were also pleased to welcome Bob Cummings back to WestJet as EVP, Strategy and Guest Services, responsible for business development, strategy execution, and guest services. Bob has been instrumental in leading the development of our ULCC strategy which, effective March 5, 2018, was assumed by our newly appointed EVP and President of Swoop, Steven Greenway.

Guest experience and service enhancements

As part of our overall strategy, we are committed to exploring and implementing initiatives that will improve both our onboard guest experience and the ease with which our guests do business with us. The successful implementation of these initiatives and introduction of new products is made possible through the care and dedication delivered by all WestJetters.

In January 2018, the WestJet RBC® World Elite MasterCard± and the WestJet RBC® MasterCard± were again recognized as the top travel rewards cards in Canada, with the WestJet RBC® World Elite MasterCard± being recognized as Canada's best airline rewards card according to Rewards Canada. This recognition reflects the growing attractiveness of our WestJet RBC® MasterCard± products as a result of the expansion of our WestJet Rewards program to allow for the redemption of WestJet dollars on flights with several international airline partners, including Air France, KLM, Delta and Qantas, as well as additional benefits, such as the annual companion flight, free first checked bag and welcome WestJet dollars.

Effective February 28, 2018, we added a sixth fare bundle to our product offering, Econo (Lowest). Econo (Lowest) offers our lowest fare, providing guests with our standard onboard food and beverage options, access to our inflight entertainment system and the ability to travel with a carry-on bag and personal item free of charge. Under this fare bundle, guests are not able to obtain a refund for itinerary changes or cancellations, select pre-reserved seating during the booking process or earn WestJet dollars, and spend within this bundle is not eligible towards qualifying flight spend to reach Silver or Gold tier status within our WestJet Rewards program. This fare, in combination with Swoop, is intended to leverage WestJet's growing network to stimulate new air travel demand with attractive prices and to complete in the price-sensitive segment of the market.

Network expansion and fleet

We continue to strategically grow our airline through new and increased service across our scheduled network and look for opportunities to better serve our guests as market demand permits.

In January we announced our 2018 summer schedule, which focused on enhancing our primary domestic hubs, increasing connectivity by adding new routes and increasing frequency between a number of Canadian, transborder and international sun destinations. We also announced new service to Paris, France from Halifax, on our Boeing MAX aircraft, starting May 2018. This addition represents our fourth destination in Europe. During the quarter, we launched our inaugural flights between Calgary and Denver, as well as flights to Mexico City from Calgary and Vancouver.

The launch of our regional air service under our first capacity purchase agreement, with service to destinations including Cranbrook, Prince George, Lethbridge, Lloydminster and Medicine Hat, continues to progress as planned under our revised timeline for service commencing in June 2018. Additionally, progress toward negotiating our planned joint venture with Delta Air Lines is ongoing.

In the first quarter of 2018, our overall fleet count increased by one aircraft as a result of deliveries of two Boeing MAX aircraft, one Q400 aircraft and the return of two leased Boeing 737-700 NG aircraft. We finalized the agreements for two leased Q400 aircraft, delivered subsequent to the quarter, for terms of eight years each, and executed lease extensions for one Boeing 737-700 NG aircraft, previously scheduled to expire in 2018 for an additional five years, and one Boeing 737-800 NG aircraft, previously scheduled to expire in 2019, to 2026. Subsequent to the quarter, we took delivery of one additional owned Q400 aircraft.

Business development plans

On February 1, 2018, WestJet's wholly-owned subsidiary, Swoop, began selling air services for travel dates starting in June 2018 with an initial network focusing on select domestic regions that includes five Canadian cities: Abbotsford, Edmonton, Halifax, Hamilton and Winnipeg. Progress towards operational readiness, including the recruitment of pilots and cabin crew members, for our first scheduled flight in June 2018 remains on schedule and we are proceeding as planned towards achieving all required regulatory approvals.

We continue to look for opportunities to save costs and increase our revenues. During the first quarter of 2018, we continued the seat reconfiguration program to add capacity to our current fleet of Boeing narrow-body aircraft, started in 2017 on our fleet of Boeing 737-700 NGs, and have completed the reconfiguration of 14 Boeing 737-800 aircraft. We expect to complete the reconfigurations of the Boeing 737-800 NG fleet before the end of 2018.

We have launched an effort to accelerate the cost savings disclosed at Investor Day with a goal of achieving annualized savings of $200M by the end of 2020.

Outlook

For the second quarter of 2018, we expect system-wide capacity to grow between 4.5 and 5.5 per cent year over year, and domestic capacity to grow between 3.0 and 4.0 per cent year over year. In terms of the full-year 2018, we still anticipate both system-wide and domestic capacity growth of between 6.5 and 8.5 per cent year over year. In the second quarter of 2018, the majority of our capacity growth is attributable to the densification of our narrow-body aircraft, shift in fleet mix to larger narrow-body aircraft, growth in Q400 flying, the initiation of WestJet Link and the launch of our new ULCC, Swoop.

For the second quarter of 2018, we expect year over year RASM to be in the range of flat to down 2.0 per cent driven by solid demand offset by industry capacity increases in the domestic market, a slow-down in our charter business as construction on Suncor Energy's Fort Hills project comes to a close, a decrease in partnership revenue driven by the loss of our codeshare relationship with American Airlines as well as the impact of the call for a mandate for industrial action from ALPA's master executive council.

For the second quarter of 2018, we expect CASM, excluding fuel and employee profit share to be up 7.5 to 8.5 per cent year over year driven by WestJet Encore operating with eight more aircraft year over year, an elevated on-board product offering across our narrow-body fleet, increased maintenance provision for leased aircraft resulting from the execution of lease extensions, and continued investment in the business to support Swoop, our future Boeing 787 deliveries and the infrastructure required to deliver on our strategic plan. For the full-year 2018, we now expect CASM excluding fuel and employee profit share to be up 2.5 to 3.5 per cent.

For the second quarter of 2018, we expect fuel costs to range between 77 and 79 cents per litre, representing a year over year increase of approximately 24 to 27 per cent. The second quarter 2018 expected fuel costs are based on current forecasted jet fuel prices of US $85 per barrel and an average foreign exchange rate of approximately 1.28 Canadian dollars to one US dollar.

For the full-year 2018, we still expect capital expenditures of between $770 million and $790 million. For the second quarter of 2018, we expect our capital expenditures to be between $220 million and $240 million.

We now anticipate our annual effective consolidated income tax rate for the full year 2018 to be in the range of 30 to 32 per cent.

The second quarter and full-year 2018 expected CASM, excluding fuel and employee profit share and capital expenditures are based on an average forecasted foreign exchange rate of approximately 1.28 Canadian dollars to one US dollar.

Guidance summary [(i)]

Guidance summary	Three months ended June 30, 2018	Year ended December 31, 2018
RASM	Flat to down 2.0%	
Fuel cost per litre	77 to 79 cents	
CASM, excluding fuel and profit share	Up 7.5% to 8.5%	Up 2.5% to 3.5%
System capacity	Up 4.5% to 5.5%	Up 6.5% to 8.5%
Domestic capacity	Up 3.0% to 4.0%	Up 6.5% to 8.5%
Effective tax rate		30% to 32%
Capital expenditures	$220 to $240 million	$770 to $790 million

(i) The percentage changes noted are based on a year over year comparison

Discussion of operations

Capacity

For the three months ended March 31, 2018, our overall capacity increased by 4.3 per cent over the same period in 2017 through additional deliveries of Q400 aircraft and Boeing MAX aircraft in the last twelve months. The following table depicts our capacity allocation between our domestic and transborder and international markets:

	Three months ended March 31				
	2018		2017		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	3,342,043,881	41.6%	3,179,909,462	41.3%	5.1%
Transborder and international	4,686,822,548	58.4%	4,519,153,229	58.7%	3.7%
Total	**8,028,866,429**	**100.0%**	**7,699,062,691**	**100.0%**	**4.3%**

During the quarter, our domestic to transborder and international capacity mix remained relatively unchanged. Domestic capacity growth represented approximately half of our total system capacity growth during the period, driven by the implementation of numerous schedule improvements, including increased frequency across our three major Canadian airport hubs and a focus on improved connectivity for both premium and leisure guests across our network.

Year over year domestic capacity growth of 5.1 per cent is slightly below our previously disclosed guidance of expected capacity growth between 5.5 per cent and 6.5 per cent, primarily due to the reduction in the number of flights operated under our charter program with Suncor Energy and the compounding effect of significant weather events across the country resulting in cancelled flights during the first quarter of 2018 relative to the prior year.

Capacity growth within our transborder network was the result of increased frequency between our Canadian hubs and key US business markets. International capacity growth was driven primarily by the launch of new routes to destinations within Mexico, partially offset by the reduction in the Caribbean as a result of the fall 2017 hurricane damage.

Traffic

The following table depicts our traffic allocation between our domestic and transborder and international markets:

	Three months ended March 31				
	2018		2017		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	2,568,332,291	37.7%	2,397,192,991	37.5%	7.1%
Transborder and international	4,241,544,933	62.3%	3,995,463,144	62.5%	6.2%
Total	**6,809,877,224**	**100.0%**	**6,392,656,135**	**100.0%**	**6.5%**

During the three months ended March 31, 2018, our traffic, measured in RPMs, increased by 6.5 per cent year over year as compared to the 4.3 per cent increase in capacity, due primarily to the timing shift of the spring holiday travel to the first quarter of 2018, as compared to the second quarter of the year for 2017.

Domestic traffic growth outpaced capacity growth within several regions, reflecting the continuing stabilization of the economy and increased demand for leisure and premium travel. The improvement in load factor and year over year traffic growth across our transborder and international markets is attributed to our expanded transborder business routes combined with increased load factors as a result of the timing of the spring holiday within the first quarter of the year.

Revenue

	Three months ended March 31		
($ in thousands, unless otherwise noted)	2018	2017	Change
Guest revenue – domestic	452,192	423,215	6.8%
Guest revenue – transborder and international	547,653	506,255	8.2%
Ancillary revenue	109,462	101,950	7.4%
Total guest revenue	**1,109,307**	**1,031,420**	**7.6%**
Other revenue	82,417	83,251	(1.0%)
Total revenue	**1,191,724**	**1,114,671**	**6.9%**
RASM (cents)	14.84	14.48	2.5%
Load factor	84.8%	83.0%	1.8 pts.
Yield (cents)	17.50	17.44	0.3%

During the first quarter of 2018, total revenue increased by 6.9 per cent to $1,191.7 million compared to $1,114.7 million in the same quarter of 2017. On an ASM basis, revenue increased to 14.84 cents from 14.48 cents in the same quarter of 2017. These increases were driven primarily by increased guest revenue from improved load factors and slightly higher yields, combined with increased ancillary revenues.

Guest revenue is comprised of ticket sales for scheduled domestic and transborder and international flights, the air component of vacation packages, as well as ancillary revenues such as fees associated with guest itinerary changes or cancellations, Plus upgrades, baggage fees, buy-on-board sales, pre-reserved seating fees and certain revenues related to our co-branded credit card arrangement.

Guest revenue

For the three months ended March 31, 2018, guest revenue increased to $1,109.3 million, from $1,031.4 million in the first quarter of 2017, primarily as a result of the increased load factor on the 4.3 per cent increase in capacity during the period, combined with increased ancillary revenues.

Ancillary revenue provides an opportunity to sell higher-margin goods and services while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. The following table presents ancillary revenue and ancillary revenue on a per guest basis for the three months ended March 31, 2018 and 2017:

	Three months ended March 31		
	2018	2017	Change
Ancillary revenue ($ in thousands)	109,462	101,950	7.4%
Ancillary revenue per guest	18.58	18.72	(0.7%)

For the three months ended March 31, 2018, ancillary revenue was $109.5 million, an increase of 7.4 per cent from $101.9 million in the same quarter of the prior year. This increase is mainly attributable to an increase in Plus upgrade fees, pre-reserved seat fees and onboard food and beverage purchases, driven by an increased number of guests travelling during the period as compared to the prior year.

On a per guest basis, ancillary fees for the quarter decreased by 0.7 per cent to $18.58 per guest, from $18.72 per guest in the first quarter of 2017, largely due to lower spend per guest on baggage fees.

Other revenue

Included in other revenue are amounts related to WestJet Vacations' non-air revenue, cargo revenue, our charter operations, and the brand value licensing component of the co-brand credit card program. For the three months ended March 31, 2018, other revenue decreased by 1.0 per cent to $82.4 million from $83.3 million in the same period of 2017, as increased revenue from WestJet Vacations was offset by decreased charter revenue.

WestJet Vacations continues to generate revenue which supports WestJet's overall network. The land component, which includes hotels, attractions and car rentals, is reported on the condensed consolidated statement of earnings at the net amount received. In the first quarter of 2018, revenue from the sale of the land component of vacations packages increased due to the increased number of guests travelling during the period, compared to the same period in the prior year. The

majority of the land components are paid in US dollars, which are netted against the gross revenue collected in Canadian dollars.

Expenses

	Expense ($ in thousands)			CASM (cents)		
	Three months ended March 31			Three months ended March 31		
	2018	2017	Change	2018	2017	Change
Aircraft fuel	281,151	235,516	19.4%	3.50	3.06	14.4%
Salaries and benefits	255,125	231,115	10.4%	3.18	3.00	6.0%
Rates and fees	168,930	162,263	4.1%	2.10	2.11	(0.5%)
Sales and marketing	119,579	102,586	16.6%	1.49	1.33	12.0%
Depreciation and amortization	107,897	97,623	10.5%	1.34	1.27	5.5%
Maintenance	54,921	66,948	(18.0%)	0.68	0.87	(21.8%)
Aircraft leasing	37,484	44,341	(15.5%)	0.47	0.58	(19.0%)
Other	104,686	88,424	18.4%	1.31	1.14	14.9%
Employee profit share	6,384	7,027	(9.2%)	0.08	0.09	(11.1%)
Total operating expenses	**1,136,157**	**1,035,843**	**9.7%**	**14.15**	**13.45**	**5.2%**
Total, excluding fuel and profit share	**848,622**	**793,300**	**7.0%**	**10.57**	**10.30**	**2.6%**

During the three months ended March 31, 2018, operating expenses totaled $1,136.2 million or 14.15 cents per ASM, an increase of 9.7% and 5.2%, respectively, from $1,035.8 million and 13.45 cents per ASM for the same period in 2017. These increases reflect the year over year ASM growth of 4.3 per cent, combined with per ASM increases in aircraft fuel expense, salaries and benefits expense, sales and marketing expense and other operating expenses, partially offset by the decreases in maintenance expense and aircraft leasing expense.

Aircraft fuel

	Three months ended March 31		
	2018	2017	Change
Aircraft fuel expense ($ in thousands)	281,151	235,516	19.4%
Aircraft fuel expense as a percent of operating expenses	24.7%	22.8%	1.9 pts.
Fuel consumption (litres)	382,879,010	370,356,715	3.4%
Fuel cost per litre (cents)	73	64	14.1%
Average market price for jet fuel in US dollars (per barrel)	81	62	30.6%
Average market price for jet fuel in Canadian dollars (per barrel)	103	84	22.6%

Fuel remains a significant cost representing 24.7 per cent of total operating expenses for the three months ended March 31, 2018 (March 31, 2017 – 22.8 per cent). Fuel prices have been rising due to global economic and geopolitical factors which we can neither control nor accurately predict. Aircraft fuel expense for the three months ended March 31, 2018 increased by 19.4 per cent to $281.2 million, from $235.5 million in the same period in 2017, primarily due to the 14.1 per cent year over year increase in our fuel cost per litre and 3.4 per cent increase in fuel consumption, resulting from ASM growth of 4.3 per cent.

Our fuel costs per litre increased by 14.1 per cent to 73 cents per litre during the first quarter of 2018, from 64 cents per litre in the same period of 2017. On average, the market price for jet fuel was US $81 per barrel in the first quarter of 2018 versus US $62 per barrel in the first quarter of 2017, an increase of 30.6 per cent. The increase in market price of US dollar jet fuel on a year over year basis was partially offset by the slight improvement in the Canadian dollar relative to the prior year, as the average market price for jet fuel in Canadian dollars increased by only 22.6 per cent to $103 per barrel from $84 per barrel in the first quarter of 2017.

For 2018, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US $9.8 million annually for every one US dollar change per barrel of West Texas Intermediate crude oil. Additionally, we estimate our sensitivity of fuel costs to changes in fuel pricing for 2018 to be approximately $15.5 million for every one-cent change per litre of fuel. We

estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $7.9 million on fuel costs for 2018.

As at March 31, 2018, we have no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

Salaries and benefits

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

	Three months ended March 31		
($ in thousands, except FTE data)	2018	2017	Change
Salaries and benefits plans	226,215	204,270	10.7%
Employee share purchase plan	25,032	22,700	10.3%
Share-based payment plans	3,878	4,145	(6.4%)
Total salaries and benefits	**255,125**	**231,115**	**10.4%**
Full-time equivalent employees (FTE)	11,459	10,430	9.9%

Salaries and benefits expense for the three months ended March 31, 2018 was $255.1 million, a $24.0 million or 10.4 per cent increase from $231.1 million in 2017.

Salaries and benefits plans

Compensation, including salary levels and participation in benefits plans are determined via a framework of job levels based on internal experience and external market data. During the first quarter of 2018, salaries and benefits plans expense increased by 10.7 per cent to $226.2 million, from $204.3 million in the same period of 2017. This increase was primarily due to an increase in our total number of full-time equivalent employees to 11,459 at March 31, 2018 (March 31, 2017 – 10,430) resulting from additional staffing at the Calgary International Airport, our expanded WestJet Encore operations and recruitment for Swoop in preparation for launch later this year. In addition to increased headcount, salaries and benefits plans expense during the first quarter of 2018 also includes the impact of merit increases which become effective in the second quarter of each year, increased overtime and statutory holiday pay related to the timing of the spring holiday within the first quarter of the year, compared to the timing of the holiday which fell within the second quarter of 2017, and additional severance costs relating to employees who left WestJet during the three months ended March 31, 2018.

Employee share purchase plan (ESPP)

The ESPP encourages employees to become owners of WestJet and provides employees with the opportunity to significantly enhance their earnings. Under the terms of the ESPP, WestJetters may, depending on their employment agreement, contribute up to a maximum of 10 per cent, 15 per cent, or 20 per cent of their gross salary to acquire voting shares of WestJet at the current fair market value. The contributions are matched by WestJet and are required to be held within the ESPP for a period of one year. At March 31, 2018, 81.3 per cent (March 31, 2017 – 82.5 per cent) of our eligible active employees participated in the ESPP, contributing an average of 13.5 per cent (March 31, 2017 – 13.7 per cent) of their gross salaries. Under the terms of the ESPP, we acquire voting shares on behalf of employees through open market purchases. For the first quarter ended 2018, our matching expense was $25.0 million, a 10.3 per cent increase from $22.7 million in the same period in 2017, driven primarily by the increased number of participating employees compared to the prior year.

Share-based payment plans

We have three equity-settled share-based payment plans whereby either stock options, restricted share units (RSUs) or performance share units (PSUs) may be awarded to pilots, senior executives and certain non-executive employees. Our equity-settled share-based payments are measured at the fair value of the instrument granted and recognized as compensation expense with a corresponding increase in equity reserves on a straight-line basis over the related service period based on the number of awards expected to vest. For the three months ended March 31, 2018, share-based payment expense totaled $3.9 million, representing a decrease of 6.4 per cent from the $4.1 million recognized in the same period in the prior

year. This decrease relates primarily to the recapture of previously recognized expense on equity awards for certain senior employees who left WestJet during the first quarter of 2018, as compared to the first quarter of 2017.

Sales and Marketing

	Three months ended March 31		
	2018	2017	Change
Sales and marketing expense ($ in thousands)	119,579	102,586	16.6%
CASM (cents)	1.49	1.33	12.0%

For the three months ended March 31, 2018, our sales and marketing expense was $119.6 million, a $17.0 million or 16.6 per cent increase from $102.6 million for the same period in 2017. Sales and marketing expense per ASM was 1.49 cents for the three months ended March 31, 2018, an increase of 12.0 per cent from 1.33 cents in the same period of 2017. Among other items, sales and marketing expense includes costs related to advertising, sponsorships, onboard food and beverage product costs, and various selling costs. Increased sales and marketing expense in the first quarter of 2018 was driven primarily by increased onboard product costs related to our elevated food and beverage options combined with our shift to a third-party catering provider during the fourth quarter of 2017.

Maintenance

Maintenance expense is comprised of technical maintenance which represents costs incurred for maintenance on our aircraft fleet, and a maintenance provision which represents our estimate of future obligations to meet the lease return conditions specified in our lease agreements.

	Expense ($ in thousands)			CASM (cents)		
	Three months ended March 31					
	2018	2017	Change	2018	2017	Change
Technical maintenance	39,464	33,219	18.8%	0.49	0.43	14.0%
Maintenance provision	15,457	33,729	(54.2%)	0.19	0.44	(56.8%)
Total maintenance	**54,921**	**66,948**	**(18.0%)**	**0.68**	**0.87**	**(21.8%)**

For the three months ended March 31, 2018, our maintenance expense was $54.9 million, a $12.0 million or 18.0 per cent decrease from $66.9 million for the same period in 2017. Maintenance expense per ASM was 0.68 cents for the three months ended March 31, 2018, a decrease of 21.8 per cent from 0.87 cents in the same period of 2017.

Technical maintenance expense for the three months ended March 31, 2018 was $39.5 million, an 18.8 per cent increase from $33.2 million in the same period of 2017. Our technical maintenance cost per ASM was 0.49 cents for the three months ended March 31, 2018, an increase of 14.0 per cent from the same period of 2017. This year over year increase was mainly attributable to the aging of our growing fleet leading to an increased number of maintenance events performed compared to the prior year.

Maintenance provision expense for the three months ended March 31, 2018 was $15.5 million, an $18.3 million or 54.2 per cent decrease from $33.7 million in the same period of 2017. On an ASM basis, maintenance provision expense for the three months ended March 31, 2018 was 0.19 cents, a decrease of 56.8 per cent from the same period of 2017. The decrease was primarily due to the cumulative catch up entry of $18.5 million recognized in the first quarter of 2017 to adjust our maintenance provision liability for changes in our assumptions relating to the projected timing, cost and scope of future maintenance activities. Our provision is calculated based on the best information available to us and includes estimates of the cost and timing of future maintenance activities on leased aircraft, as well as discount rates.

Aircraft leasing expense

	Three months ended March 31		
	2018	2017	Change
Aircraft leasing expense ($ in thousands)	37,484	44,341	(15.5%)
CASM (cents)	0.47	0.58	(19.0%)
Number of leased aircraft	39	41	(4.9%)

For the three months ended March 31, 2018, our aircraft leasing expense was $37.5 million, a $6.9 million or 15.5 per cent decrease from $44.3 million for the same period in 2017. Aircraft leasing expense per ASM was 0.47 cents for the three months ended March 31, 2018, a decrease of 19.0 per cent from 0.58 cents in the same period of 2017. The decrease in aircraft leasing expense during the three months ended March 31, 2018 is primarily due to the reduction in aircraft leasing rates negotiated in the execution of recent lease extension agreements as well as the return of certain leased aircraft on lease expiry resulting in a decrease in the number of leased aircraft operated by WestJet as compared to the prior year.

Other operating expenses

The following table provides a breakdown of the more significant items included in other operating expenses:

	Expense ($ in thousands)			CASM (cents)		
	Three months ended March 31					
	2018	2017	Change	2018	2017	Change
Travel and training	30,016	29,842	0.6%	0.37	0.38	(2.6%)
Technical support	17,936	10,797	66.1%	0.22	0.14	57.1%
General and administrative	28,036	24,128	16.2%	0.35	0.31	12.9%
Remaining other operating expenses	28,698	23,657	21.3%	0.37	0.31	19.4%
Total other operating expenses	**104,686**	**88,424**	**18.4%**	**1.31**	**1.14**	**14.9%**

During the three months ended March 31, 2018, our other operating expense was $104.7 million, a $16.3 million or 18.4 per cent increase from $88.4 million for the same period in 2017. Other operating expense per ASM was 1.31 cents for the three months ended March 31, 2018, an increase of 14.9 per cent from 1.14 cents in the same period of 2017.

These increases were primarily driven by increases in technical support costs and remaining other operating expenses of $7.1 million and $5.0 million, respectively, compared to the same period of 2017. Increased technical support costs reflect the execution of various information technology initiatives during the period, including costs incurred in relation to improved cyber security measures as well as hardware and software requirements for new onboard point of sale devices and our expanded call centre service offerings. Remaining other operating expenses increased during the first quarter of 2018 as a result of increased guest accommodation costs due to a significant number of days of irregular operations, amounting to 25 days within the first two months of the quarter.

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 three months ended March 31, 2018, was $6.4 million, a 9.2 per cent decrease from $7.0 million in the same period of the prior year. The year over year decrease was directly attributable to lower earnings eligible for profit share compared to the prior year.

Foreign exchange

The gain or loss on foreign exchange included in our condensed consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary assets and liabilities. Monetary assets consist mainly of US dollar cash, cash equivalents and marketable securities, accounts receivable, security deposits on various leased aircraft, and maintenance reserves paid to lessors, offset by monetary liabilities of US dollar accounts payable and accrued liabilities and maintenance provisions. As part of our Foreign Currency Risk Management Policy we hold US-dollar-denominated cash and short-term investments and enter into US dollar foreign exchange forward contracts to mitigate a portion of the foreign currency exposure risk we experience on our balance sheet, operating margins and cash flows.

At March 31, 2018, US-dollar-denominated net monetary assets totaled approximately US $85.5 million compared to monetary assets of US $61.6 million at December 31, 2017. The increase in US-dollar-denominated net monetary assets from December 2017 is largely due to an increase in US-dollar-denominated cash and accounts receivable balances combined with a decrease in US dollar payable balances. The unrealized foreign exchange gain recognized on the revaluation of the increased net non-monetary assets balance at a higher US dollar foreign exchange rate, was partially offset by a realized loss relating to the settlement of US dollar payables at the higher exchange rate, resulting in an overall foreign exchange gain of $0.1 million for the three months ended March 31, 2018 (March 31, 2017 – loss of $0.3 million).

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At March 31, 2018, to fix the exchange rate on a portion of our US-dollar-denominated hotel costs and aircraft lease payments, we have foreign exchange forward contracts for an average of US$13.6 million per month for the period of April 2018 to March 2019, for a total of US$163.7 million, at a weighted average contract price of 1.2740 Canadian dollars to one US dollar.

We have designated certain contracts under our foreign exchange hedging program for cash flow hedge accounting, while other contracts do not qualify for hedge accounting. 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 any ineffective portion is recorded directly to net earnings as a non-operating gain or loss. 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 the expenditure to which they relate. Those contracts not designated under cash flow hedge accounting have the change in fair value recorded directly in net earnings as a non-operating gain or loss. The fair value of the foreign exchange forward contracts presented on the condensed consolidated statement of financial position is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace.

The following table presents the financial impact and statement presentation of our foreign exchange derivatives related to our US-dollar-denominated hotel costs and aircraft lease payments on the condensed consolidated statement of financial position at March 31, 2018 and December 31, 2017 and on the condensed consolidated statement of earnings for the three months ended March 31, 2018 and 2017.

($ in thousands)	Statement presentation	March 31 2018	December 31 2017
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	3,098	820
Fair value	Accounts payable and accrued liabilities	(1,158)	(5,345)
Unrealized gain/(loss)	Hedge reserves (before tax)	1,940	(4,305)

		Three months ended March 31	
($ in thousands)	Statement presentation	2018	2017
Statement of Earnings:			
Realized loss	Aircraft leasing	(1,448)	(1,111)
Realized gain	Other revenue	860	-
Realized and unrealized gain	Gain on derivatives	65	2,211

Additionally, we entered into fixed US dollar to fixed Canadian dollar uncollateralized cross-currency interest rate swap agreements (the cross-currency swaps) to mitigate our exposure to fluctuations in the Canadian to US dollar exchange rate on interest payments on the US-dollar-denominated notes. The cross-currency swap terms are from June 16, 2016 to June 16, 2021, which matches the 5-year maturity of the US Dollar Notes. We designated the cross-currency swap contracts as effective cash flow hedges for accounting purposes. The fair value of the cross-currency swap contracts were determined by discounting future cash flows over the remaining term of the swaps at market rates of interest and quoted foreign exchange rates.

The following table presents the financial impact and statement presentation of the cross-currency swaps on the condensed consolidated statement of financial position at March 31, 2018 and December 31, 2017.

($ in thousands)	Statement presentation	March 31 2018	December 31 2017
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	4	-
Fair value	Accounts payable and accrued liabilities	(174)	(560)
Fair value	Other liabilities	(2,218)	(8,749)
Unrealized loss	Hedge reserves (before tax)	(2,388)	(9,309)

At March 31, 2018, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $11.7 million on our annual unhedged operating costs (approximately $7.9 million for fuel and $3.8 million related to other US-dollar-denominated operating expenses).

We also have a significant amount of our future purchase obligations, including certain aircraft, exposed to foreign exchange risk. At March 31, 2018, we estimate every one-cent change in the value of the Canadian dollar versus the US dollar would have an approximate impact of $36.6 million on our future US-dollar-denominated purchase obligations.

Income taxes

Our effective consolidated income tax rate for three months ended March 31, 2018 was 30.3 per cent, as compared to 29.3 per cent for the same period in 2017. The year over year increase in our effective rate was primarily due to the increase to the general corporate income tax rate in British Columbia, which became effective in the fourth quarter of 2017.

Summary of quarterly results

($ in thousands, except per share data)	Three months ended Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017
Total revenue	1,191,724	1,119,079	1,214,623	1,058,282
Net earnings	37,198	47,805	135,935	48,611
Basic earnings per share	0.33	0.42	1.17	0.41
Diluted earnings per share	0.32	0.41	1.15	0.41

($ in thousands, except per share data)	Three months ended Mar. 31 2017	Dec. 31 2016(i)	Sept. 30 2016(i)	Jun. 30 2016(i)
Total revenue	1,114,671	1,017,759	1,124,342	949,313
Net earnings	46,706	55,189	115,971	36,654
Basic earnings per share	0.40	0.47	0.97	0.30
Diluted earnings per share	0.40	0.47	0.97	0.30

(i) The quarterly results for 2016 comparative periods have not been restated under IFRS 15 and are presented in accordance with previous IFRS standards.

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 transborder and international 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. Our operating results could also vary from this trend as a result of changes in general economic conditions and consumer behaviour, among other things.

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, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring the quality of our guest experience. The completion rate indicator represents the percentage of flights completed of the flights originally scheduled. Our mishandled bag ratio represents the number of delayed, lost, damaged or pilfered baggage claims made per 1,000 guests.

	Three months ended March 31		
	2018	2017	Change
On-time performance	68.9%	74.8%	(5.9 pts.)
Completion rate	96.4%	96.4%	-
Mishandled bag ratio	6.03	4.55	32.5%

In the first quarter of 2018 our on-time performance metric decreased 5.9 percentage points, compared to the first quarter of 2017, due to an increased number of irregular operation days mainly driven by weather events during the first two months of 2018 at our three key Canadian airport hubs. Despite the overall decline in on-time performance during the quarter, we noted the return of this metric to our target rate of at least 75 per cent in the month of March 2018.

Our completion rate for the three months ended March 31, 2018 remained flat relative to the prior year as a decrease in the number of maintenance related cancellations offset the impact of cancellations due to poor weather throughout the period.

Our mishandled bag ratio deteriorated in the quarter as a result of the weather related irregular operations combined with baggage infrastructure issues at two major Canadian airports throughout the quarter, as well as an airport-wide network outage at the Calgary International Airport in March 2018 that resulted in an increased number of mishandled bags during the period.

Liquidity and capital resources

Liquidity

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. Our consistent and strong financial results enable us to maintain a strong financial position. We completed the first quarter of 2018 with a cash, cash equivalent and marketable securities balance of $1,417.7 million, compared to $1,373.2 million at December 31, 2017. This increase of $44.5 million was the result of our ability to generate sufficient cash flows from operating activities which more than offset our capital spending during the quarter. Through our revenue generating and cost saving initiatives, we expect to be able to generate sufficient cash in both the short and long-term to maintain our current capacity and fund our future planned growth.

We use our working capital to settle our operating expenses and the current portion of long-term debt. Our current ratio, defined as current assets over current liabilities, has remained relatively stable at 1.05 at March 31, 2018 as compared to 1.08 at December 31, 2017, a decrease of 2.8 per cent due primarily to an increase in accounts payable and accrued liabilities and advance ticket sales. Part of our cash, cash equivalents and marketable securities balance relates to cash collected with respect to advance ticket sales. At March 31, 2018, we had cash on hand of 2.07 (December 31, 2017 – 2.08) times our advance ticket sales balance. We have cash, cash equivalents and marketable securities on hand to have sufficient liquidity to meet our liabilities, when due, under both normal and stressed conditions.

We monitor capital on a number of measures, including the following ratios:

	March 31 2018	December 31 2017	Change
Cash to trailing 12 months revenue (TTM)[(i)(ii)]	30.9%	30.5%	0.4 pts.
Adjusted debt-to-equity ratio[(i)]	1.42	1.46	(2.7%)
Adjusted net debt to EBITDAR[(i)]	1.84	1.90	(3.2%)

(i) Please refer to page 29 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.
(ii) In addition to our cash and cash equivalents, as of March 31, 2018, we have available our entire $300.0 million revolving credit facility that expires in June 2020 (please refer to the section *Capital Resources* found on page 18 of this MD&A).

As of March 31, 2018, our cash to TTM revenue ratio increased by 0.4 percentage points to 30.9 per cent, from 30.5 per cent at December 31, 2017, which is above our internal target of approximately 30 per cent. In addition to our cash, cash equivalents and marketable securities, as of March 31, 2018 we have available $300.0 million as the undrawn portion of our revolving credit facility (please refer to the section called *Capital Resources* found on page 18 of this MD&A).

Our March 31, 2018 adjusted debt-to-equity ratio of 1.42 and our adjusted net debt to EBITDAR ratio of 1.84 both decreased from 1.46 and 1.90, respectively, at December 31, 2017 due to the impact of reduced aircraft leasing costs. These ratios are well below our internal threshold of 2.5.

Select cash flow information

	Three months ended March 31		
($ in thousands)	2018	2017	Change
Cash provided by operating activities	244,940	261,244	(16,304)
Less:			
Cash used by investing activities	(162,405)	(280,466)	118,061
Cash used by financing activities	(49,384)	(29,251)	(20,133)
Cash flow from operating, investing and financing activities	**33,151**	**(48,473)**	**81,624**
Effect of foreign exchange on cash and cash equivalents	7,231	(721)	7,952
Net change in cash and cash equivalents	40,382	(49,194)	89,576
Cash and cash equivalents, beginning of period	1,147,076	1,520,822	(373,746)
Cash and cash equivalents, end of period	**1,187,458**	**1,471,628**	**(284,170)**

Operating cash flows

For the quarter ended March 31, 2018, our cash flow provided by operating activities decreased 6.2 per cent to $244.9 million compared to $261.2 million in the same quarter of the prior year, primarily due to decreased cash earnings and increased cash settlements related to the performance of maintenance activities on leased aircraft. Similarly, for the quarter ended March 31, 2018, our diluted operating cash flow per share decreased 4.5 per cent to $2.12 per share, compared to $2.22 per share in the same period of the prior year, due to the decrease in cash provided by operations.

At March 31, 2018, restricted cash consisted of $61.9 million (December 31, 2017 – $76.4 million) for cash held in trust by WestJet Vacations; $33.3 million (December 31, 2017 – $32.2 million) for security on letters of guarantee; and, in accordance with U.S. regulatory requirements, $1.6 million (December 31, 2017 – $1.1 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

For the quarter ended March 31, 2018, cash flow used for investing activities totaled $162.4 million as compared to $280.5 million in the same period of the prior year. The majority of our investing activities during the first quarter of 2018 related to the delivery of one Q400 aircraft, two Boeing MAX aircraft, and additional deposits for future Boeing MAXs and Boeing 787 aircraft, overhauls of owned engines, as well as costs incurred with respect to the seat reconfigurations of our Boeing 737 NG fleet.

Financing cash flows

For the quarter ended March 31, 2018, our cash flow used for financing activities totaled $49.4 million as compared to $29.3 million in the same period of the prior year. Our financing activities in the first quarter of 2018 consisted mainly of cash inflows of $20.6 million related to the financing of one Q400 aircraft (please refer to the *Capital Resources* section below for further information), offset by cash outflows related to long-term debt repayments of $37.6 million, dividends paid of $16.0 million and cash interest paid of $14.0 million.

Free cash flow

Free cash flow is a non-GAAP 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 quarter ended March 31, 2018, was $83.7 million or $0.73 per share, as compared to a $80.5 million or $0.68 per share in the same period of the prior year. This slight

increase was due to the decrease in capital expenditures for aircraft additions and other equipment compared to the same period of the prior year combined with the overall decrease in the number of weighted average shares outstanding as a result of prior year purchases of shares under our share buyback programs.

We expect to generate positive free cash flow from our operations over the next three annual periods.

Please refer to page 29 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

Capital Resources

During the first quarter of 2018, our Q400 aircraft delivery was financed by a secured term loan with Export Development Canada (EDC) for approximately 80 per cent of the purchase price of the aircraft. We also took delivery of two Boeing MAX aircraft, funded with cash. At March 31, 2018, we have secured loans financing 23 Boeing 737 NG aircraft and 44 Q400 aircraft with a remaining debt balance of $849.4 million, net of transaction costs. This debt is financed in Canadian dollars and has no financial covenants associated with it. At the date of this MD&A, we have a total of 66 unencumbered aircraft, representing approximately forty per cent of our total fleet. This provides us the flexibility to manage our capital resource requirements through varying arrangements such as direct sales, leaseback agreements and the issuance of secured debt.

As at March 31, 2018 we had an $820 million guaranteed loan agreement with EDC pursuant to which EDC made available to WestJet Encore financing support for the purchase of Q400s. We were charged a non-refundable commitment fee of 0.2 per cent per annum on the undisbursed portion of the commitment. The amount available for each aircraft was up to 80 per cent of the net price with a term to maturity of up to 12 years, payable in quarterly installments. Under the terms of the agreement, availability of any undrawn amount will expire at the end of 2018. At March 31, 2018, we had $27.0 million undrawn under the loan agreement. Subsequent to the quarter, we took delivery of our final Q400 aircraft and cancelled the remaining balance under the EDC loan agreement.

At March 31, 2018, we have not drawn on our revolving credit facility and therefore the undisbursed portion of the credit facility was $300 million on which we pay a standby fee. Additionally, $285 million of our four-year term credit facility, drawn using Canadian dollar bankers' acceptances, remained outstanding as at March 31, 2018. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on our corporate debt credit ratings. Both our revolving and non-revolving credit facilities contain two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. At March 31, 2018, the Corporation was in compliance with both ratios.

Our total outstanding debt balance at March 31, 2018 is $2,045.2 million, net of transaction costs (December 31, 2017 - $2,049.0 million).

At March 31, 2018, we have not made any commitments for future aircraft financing, except our loan agreement with EDC described above. Our credit ratings, discussed below, are an important factor that are expected to provide WestJet with a range of public and private debt financing options in the future. We continue to evaluate the optimum balance and sources of financing available to us based on our internal requirements and capital structure as well as the external environment for aircraft financing.

Interest

During the three months ended March 31, 2018, we incurred $17.9 million in interest (March 31, 2017 - $17.9 million) on our long-term debt. During the quarter, $4.9 million of interest was capitalized (March 31, 2017 - $3.8 million) as it related to deposits paid for Boeing and Bombardier aircraft.

We mitigate the earnings impact of changing interest rates on our variable rate loans through our interest rate swap agreements to fix the interest rates over the term of the loans. At March 31, 2018, the interest rate swap contracts continue to meet the criteria for designation as effective cash flow hedges for accounting purposes. The following table presents the financial impact and statement presentation of the interest rate swap agreements on the condensed consolidated statement of financial position at March 31, 2018 and December 31, 2017 and on the condensed consolidated statement of earnings for the three months ended March 31, 2018 and 2017:

($ in thousands)	Statement presentation	March 31 2018	December 31 2017
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	2,411	2,067
Fair value	Accounts payable and accrued liabilities	(1,054)	(1,299)
Fair value	Other assets	2,357	2,814
Fair value	Other liabilities	(916)	(1,414)
Unrealized gain	Hedge reserves (before tax)	3,735	3,106

		Three months ended March 31	
($ in thousands)	Statement presentation	2018	2017
Statement of Earnings:			
Realized loss	Finance costs	(143)	(873)

The fair value of the interest rate swap agreements is measured based on the difference between the fixed swap rate and the forward curve for the applicable floating interest rates obtained from the counterparty, which can be observed and corroborated in the marketplace. In addition to the interest rate swap agreements, in June 2016, we also entered into a cross currency interest rate swap to fix the cash flow exposure to fluctuations in the foreign exchange rate on the notional and interest portions of the US-Dollar Notes (please refer to the section called *Foreign exchange* on page 13).

Credit Ratings

As at March 31, 2018, both our 'BBB-' long-term corporate credit rating with a stable outlook from Standard & Poor's Rating Services and our 'Baa2' issuer rating with a negative outlook from Moody's Investors Service remain unchanged from December 31, 2017. Both of our corporate credit ratings are considered "investment grade".

Credit ratings are intended to provide investors with an external measure of our overall creditworthiness. Credit ratings are not recommendations to buy, sell or hold our securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that our ratings will remain in effect for any given period of time or that our ratings will not be revised or withdrawn entirely by the credit rating agencies in the future if, in their judgment, circumstances so warrant.

Contractual obligations and commitments

At March 31, 2018, our contractual obligations and commitments are indicated in the following table. All US dollar amounts have been converted at the period-end foreign exchange rate in effect at March 31, 2018, and presented in Canadian dollars.

($ in thousands)	Total	Within 1 year	2 - 3 years	4 - 5 years	Over 5 years
Long-term debt repayments(i)	2,268,194	219,887	916,566	732,913	398,828
Leases and commitments(ii)	893,088	273,356	348,659	162,618	108,455
Purchase obligations(iii)	4,726,444	850,583	1,457,103	993,517	1,425,241
Total contractual obligations(iv)	**7,887,726**	**1,343,826**	**2,722,328**	**1,889,048**	**1,932,524**

(i) Includes contractual principal and interest payments on long-term debt.
(ii) Relates to leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and inflight entertainment.
(iii) Relates to obligations for our confirmed purchased aircraft deliveries for Boeing 737 NGs, Boeing MAXs, Boeing 787s, Bombardier Q400s and spare engines.
(iv) Total contractual obligations exclude long-term liabilities, other than long-term debt repayments, due to reasons of uncertainty of timing and amount of cash flows.

Our future US-dollar-denominated purchase commitments, including certain aircraft, are exposed to foreign exchange risk (please refer to the section called *Foreign exchange* as found on page 13 of this MD&A). We plan to meet our contractual obligations and commitments through our current cash, cash equivalents and marketable securities balance combined with cash flows from operations and future sources of aircraft financing. We continuously monitor the capital markets and assess financing alternatives available to us for our future aircraft deliveries. At this time, we are not aware of, nor do we reasonably expect, adverse changes to our future ability to access similar or other generally available sources of liquidity.

Contingencies

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

Fleet

During the three months ended March 31, 2018, we took delivery of two Boeing MAX aircraft and one Q400 aircraft, while finalizing lease agreements for two Q400 aircraft to be delivered in the second quarter of 2018, as well as returning two leased Boeing 737-700 NG aircraft. We ended the quarter with a registered fleet of 169 aircraft with an average age of 7.6 years. Additionally, we executed lease extensions on two Boeing NG aircraft that were originally scheduled to expire in 2018 and 2019.

Subsequent to the quarter, we took delivery of three Q400 aircraft, two of which are under the lease agreements noted above, and signed an agreement with Boeing to substitute the delivery of one Boeing MAX 7 aircraft in 2019 to a Boeing MAX 8 aircraft.

The combination of our firm commitments and our lease renewal options help us to optimize the size and age of our fleet. This provides us with the flexibility within our firm commitments to end 2027 with a fleet size between 190 and 231 aircraft, depending on future decisions to exercise options to purchase and to renew leases.

The following table illustrates our Boeing narrow-body, Boeing wide-body and Bombardier Q400 fleet as at March 31, 2018 and December 31, 2017 as well as our firm commitments through to 2027.

	Total		Future Deliveries							Total
	Dec. 31, 2017	Mar. 31, 2018	Q2-Q4 2018	2019	2020	2021	2022-23	2024-27	Total	2027
Boeing narrow body										
737-600 NG	13	13	—	—	—	—	—	—	—	13
737-700 NG(i)	56	54	—	—	—	—	—	—	—	54
737-800 NG(ii)	48	48	—	—	—	—	—	—	—	48
737 MAX 7(iii)(iv)	—	—	—	4	—	1	2	15	22	22
737 MAX 8(iii)(iv)	4	6	5	2	—	2	2	4	15	21
737 MAX 10(iii)(iv)	—	—	—	—	—	—	10	2	12	12
Boeing wide body										
767-300 ERW	4	4	—	—	—	—	—	—	—	4
787-9 Dreamliner(iii)	—	—	—	3	3	4	—	—	10	10
Total Boeing aircraft	**125**	**125**	**5**	**9**	**3**	**7**	**14**	**21**	**59**	**184**
Lease expiries	—	—	—	(8)	(5)	(11)	(12)	(3)	(39)	(39)
Boeing aircraft after lease expiries	**125**	**125**	**5**	**1**	**(2)**	**(4)**	**2**	**18**	**20**	**145**
Bombardier										
Q400 NextGen	43	44	3	—	—	—	—	—	3	47
Lease expiries	—	—	—	—	—	—	—	(2)	(2)	(2)
Fleet before lease expiries	**168**	**169**	**8**	**9**	**3**	**7**	**14**	**21**	**62**	**231**
Fleet after lease expiries	**168**	**169**	**8**	**1**	**(2)**	**(4)**	**2**	**16**	**21**	**190**

(i) At March 31, 2018, of the 54 Boeing 737-700NG series aircraft in our fleet, 25 are leased (Dec. 31, 2017 – 27) and 29 are owned (Dec. 31, 2017 – 29).
(ii) At March 31, 2018, of the 48 Boeing 737-800NG series aircraft in our fleet, 14 are leased (Dec. 31, 2017 – 14) and 34 are owned (Dec. 31, 2017 – 34).
(iii) We have options to purchase an additional 24 Boeing 737 MAX aircraft and an additional 10 Boeing 787 aircraft between the years 2020 and 2024.
(iv) WestJet's Boeing 737 MAX 7 and MAX 8 aircraft orders can each be substituted for the other model of aircraft, or, beginning in 2022, for Boeing 737 MAX 10 aircraft.

Off balance sheet arrangements and Related-party transactions

Aircraft operating leases

Future cash flow commitments in connection with our leased Boeing NG aircraft totaled US $343.6 million at March 31, 2018 (December 31, 2017 – US $351.5 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 condensed consolidated statement of financial position, we include an amount equal to 7.5 times our annual aircraft leasing expense in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios discussed previously.

Fuel and de-icing facility corporations

We are a contracted party to 18 fuel facility arrangements and three de-icing facility arrangements whereby we participate under contract in Fuel Facility Corporations (FFCs) and De-icing Facility Corporations (DFCs), along with other airlines, to obtain fuel services and de-icing services at major Canadian and U.S. airports. The FFCs and DFCs operate on a cost-recovery basis. The purpose of these corporations is to own and finance the systems that distribute fuel and de-icing fluid, respectively, 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 FFC and DFCs are shared pro rata among the contracting airlines. These FFCs and DFCs 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 FFCs and DFCs, including debt service requirements. As at the date of this MD&A, these corporations have combined total assets of approximately $903.6 million and liabilities of approximately $903.1 million, based on the FFCs and DFCs' most recently completed financial reports.

Related-party transactions

At March 31, 2018, we had no transactions with related parties as defined in *International Accounting Standard (IAS) 24 – Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

Share capital

Outstanding share data

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

	April 30, 2018	March 31, 2018
Total voting shares issued and outstanding[(i)]	**114,071,457**	**114,069,150**
Stock options	9,245,523	9,296,307
RSUs – Key employee and pilot plan	237,451	240,000
RSUs – Executive share unit plan	247,648	257,715
PSUs – Executive share unit plan	479,127	483,155
Total voting shares potentially issuable	**10,209,749**	**10,277,177**
Total outstanding and potentially issuable voting shares	**124,281,206**	**124,346,327**

(i) At March 31, 2018, 81,537,968 common voting shares were outstanding and 32,531,182 variable voting shares were outstanding.

Quarterly dividend policy

Our dividend is reviewed on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On May 7, 2018, the Board of Directors declared our 2018 second quarter dividend of $0.14 per common voting share and variable voting share payable on June 29, 2018 to shareholders of record on June 13, 2018. This remains consistent with the $0.14 per share declared and paid during our first quarter of 2018. We believe this demonstrates our confidence in delivering continued profitable results and is consistent with our objective of creating and returning value to our shareholders.

Normal course issuer bid

On August 2, 2017, the Toronto Stock Exchange (TSX) accepted our notice to make a normal course issuer bid to purchase up to 5,856,671 outstanding Common Voting Shares and Variable Voting Share (the Shares) (representing approximately five per cent of our issued and outstanding Shares as of July 20, 2017) on the open market during the period of August 3, 2017 to August 2, 2018, or until such time as the bid is completed or terminated at our option (the 2017 bid). Any Shares purchased under the 2017 bid will be purchased on the open market through the facilities of the TSX or alternative trading systems, if eligible, at the prevailing market price at the time of the transaction and cancelled.

In the first quarter of 2018, we did not repurchase and cancel any Shares under the 2017 bid. As of the date of this MD&A, there are 2,526,246 Shares remaining available for purchase under the 2017 bid.

A shareholder of WestJet may obtain a copy of the notice filed with the TSX in relation to the 2017 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 emailing legal@westjet.com.

Accounting

Critical accounting judgments and estimates

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated financial statements are described in WestJet's 2017 annual MD&A and annual consolidated financial statements for the year ended December 31, 2017. The preparation of consolidated financial statements in conformity with GAAP requires management to make both judgments and estimates that could materially affect the amounts recognized in the financial statements. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. Other than judgements and estimates relating to the adoption of IFRS 15 during the period, described in Note 1 of the condensed consolidated interim financial statements, there have been no material changes to our critical accounting estimates and judgments during the three months ended March 31, 2018.

IFRS adopted in the period

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), effective for annual and interim reporting periods beginning on or after January 1, 2018. IFRS 15 replaces existing standards relating to revenue recognition, introducing a five-step revenue recognition model aimed at providing greater comparability across industries and companies. Entities adopting this standard must apply the provisions of the standard under one of the following transition methods; retrospectively to each prior reporting period presented (full retrospective) or retrospectively with the cumulative effect of initially applying the standard at the date of initial application.

We have adopted IFRS 15 at the required effective date of January 1, 2018, using the full retrospective transition method, and have restated each comparative period presented from that which was previously reported. WestJet has applied the transitional practical expedient in paragraph C5(d) of IFRS 15 and has not disclosed the amount of transaction price allocated to the remaining performance obligations, nor an explanation of when we expect to recognize that amount as revenue, for the year ended December 31, 2017.

The following table summarizes the impact of IFRS 15 on financial statement line items as well as certain key performance metrics for the year ended December 31, 2017.

($ in thousands, except ratio, margin and per share amounts)	Year ended December 31, 2017		
	IFRS 15	Previously reported	Change
Statement of Financial Position			
Accounts receivable	152,492	129,648	17.6%
Accounts payable and accrued liabilities	546,505	549,844	(0.6%)
Advance ticket sales	659,953	695,111	(5.1%)
Deferred rewards program	185,991	203,433	(8.6%)
Non-refundable guest credits	58,575	43,288	35.3%
Deferred income tax	392,111	374,946	4.6%
Retained earnings – equity	1,614,266	1,567,935	3.0%
Financial performance metrics			
Guest revenue	4,238,926	3,822,045	10.9%
Other revenue	267,729	680,275	(60.6%)
Total revenue	4,506,655	4,502,320	0.1%
Salaries and benefits	935,545	935,145	0.0%
Sales and marketing	393,582	384,452	2.4%
Other operating expenses	331,014	330,014	0.3%
Total operating expenses	4,073,890	4,063,360	0.3%
Earnings from operations	432,765	438,960	(1.4%)
Operating margin	9.6%	9.8%	(0.2 pts.)
Earnings before tax	397,940	404,135	(1.5%)
Earnings before tax margin	8.8%	9.0%	(0.2 pts.)
Net earnings	279,057	283,578	(1.6%)
Diluted earnings per share	2.38	2.42	(1.7%)
Operating cash flow	1,012,073	1,012,073	-
Diluted operating cash flow per share	8.62	8.62	-
Other financial ratios and measures			
EBITDAR	1,008,250	1,014,445	(0.6%)
EBITDAR margin	22.4%	22.5%	(0.1 pts.)
Adjusted debt-to-equity	1.46	1.49	(2.0%)
Adjusted net debt-to-EBITDAR	1.90	1.89	0.5%
Return on invested capital	9.8%	10.0%	(0.2 pts.)
Working capital	1.08	1.04	3.8%
Cash to advanced ticket sales	2.08	1.98	5.1%
Free cash flow	77,041	77,041	-
Diluted free cash flow per share	0.66	0.66	-
Cash to trailing 12 months revenue	30.5%	30.5%	-
Operational performance metrics			
Yield (cents)	17.40	17.38	0.1%
RASM (cents)	14.54	14.52	0.1%
CASM (cents)	13.14	13.11	0.2%
CASM, excluding fuel and employee profit share (cents)	9.93	9.89	0.4%

Please refer to page 29 of this MD&A for a reconciliation of the non-GAAP measures and additional GAAP measures.

Adoption of IFRS 15 resulted mainly in changes to the presentation and recognition of revenues for our co-branded MasterCard program, ancillary revenues, guest ticket breakage, and future travel credits issued as guest compensation, as described below.

Under IFRS 15, we have identified four performance obligations within the context of WestJet's co-branded MasterCard program: (i) the awarding of WestJet dollars; (ii) providing cardholders discounted companion vouchers; (iii) the use of our brand and marketing efforts and (iv) providing cardholders with free checked bags. Revenues pertaining to the WestJet's co-branded credit card program are now allocated to the performance obligations on the basis of their relative stand-alone selling prices. Under IFRS 15, revenue associated to WestJet dollars and companion vouchers is deferred until such a time that WestJet has provided those associated flights to the cardholders, while we recognize revenue throughout the agreement for the use of our brand and various marketing efforts, as well as providing cardholders with the ability to waive checked bag fees. Therefore, upon adoption of IFRS 15 our co-branded revenue resulted in an increase to Retained earnings at December 31, 2016, reflecting the straight-line recognition of revenues allocated to the use of the WestJet brand and various marketing efforts and the complimentary checked baggage services.

Additionally, ancillary revenues that were previously classified in Other revenue, including fees associated with Plus upgrades, pre-reserved seating, flight change and/or cancellation, baggage fees, and other ancillary service fees, have been reclassified to Guest revenue as they are deemed to be part of the single performance obligation of providing air transportation to our guest.

Under IFRS 15 we have established that invalid tickets, those tickets that are non-refundable after flight date, are eligible for recognition as revenue on flight date as WestJet's performance obligations under the contract with the guest have been fulfilled. For our non-refundable guest tickets, we will recognize revenue at the date of flight, thereby recognizing revenue at an earlier date. This resulted in a reduction to our advance ticket sales liability at December 31, 2017, which was partially offset by the deferral of ancillary revenue pertaining to change and cancellation fees from the period in which the fees were paid by the guest, to the period that air transportation was provided.

We have also updated our accounting policy for consideration we provide to our guests in the form of travel credits or WestJet dollars for atonement purposes as a non-refundable guest credits liability, and a reduction of revenue, upon issuance of the credit rather than at redemption. Upon transition to IFRS 15, we recognized an increase to the non-refundable guest credits liability, and reduction to guest revenue, as of December 31, 2017.

The changes to our accounting policies and reconciliation of the adjustments to our statement of financial position and statement of earnings as a result of the application of IFRS 15, from those previously presented under prior IFRS standards, can be found in Notes 1 and 2 of the unaudited condensed consolidated financial statements for the three months ended March 31, 2018. The additional disclosure required under IFRS 15 can be found in Note 3 of our unaudited condensed consolidated financial statements for the three months ended March 31, 2018.

Future accounting pronouncements

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing our condensed consolidated interim financial statements and notes thereto, for the three months ended March 31, 2018 as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date
IFRS 16 - Leases	A new standard on lease accounting addressing the principles to apply to report useful information about the amount, timing and uncertainty of cash flows arising from a lease. All lease commitments will be recognized as a liability.	IAS 17 - Leases	Effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16), effective for annual and interim reporting periods beginning on or after January 1, 2019. This standard eliminates the classification of leases as either operating leases or finance leases for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as either lease assets or together with property and equipment. It also allows for the service component of a lease agreement to be separated from the value of the asset and thus not reported on the statement of financial position.

As at March 31, 2018, our review of contracts for items that represent a lease in accordance with definition under IFRS 16 is ongoing. We anticipate the adoption of IFRS 16 will have a material impact on the statement of financial position as all aircraft operating leases will be capitalized with a corresponding lease liability recognized. In addition to the aircraft operating leases, we must review potential contracts that may contain a lease arrangement prior to quantifying the impact of IFRS 16. Additionally, we expect that adoption will result in material reclassifications of interest and depreciation expense within our statement of earnings. At this time, we are not able to quantify the impact on our financial statements.

Entities adopting the standard are able to choose from two transition methods; full retrospective with restatement of each prior reporting period presented, or, retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. We have not yet chosen a method for adoption and we do not anticipate an early adoption of this standard.

Controls and procedures

Disclosure controls and procedures (DC&P)

DC&P are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the chief executive officer (CEO) and the chief financial officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of our DC&P was conducted by management under the supervision of the CEO and the CFO as at March 31, 2018. Based on this evaluation, the CEO and the CFO have concluded that, as at March 31, 2018, our DC&P, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), was effective.

Internal control over financial reporting (ICFR)

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

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

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

Management, under the supervision of the CEO and the CFO, has evaluated our ICFR using the framework and criteria established in the Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and the CFO have concluded that, as at March 31, 2018, our ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Forward-looking information

This MD&A offers our assessment of WestJet's future plans, operations and outlook and contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation:

Forward looking statement	Key assumptions	Heading	Page
Our plan to plan to continue adding new destinations and additional frequencies to our existing markets through the growth of our Boeing MAX fleet, as well as future deliveries of Boeing 787 aircraft and launch of Swoop.	Boeing will meet our aircraft delivery schedules and there will be availability at certain airports.	*About WestJet* *Fleet*	2 20
Our expectation that we will return to our targeted long-term ROIC range of 13.0 to 16.0 per cent by 2020.	Based on our current business strategy and forecasted performance.	*Overview*	4
We expect to complete the reconfigurations of our Boeing 737-800 fleet before the end of 2018.	Our current installation schedule will not be impacted by unexpected aircraft scheduling, or supplier delays.	*Business development plans*	6
Our anticipated outlook and guidance for the second quarter of 2018 and full year 2018, where provided, for traffic, system-wide and domestic capacity, year over year change in RASM, year over year change in CASM, excluding fuel and profit share, fuel costs, capital expenditures and our expected effective tax rate.	Forecasted jet fuel prices of US $85 per barrel for the second quarter of 2018. Average foreign exchange rate of approximately 1.28 Canadian dollars to one US dollar. No significant changes to current tax legislation. Boeing and Bombardier will meet our aircraft delivery schedules. Based on our current network planning and schedules.	*Outlook*	7
Our estimate of our sensitivity of fuel costs to changes in crude oil and jet fuel and sensitivity to fuel costs to the change in the value of the Canadian dollar versus of the US dollar.	Forecasted jet fuel prices of US $85 per barrel for the second quarter of 2018. Average foreign exchange rate of approximately 1.28 Canadian dollars to one US dollar.	*Aircraft fuel*	10
We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.	Based on our current risk management policies.	*Aircraft fuel*	10
Our estimate of our sensitivity in our annual unhedged operating costs and our future US-denominated purchase obligations to the change in the value of the Canadian dollar versus the US dollar.	Average foreign exchange rate of approximately 1.28 Canadian dollars to one US dollar.	*Foreign exchange*	13
Our expectation that we will generate sufficient cash in both the short and long-term to maintain our currently capacity and fund our future planned growth, as well as generate positive free cash flow.	Based on our current business strategy and forecasted performance.	*Liquidity*	16
Our expectation that we will generate positive free cash flow from our operations over the next three annual periods.	Based on our current business strategy and forecasted performance.	*Liquidity*	16

Our expectation that our credit rating will provide us with a range of public and private debt financing options in the future.	We will maintain our investment grade corporate debt credit ratings.	*Capital Resources*	18
Our plan to meet contractual obligations and commitments through our current cash and cash equivalents balance combined with future cash flows from operations sources of aircraft financing and our expectation that there will not be adverse changes to our future ability to access liquidity.	We will have sufficient cash on hand and/or will continue to be able to obtain future financing as circumstances require.	*Contractual obligations and commitments* *Off balance sheet arrangements*	19 21
We expect that the future outcome of our current legal proceedings and claims will not have a material effect upon our financial position, results of operations or cash flows.	Based on our current legal counsel assessment.	*Contingencies*	20
Our confidence in our ability to deliver continued profitable results.	That our fuel price, exchange rate and tax rate forecasts are accurate. That we will maintain our current aircraft delivery and network planning schedules.	*Quarterly dividend policy*	21
We anticipate the adoption of IFRS 16 will have a material impact on the statement of financial position as all aircraft operating leases will be capitalized with a corresponding lease liability. we expect that adoption will result in material reclassifications of interest and depreciation expense within our statement of earnings. We will do not anticipate early adoption of this standard.	Based on our preliminary assessment of the standard.	*Future accounting pronouncements*	24

Definition of key operating indicators

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

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.

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.

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

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

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

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

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

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.

Utilization: Operating hours per day per operating aircraft.

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

Non-GAAP and additional GAAP measures

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

Adjusted debt: The sum of long-term debt and off-balance-sheet aircraft operating leases. Our practice, consistent with common airline industry practice, is to multiply the trailing 12 months of aircraft leasing expense by 7.5 to derive a present value debt equivalent. This measure is used in the calculation of adjusted debt-to-equity and adjusted net debt to EBITDAR, as defined below.

Adjusted equity: The sum of share capital, equity reserves and retained earnings, excluding hedge reserves. This measure is used in the calculation of adjusted debt-to-equity.

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

EBITDAR: Earnings before net finance costs, taxes, depreciation and amortization, aircraft rent and other items, such as asset impairments, gains and losses on derivatives, and foreign exchange gains or losses. Trailing 12 months EBITDAR is a measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft. The impact of gains and losses on derivatives and foreign exchange gains and losses have also been adjusted in our calculation of this measure, as these impacts are not able to be controlled by management nor are reflective of our core operating performance.

Cash to trailing 12 months of revenue: Cash as a percentage of the trailing twelve months of revenue is a measure commonly used in the airline industry to compare liquidity positions, adjusting for seasonality that may occur within a financial year.

CASM, excluding fuel and employee profit share: CASM is a common measure used in the airline industry to measure an airline's cost structure and efficiency. 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. Additionally, employee profit share expense is excluded as it varies based on the outcome of our net earnings. Excluding these expenses allows us to analyze our operating results to those of other airlines.

Return on invested capital: ROIC is a measure commonly used in the airline industry 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.

Diluted free cash flow per share: Free cash flow divided by the diluted weighted average number of shares outstanding. This metric measures our ability to generate operating cash flows after capital expenditures on a per share basis. This metric can be used as a proxy for earnings per share and reflects our company's solvency and ability to repay debt, pay dividends and buy back stock.

Diluted operating cash flow per share: Cash flow from operations divided by diluted weighted average shares outstanding. Measures our financial strength and our ability to generate cash from our operations on a per share basis.

Reconciliation of non-GAAP and additional GAAP measures

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

CASM, excluding fuel and employee profit share

	Three months ended March 31		
($ in thousands)	2018	2017	Change
Operating expenses	1,136,157	1,035,843	100,314
Aircraft fuel expense	(281,151)	(235,516)	(45,635)
Employee profit share expense	(6,384)	(7,027)	643
Operating expenses, adjusted	**848,622**	**793,300**	**55,322**
ASMs	8,028,866,429	7,699,062,691	4.3%
CASM, excluding above items (cents)	**10.57**	**10.30**	**2.6%**

CASM, excluding fuel and employee profit share

The table below presents our restated CASM, excluding fuel and employee profit share measure for the twelve months ended December 31, 2017, as a result of the application of IFRS 15, as well as the measure that which was previously presented in our 2017 annual MD&A.

	Twelve months ended December 31		
($ in thousands)	2017(i)	2017	Change
Operating expenses	4,073,890	4,063,360	10,530
Aircraft fuel expense	(950,043)	(950,043)	-
Employee profit share expense	(46,793)	(46,793)	-
Operating expenses, adjusted	**3,077,054**	**3,066,524**	**10,530**
ASMs	30,998,306,475	30,998,306,475	-
CASM, excluding above items (cents)	**9.93**	**9.89**	**0.4%**

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 15.

Adjusted debt-to-equity

($ in thousands)	March 31 2018	December 31 2017	Change
Long-term debt(i)	2,045,199	2,049,047	(3,848)
Off-balance-sheet aircraft leases(ii)	1,192,838	1,244,265	(51,427)
Adjusted debt	**3,238,037**	**3,293,312**	**(55,275)**
Total shareholders' equity	2,285,085	2,258,855	26,230
Add: Hedge reserves	763	1,902	(1,139)
Adjusted equity	**2,285,848**	**2,260,757**	**25,091**
Adjusted debt-to-equity	**1.42**	**1.46**	**(2.7%)**

(i) At March 31, 2018, long-term debt includes the current portion of long-term debt of $154,289 (December 31, 2017 – $153,149) and long-term debt of $1,890,910 (December 31, 2016 – $1,895,898).

(ii) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At March 31, 2018, the trailing 12 months of aircraft leasing expenses totaled $159,044 (December 31, 2017 – $165,902).

Adjusted net debt to EBITDAR

($ in thousands)	March 31 2018	December 31 2017	Change
Adjusted debt	3,238,037	3,293,312	(55,275)
Less: Cash, cash equivalents and marketable securities	(1,417,748)	(1,373,166)	(44,582)
Adjusted net debt	**1,820,289**	**1,920,146**	**(99,857)**
Net earnings	269,549	279,057	(9,508)
Add:			
Net finance costs(i)	26,981	34,084	(7,103)
Taxes	115,691	118,883	(3,192)
Depreciation and amortization	413,295	403,021	10,274
Aircraft leasingg	159,045	165,902	(6,857)
Other(ii)	4,693	7,303	(2,610)
EBITDAR	**989,254**	**1,008,250**	**(18,996)**
Adjusted net debt to EBITDAR(iii)	**1.84**	**1.90**	**(3.2%)**

(i) At March 31, 2018, net finance costs includes the trailing 12 months of finance income of $22,137 (December 31, 2017 – $19,626) and the trailing 12 months of finance cost of $49,118 (December 31, 2017 – $53,710).

(ii) At March 31, 2018, other includes the trailing 12 months foreign exchange loss of $4,649 (December 31, 2017 – loss of $4,877) and trailing 12 months loss on derivatives of $44 (December 31, 2017 – loss of $2,426).

(iii) At March 31, 2018 and December 31, 2017, the Corporation met its internal guideline of an adjusted net debt to EBITDAR and an adjusted net debt to adjusted EBITDAR measure of less than 2.50.

Free cash flow

	Three months ended March 31		
($ in thousands, except per share data)	2018	2017	Change
Cash flow from operating activities	244,940	261,244	(16,304)
Adjusted for:			
Aircraft additions(i)	(138,554)	(170,339)	31,785
Other property and equipment and intangible additions(i)	(22,681)	(10,379)	(12,302)
Free cash flow	**83,705**	**80,526**	**3,179**
Weighted average number of shares outstanding - diluted	115,267,978	117,927,154	(2,659,176)
Diluted free cash flow per share	**0.73**	**0.68**	**7.4%**

(i) Aircraft additions and other property and equipment and intangible additions above are net of proceeds from disposals and exclude non-cash amounts included in the consolidated statement of cash flows.

Operating cash flow per share

	Three months ended March 31		
($ in thousands, except per share data)	2018	2017	Change
Cash flow from operating activities	244,940	261,244	(16,304)
Weighted average number of shares outstanding - diluted	115,267,978	117,927,154	(2,659,176)
Diluted operating cash flow per share	**2.12**	**2.22**	**(4.5%)**

Cash to trailing 12 months revenue

($ in thousands)	March 31 2018	December 31 2017	Change
Cash, cash equivalents and marketable securities	1,417,748	1,373,166	44,582
Trailing 12 months revenue	4,583,708	4,506,655	77,053
Cash to trailing 12 months revenue(i)	**30.9%**	**30.5%**	**0.4 pts.**

(i) At March 31, 2018 and December 31, 2017, the Corporation was within its internal guideline of cash to trailing 12 months revenue of approximately 30 per cent.

Return on invested capital

($ in thousands)	March 31 2018	March 31 2017	Change
Earnings before income taxes (trailing twelve months)	385,241	369,795	15,446
Add:			
Finance costs	49,119	59,615	(10,496)
Implicit interest in operating leases(i)	83,498	92,651	(9,153)
Return	**517,858**	**522,061**	**(4,203)**
Invested capital:			
Average long-term debt(ii)	2,045,485	1,766,361	279,124
Average shareholders' equity	2,214,999	2,097,329	117,670
Off-balance-sheet aircraft leases(iii)	1,192,830	1,323,593	(130,763)
Invested capital	**5,453,314**	**5,187,283**	**266,031**
Return on invested capital	**9.5%**	**10.1%**	**(0.6 pts.)**

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

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

(iii) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At March 31, 2018, the trailing 12 months of aircraft leasing expenses totaled $159,044 (March 31, 2017 – $176,479).

Return on invested capital

The table below presents our restated ROIC measure for the twelve months ended December 31, 2017, as a result of the application of IFRS 15, as well as the measure that which was previously presented in our 2017 annual MD&A.

($ in thousands)	December 31 2017(i)	December 31 2017	Change
Earnings before income taxes (trailing twelve months)	397,940	404,135	(6,195)
Add:			
Finance costs	53,710	53,710	-
Implicit interest in operating leases(ii)	87,099	87,099	-
Return	**538,749**	**544,944**	**(6,195)**
Invested capital:			
Average long-term debt(iii)	2,047,853	2,047,853	-
Average shareholders' equity	2,185,204	2,136,613	48,591
Off-balance-sheet aircraft leases(iv)	1,244,265	1,244,265	-
Invested capital	**5,477,322**	**5,428,731**	**48,591**
Return on invested capital	**9.8%**	**10.0%**	**(0.2 pts.)**

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 15.

(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. 7.0 per cent 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) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2017, the trailing 12 months of aircraft leasing expenses totaled $165,902.

Financial Statements and Notes

Condensed Consolidated Interim Financial Statements and Notes

For the three months ended March 31, 2018 and 2017

WestJet Airlines Ltd.
First Quarter 2018 Financial Statements and Notes
May 7, 2018

Condensed Consolidated Statement of Earnings
For the three months ended March 31
(Stated in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Note	2018	2017[1]
Revenue:			
Guest		1,109,307	1,031,420
Other		82,417	83,251
		1,191,724	1,114,671
Operating expenses:			
Aircraft fuel		281,151	235,516
Salaries and benefits		255,125	231,115
Rates and fees		168,930	162,263
Sales and marketing		119,579	102,586
Depreciation and amortization		107,897	97,623
Maintenance		54,921	66,948
Aircraft leasing		37,484	44,341
Other		104,686	88,424
Employee profit share		6,384	7,027
		1,136,157	1,035,843
Earnings from operations		55,567	78,828
Non-operating income (expense):			
Finance income		6,710	4,199
Finance cost	13	(11,110)	(15,702)
Loss on foreign exchange		(55)	(283)
Gain on disposal of property and equipment		2,217	1,369
Gain (loss) on derivatives		65	(2,317)
		(2,173)	(12,734)
Earnings before income tax		53,394	66,094
Income tax expense:			
Current		7,824	10,741
Deferred		8,372	8,647
		16,196	19,388
Net earnings		37,198	46,706
Earnings per share:			
Basic	12	0.33	0.40
Diluted	12	0.32	0.40

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

[1] Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion.

Condensed Consolidated Statement of Financial Position
(Stated in thousands of Canadian dollars)
(Unaudited)

	Note	March 31 2018	December 31 2017[1]
Assets			
Current assets:			
Cash and cash equivalents	5	1,187,458	1,147,076
Marketable securities	5	230,290	226,090
Total cash, cash equivalents and marketable securities		1,417,748	1,373,166
Restricted cash	6	96,804	109,700
Accounts receivable		150,506	152,492
Prepaid expenses, deposits and other		124,665	138,676
Inventory		38,032	43,045
		1,827,755	1,817,079
Non-current assets:			
Property and equipment	7	4,627,897	4,567,504
Intangible assets		58,132	59,517
Other assets		81,278	78,584
Total assets		6,595,062	6,522,684
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		559,391	546,505
Advance ticket sales		684,156	659,953
Deferred rewards program		189,096	185,991
Non-refundable guest credits		64,284	58,575
Current portion of maintenance provisions	8	81,995	82,129
Current portion of long-term debt	9	154,289	153,149
		1,733,211	1,686,302
Non-current liabilities:			
Maintenance provisions	8	266,030	270,347
Long-term debt	9	1,890,910	1,895,898
Other liabilities		18,921	19,171
Deferred income tax		400,905	392,111
Total liabilities		4,309,977	4,263,829
Shareholders' equity:			
Share capital	10	549,486	548,977
Equity reserves		100,872	97,514
Hedge reserves		(763)	(1,902)
Retained earnings		1,635,490	1,614,266
Total shareholders' equity		2,285,085	2,258,855
Total liabilities and shareholders' equity		6,595,062	6,522,684

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

[1] Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion.

Condensed Consolidated Statement of Cash Flows
For the three months ended March 31
(Stated in thousands of Canadian dollars)
(Unaudited)

	Note	2018	2017[1]
Operating activities:			
Net earnings		37,198	46,706
Items not involving cash:			
Depreciation and amortization		107,897	97,623
Change in maintenance provisions		12,554	35,312
Amortization of transaction costs		1,136	1,426
(Gain) loss on derivatives		(267)	4,528
Gain on disposal of property and equipment		(2,217)	(1,369)
Share-based payment expense	10	3,878	4,145
Deferred income tax expense		8,372	8,647
Unrealized foreign exchange (gain) loss		293	(2,392)
Change in non-cash working capital		83,683	59,699
Change in restricted cash		12,896	11,050
Change in other assets		(1,964)	3,020
Change in other liabilities		6,368	967
Purchase of shares pursuant to compensation plans		(15)	(179)
Maintenance provision settlements		(24,872)	(7,939)
		244,940	261,244
Investing activities:			
Aircraft additions		(149,222)	(155,122)
Aircraft disposals		4,310	2,185
Other property and equipment and intangible additions and disposals		(19,777)	(9,318)
Purchases of marketable securities		(1,169)	(99,747)
Changes in non-cash working capital		3,453	(18,464)
		(162,405)	(280,466)
Financing activities:			
Increase in long-term debt		20,555	41,708
Repayment of long-term debt		(37,623)	(38,507)
Dividends paid	11	(15,970)	(16,408)
Cash interest paid		(14,027)	(14,478)
Change in non-cash working capital		(2,319)	(1,566)
		(49,384)	(29,251)
Cash flow from operating, investing and financing activities		33,151	(48,473)
Effect of foreign exchange on cash and cash equivalents		7,231	(721)
Net change in cash and cash equivalents		40,382	(49,194)
Cash and cash equivalents, beginning of period		1,147,076	1,520,822
Cash and cash equivalents, end of period		1,187,458	1,471,628
Supplemental disclosure of operating cash flows			
Cash interest received		6,780	4,075
Cash taxes paid, net		(19,640)	(44,982)

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

[1] Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion.

Condensed Consolidated Statement of Changes in Equity
For the three months ended March 31
(Stated in thousands of Canadian dollars)
(Unaudited)

	Note	2018	2017[1]
Share capital:			
Balance, beginning of period	10	548,977	555,716
Issuance of shares pursuant to compensation plans	10	509	126
		549,486	555,842
Equity reserves:			
Balance, beginning of period		97,514	93,039
Share-based payment expense	10	3,878	4,145
Issuance of shares pursuant to compensation plans		(520)	(274)
		100,872	96,910
Hedge reserves:			
Balance, beginning of period		(1,902)	(11,003)
Other comprehensive income		1,139	(904)
		(763)	(11,907)
Retained earnings:			
Balance, beginning of period		1,614,266	1,473,801
Dividends declared	11	(15,970)	(16,408)
Purchase of shares pursuant to compensation plans		(4)	(31)
Net earnings		37,198	46,706
		1,635,490	1,504,068
Total shareholders' equity		**2,285,085**	**2,144,913**

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

[1] Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion.

Condensed Consolidated Statement of Comprehensive Income
For the three months ended March 31
(Stated in thousands of Canadian dollars)
(Unaudited)

	2018	2017[1]
Net earnings	37,198	46,706
Items that are or may be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Net unrealized gain (loss) on foreign exchange derivatives[i]	4,094	(827)
Reclassification of net realized loss on foreign exchange derivatives[ii]	429	812
Net unrealized gain (loss) on interest rate derivatives[iii]	355	(490)
Reclassification of net realized loss on interest rate derivatives[iv]	105	638
Net unrealized loss on cross-currency swap derivatives[v]	(3,844)	(1,037)
	1,139	(904)
Total comprehensive income	38,337	45,802

(i) Net of income taxes of $(1,516) (2017 – $303).

(ii) Net of income taxes of $(159) (2017 – $(299)).

(iii) Net of income taxes of $(131) (2017 – $182).

(iv) Net of income taxes of $(39) (2017 – $(235)).

(v) Net of income taxes of $1,424 (2017 – $384).

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

[1] Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion.

1. Statement of significant accounting policies

The condensed consolidated interim financial statements of WestJet Airlines Ltd. (the Corporation) for the three months ended March 31, 2018 and 2017, were authorized for issue by the Board of Directors on May 7, 2018. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline services and travel packages. The Corporation's shares are publicly traded on the Toronto Stock Exchange (TSX) under the symbol WJA. The principal business address is 22 Aerial Place N.E., Calgary, Alberta, T2E 3J1 and the registered office is Suite 2400, 525 - 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

(a) Basis of presentation

These condensed consolidated interim financial statements and the notes thereto have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the 2017 consolidated annual financial statements. The Corporation has retroactively adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15) with an initial application date of January 1, 2018, refer to note 2 of these condensed consolidated interim financial statements. There have been no other changes to the Corporation's significant accounting policies from those disclosed in the 2017 consolidated annual financial statements.

(b) 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 partially reducing the effects of seasonality on net earnings.

(c) Revenue recognition

(i) Guest revenue

Guest revenue includes revenue associated with providing flights and ancillary goods and services to guests such as fees associated with guest itinerary changes or cancellations, Plus upgrades, baggage fees, buy-on-board sales and pre-reserved seating fees. Guest revenue is recognized when air transportation is provided or at flight date when tickets are no longer valid. Tickets sold but not yet used are reported in the consolidated statement of financial position as advance ticket sales.

Sale of flights to guests who are not members of the WestJet Rewards Program represent a single performance obligation to which the entire amount of revenue is allocated.

For contracts with an amortization period of less than one year, any related contract costs will be expensed as incurred. The Corporation has also elected to not disclose information about the remaining performance obligations that have original expected contract durations of one year or less.

(a) WestJet Rewards Program

The Corporation has a rewards program that allows guests to earn reward credits to be used towards future flights and vacation packages and vouchers for complimentary companion tickets based on guests' accumulated WestJet travel spend. Flights sold earning reward credits under the WestJet Rewards Program provide customers with (1) WestJet dollars earned and (2) air transportation. Revenue is allocated to each of these performance obligations based on their relative stand-alone selling prices. Revenue allocated to the earned credits is deferred as a liability until the credit is redeemed and air transportation is provided, at which time it is recognized in Guest revenue. Revenue associated with credits expected to expire (breakage) are recognized proportionately as the credits that will not expire are redeemed.

(b) Non-refundable guest credits

The Corporation issues future travel credits to guests for flight changes and cancellations. Expiry dates are dependent upon the nature of the credit and all credits are non-refundable. The Corporation records a liability at face value for credits issued for flight changes and cancellations. Revenue related to flight changes and cancellations credits is recorded in guest revenue when air transportation is provided.

The Corporation also issues future travel credits for flight delays, missing baggage and other inconveniences as goodwill gestures. All credits are non-refundable and have expiry dates. At the time these credits are issued, the Corporation records a reduction to revenue and an increase to non-refundable guest credits based on their estimated stand-alone selling prices and the expected usage of the credit.

(c) Revenue recognition (continued)

(ii) Other revenue

Other revenue includes items such as net revenue from the sale of the land component of vacation packages, cargo and charter revenue, and marketing and licensing fees related to the co-branded credit card program.

Revenue from the sale of a WestJet vacation package is allocated to the air transportation performance obligation and agency services related to the land component of the vacation packages. The revenue allocated to the agency services is recognized net of amounts paid to the travel supplier. Revenue from the land component is deferred as advance ticket sales and recognized in earnings on completion of the vacation.

(iii) Co-branded credit card program & brand value licensing

The Corporation has a co-branded credit card arrangement with the Royal Bank of Canada (RBC) and MasterCard. RBC purchases WestJet reward credits for issuance to cardholders based on a percentage of the cardholder's total retail spend. The Corporation also provides benefits directly to cardholders such as vouchers for discounted companion tickets and complimentary checked baggage.

The following four performance obligations were identified in the arrangement with RBC: (i) WestJet reward credits; (ii) license of the WestJet brand, access to WestJet Rewards Program member lists and advertising services provided to RBC (collectively, the "marketing bundle"); (iii) vouchers for complimentary companion tickets issued to cardholders; and (iv) complimentary checked baggage services to cardholders and their guests travelling on the same itinerary. The overall consideration that is expected to be received includes both fixed and variable amounts. In estimating the variable consideration, the Corporation considers the risk of revenue reversal in making the estimate. The Corporation then allocates the total consideration expected to be received to the various performance obligations based on their relative stand-alone selling prices. The consideration allocated to the WestJet Dollars and the companion vouchers is deferred and recognized as Guest revenue in the period when the transportation is expected to be provided. Consideration allocated to complimentary checked baggage services is recognized evenly over the five-year contract term in Guest revenue. Revenue related to the marketing bundle will be recognized evenly over the five-year contract term in Other revenue.

(d) Critical accounting judgments and estimates

Judgments

(i) License of intellectual property is not the predominant item in the co-branded credit card program

The Corporation has determined that the license of the WestJet brand and access to WestJet Rewards Program member lists are not the predominant items in the co-branded credit card arrangement and therefore estimates the amount of consideration to which the Corporation expects to be entitled to in exchange for satisfying the performance obligation and recognizes revenue when earned.

(ii) Identification and satisfaction of contractual obligations in the co-branded credit card program

The Corporation's identification of performance obligations in the arrangement with RBC requires judgment in assessing which contractual rights are distinct. The Corporation has made the judgment that the use of the WestJet brand, access to member lists and advertising elements is a single performance obligation in the arrangement. The identification of the number and nature of performance obligations impacts how the transaction price is allocated and the timing of revenue recognition.

Determining the appropriate timing of revenue recognition associated with the complimentary checked baggage services and the marketing bundle performance obligations requires judgment as to which method most appropriately depicts how the Corporation transfers the goods or services. The Corporation has determined the performance obligations related to complimentary checked baggage services and the marketing bundle is earned evenly over the contract term.

(iii) WestJet Rewards tier status recognized as a marketing incentive

The WestJet Rewards Program offers three categories of Teal, Silver and Gold status which are assigned based on how much a rewards member spends with WestJet in the qualifying year. When a guest enrolls in the rewards program, they are automatically enrolled in the Teal tier. Gold and silver tier members earn benefits in addition to WestJet reward credits such as advance seat selection vouchers, airport lounge vouchers, advanced boarding, free checked bag and more. The Corporation has determined that these additional benefits are marketing incentives and not a material right.

(d) Critical accounting judgments and estimates (continued)

Estimates

(i) Allocation of ticket price to WestJet Rewards issued

Allocation of consideration received for a flight from guests who participate in the WestJet Rewards Program is allocated between the flight and the issuance of reward credits. Determining the stand-alone selling price of the reward credits requires the Corporation to estimate the expected redemption value of a reward credit issued and the number of credits that will expire unused.

(ii) Estimated stand-alone selling price of the performance obligations in the co-branded credit card program

The Corporation determined the relative fair value of each performance obligation by estimating the stand-alone selling price of each performance obligation over the term of the agreement, through discounted cash flows using multiple estimates, including:

(1) the expected number of reward credits to be awarded and redeemed and the estimated redemption value, which are estimated using historical redemption patterns;

(2) the estimated average guest benefit of the discounted companion voucher and the expected number of companion vouchers to be issued and redeemed, which are estimated using historical redemption patterns;

(3) the estimated number of cardholders and the total annual cardholder spend;

(4) an estimated royalty rate for the WestJet portfolio; and

(5) the expected volume of free checked bags by cardholders.

(iii) Breakage on non-refundable guest credits

The Corporation estimates the number of non-refundable guest credits that will remain unused or will expire based on historical trends of usage and expiry.

2. New accounting standards and interpretations

Adoption of New Accounting Standards

The Corporation has adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15) with an initial application date of January 1, 2018. The Corporation has implemented the standard using the full retrospective method, which requires restatement of the prior year condensed consolidated statements of earnings and financial position and disclosures. Impacts prior to January 1, 2017 are reflected in opening 2017 retained earnings.

The Corporation applies the transitional practical expedient in paragraph C5(d) of IFRS and does not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Corporation expects to recognize that amount as revenue for the year ended December 31, 2017.

Refer to Note 1 for the Corporation's accounting policies and critical accounting judgements and estimates for revenue from contracts with customers. The Corporation has restated for the impact of IFRS 15 which resulted in changes to the prior year statement of financial position and the statement of earnings.

Passenger and ancillary breakage

The Corporation has concluded that revenue will be recognized when tickets are invalid at flight date per the Corporation's flight tariffs. Previously, breakage related to passenger tickets and ancillary fees were deferred for a period of 18 months.

Consideration payable to customers

The Corporation issues future travel credits and WestJet dollars related to flight delays, missing baggage, or other inconveniences as goodwill gestures. This consideration payable is now recorded when the travel credit is issued as a reduction to revenue and an increase to non-refundable guest credits. Previously, the Corporation recorded the reduction to revenue at the time the travel credit was redeemed to book a subsequent flight.

2. New accounting standards and interpretations (continued)

Adoption of New Accounting Standards (continued)

WestJet Co-Branded MasterCard

Revenues pertaining to the Corporation's co-branded credit card program are now allocated to the performance obligations on a relative stand-alone selling price. The application of IFRS 15 increased Retained earnings at December 31, 2016 reflecting the straight-line revenue recognition of the revenue allocated to the use of the marketing bundle and the complimentary checked baggage services. Previously the Corporation recognized variable consideration as it was received, whereas under IFRS 15, the Corporation estimates the variable consideration expected over the life of the agreement and allocates it to the various performance obligations.

Reclass of certain ancillary services

Ancillary revenue such as fees associated with guest itinerary changes or cancellations, Plus upgrades, baggage fees, buy-on-board sales and pre-reserved seating fees are now presented as part of Guest revenue and was previously presented as part of Other revenue.

The cumulative effect of the impacts of adopting IFRS 15 are presented in the tables below:

Consolidated Statement of Financial Position At December 31, 2016	**As previously reported**	**New revenue standard adjustments**	**As restated**
Accounts receivable	127,785	29,506	157,291
Advance ticket sales	626,635	(38,545)	588,090
Deferred rewards program	155,567	(11,539)	144,028
Non-refundable guest credits	42,942	9,899	52,841
Deferred income tax	309,694	18,840	328,534
Retained earnings – Equity	1,422,950	50,851	1,473,801

Consolidated Statement of Financial Position At December 31, 2017	**As previously reported**	**New revenue standard adjustments**	**As restated**
Accounts receivable	129,648	22,844	152,492
Accounts payable and accrued liabilities	549,844	(3,339)	546,505
Advance ticket sales	695,111	(35,158)	659,953
Deferred rewards program	203,433	(17,442)	185,991
Non-refundable guest credits	43,288	15,287	58,575
Deferred income tax	374,946	17,165	392,111
Retained earnings – Equity	1,567,935	46,331	1,614,266

2. New accounting standards and interpretations (continued)

Adoption of New Accounting Standards (continued)

Consolidated Statement of Earnings For the three months ended March 31, 2017	**As previously reported**	**New revenue standard adjustments**	**As restated**
Guest	934,772	96,648	1,031,420
Other	179,500	(96,249)	83,251
Total revenue	1,114,272	399	1,114,671
Salaries and benefits	231,015	100	231,115
Sales and marketing	100,339	2,247	102,586
Other	88,173	251	88,424
Total operating expenses	1,033,245	2,598	1,035,843
Earnings from operations	81,027	(2,199)	78,828
Earnings before income tax	68,293	(2,199)	66,094
Income tax expense – Deferred	9,242	(595)	8,647
Net earnings	48,310	(1,604)	46,706
Earnings per share – Basic	0.41	(0.01)	0.40
Earnings per share - Diluted	0.41	(0.01)	0.40

Adoption of the standard related to revenue recognition had no impact to cash from or used in operating, financing, or investing activities on our consolidated statement of cash flows.

Accounting Standards Issued But Not Yet Adopted

In January 2016, the IASB issued IFRS 16 Leases (IFRS 16), effective for annual and interim reporting periods beginning on or after January 1, 2019. This standard eliminates the classification of leases as either operating leases or finance leases for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as either lease assets or together with property and equipment. It also allows for the service component of a lease agreement to be separated from the value of the asset and thus not reported on the statement of financial position. The Corporation anticipates the adoption of IFRS 16 will have a material impact on the statement of financial position as all aircraft operating leases will be capitalized with a corresponding lease liability. In addition to aircraft operating leases, the Corporation must identify and review potential contracts that may contain a lease arrangement prior to quantifying the impact of IFRS 16. The Corporation will adopt this standard effective January 1, 2019.

3. Revenue

The Corporation has disaggregated revenue transactions into categories that reflects the similar nature, amounts, timing, and uncertainty of revenue and cash flows that are affected by similar economic factors. Domestic guest revenue and transborder and international guest revenue represent flight tickets which are purchased in advance of the travel date, however these geographies are impacted by different seasonal, economic and competitive factors. Ancillary goods and services are typically purchased on or near the date of the flight and provide an opportunity to enhance the overall experience for less price sensitive guests through the sale of higher margin goods and services.

	Three months ended March 31	
	2018	**2017**[(1)]
Guest Revenue:		
Domestic guest ticket	452,192	423,215
Transborder and international guest ticket	547,653	506,255
Ancillary	109,462	101,950
	1,109,307	1,031,420

(1) Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion

Contract balances:

A contract liability is recognized when a guest purchases a ticket for a flight and has yet to fly (advance ticket sales), or when WestJet dollars have been issued to a guest but not yet redeemed (deferred rewards program), or when non-refundable guest credits are issued to a guest but not yet redeemed (non-refundable guest credits). When a guest redeems either a WestJet dollar or a non-refundable guest credit to purchase a flight, the liability is transferred to advance ticket sales until the guest's flight is completed.

Contract assets recorded within Accounts Receivable for the period ended March 31, 2018 and December 31, 2017 are $20,802 and $22,844 respectively.

Revenue recognized for the three months ended March 31, 2018 that was included in the contract liability balance at December 31, 2017 was $567,219 and represented revenue from flights flown. Revenue recognized for the three months ended March 31, 2017 that was included in the contract liability balance at December 31, 2016 was $529,598.

4. 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 manage 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, cash, cash equivalents and marketable securities 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 cash to trailing 12 months revenue, adjusted debt-to-equity and adjusted net debt to earnings before net finance cost, taxes, depreciation and amortization and aircraft leasing (EBITDAR). EBITDAR is a non-GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in tax jurisdictions and in the method an airline finances its aircraft. In addition, the Corporation will adjust EBITDAR for non-operating gains and losses on derivatives and foreign exchange and impairment losses. 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. To derive a present-value debt equivalent, common industry practice is to multiply the trailing 12 months of aircraft leasing expense by a multiplier. The Corporation uses a multiplier of 7.5. The Corporation defines adjusted net debt as adjusted debt less cash, cash equivalents and marketable securities. The Corporation defines equity as total shareholders' equity, excluding hedge reserves.

4. Capital management (continued)

	March 31 2018	December 31 2017[(vi)]	Change
Cash to trailing 12 months revenue			
Cash, cash equivalents and marketable securities	1,417,748	1,373,166	44,582
Trailing 12 months revenue	4,583,708	4,506,655	77,053
Cash to trailing 12 months revenue[(v)]	30.9%	30.5%	0.4 pts
Adjusted debt-to-equity			
Long-term debt[(i)]	2,045,199	2,049,047	(3,848)
Off-balance-sheet aircraft leases[(ii)]	1,192,838	1,244,265	(51,427)
Adjusted debt	3,238,037	3,293,312	(55,275)
Total shareholders' equity	2,285,085	2,258,855	26,230
Add: Hedge reserves	763	1,902	(1,139)
Adjusted equity	2,285,848	2,260,757	25,091
Adjusted debt-to-equity[(v)]	1.42	1.46	(2.7%)
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	3,238,037	3,293,312	(55,275)
Less: Cash, cash equivalents and marketable securities	(1,417,748)	(1,373,166)	(44,582)
Adjusted net debt	1,820,289	1,920,146	(99,857)
Trailing 12 months net earnings	269,549	279,057	(9,508)
Add:			
Net finance cost[(iii)]	26,981	34,084	(7,103)
Taxes	115,691	118,883	(3,192)
Depreciation and amortization	413,295	403,021	10,274
Aircraft leasing	159,045	165,902	(6,857)
Other[(iv)]	4,693	7,303	(2,610)
EBITDAR	989,254	1,008,250	(18,996)
Adjusted net debt to EBITDAR[(v)]	1.84	1.90	(3.2%)

(i) At March 31, 2018, long-term debt includes the current portion of long-term debt of $154,289 (December 31, 2017 – $153,149) and long-term debt of $1,890,910 (December 31, 2017 – $1,895,898).

(ii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At March 31, 2018, the trailing 12 months of aircraft leasing costs totaled $159,045 (December 31, 2017 – $165,902).

(iii) At March 31, 2018, net finance cost includes the trailing 12 months of finance income of $22,137 (December 31, 2017 – $19,626) and the trailing 12 months of finance cost of $49,118 (December 31, 2017 – $53,710).

(iv) At March 31, 2018, other includes the trailing 12 months foreign exchange loss of $4,649 (December 31, 2017 – loss of $4,877) and trailing 12 months non-operating loss on derivatives of $44 (December 31, 2017 – loss of $2,426).

(v) The Corporation has internal guidelines for cash to trailing 12 months revenue of approximately 30%, an adjusted debt-to-equity measure of no more than 2.5 and an adjusted net debt to EBITDAR measure of no more than 2.5. The Corporation's internal guidelines are not related to any covenants.

(vi) Certain 2017 numbers have been restated for the adoption of IFRS 15. See Note 2 for further discussion

5. Cash, cash equivalents and marketable securities

	March 31 2018	December 31 2017
Bank balances(i)	270,412	238,858
Short-term investments(ii)	917,046	908,218
Total cash and cash equivalents	1,187,458	1,147,076
Marketable securities(iii)	230,290	226,090
	1,417,748	1,373,166

(i) Included in these balances, at March 31, 2018, the Corporation has US-dollar cash and cash equivalents totaling US $73,710 (December 31, 2017 – US $46,641).

(ii) Included in these balances, at March 31, 2018, the Corporation has US-dollar short-term investments totaling US $152,278 (December 31, 2017 – US $151,696).

(iii) Included in these balances, at March 31, 2018, the Corporation has US-dollar marketable securities totaling US $100,894 (December 31, 2017 – US $100,000).

6. Restricted cash

	March 31 2018	December 31 2017
Cash held in trust for WestJet Vacations Inc.	61,907	76,389
Security on facilities for letters of guarantee	33,283	32,234
Passenger facility charges	1,614	1,077
	96,804	109,700

7. Property and equipment

	January 1 2018	Net Additions	Depreciation	Transfers	March 31 2018
Aircraft(i)	3,479,739	15,647	(90,817)	92,183	3,496,752
Ground property and equipment	72,946	2,362	(5,082)	386	70,612
Spare engines and rotables	195,929	11,139	(6,507)	-	200,561
Deposits on aircraft	650,487	124,122	-	(150,586)	624,023
Buildings	99,309	-	(881)	-	98,428
Leasehold improvements	17,570	263	(1,216)	129	16,746
Assets under development	51,524	11,363	-	57,888	120,775
	4,567,504	164,896	(104,503)	-	4,627,897

	January 1 2017	Net additions	Depreciation	Transfers	December 31 2017
Aircraft(i)	3,125,040	46,416	(337,285)	645,568	3,479,739
Ground property and equipment	73,911	12,718	(18,945)	5,262	72,946
Spare engines and rotables	186,092	12,988	(25,089)	21,938	195,929
Deposits on aircraft	492,376	752,368	-	(594,257)	650,487
Buildings	102,833	-	(3,524)	-	99,309
Leasehold improvements	14,180	3,648	(4,329)	4,071	17,570
Assets under development	42,448	91,658	-	(82,582)	51,524
	4,036,880	919,796	(389,172)	-	4,567,504

(i) Aircraft includes (a) aircraft (b) engine, airframe and landing gear core components (c) engine, airframe and landing gear overhaul components, and (d) inflight entertainment systems. For the three months ended March 31, 2018, total aircraft depreciation expense for overhaul components was $42,268 (March 31, 2017 – $38,756).

7. Property and equipment (continued)

March 31, 2018	Cost	Accumulated depreciation	Net book value
Aircraft	5,168,471	(1,671,719)	3,496,752
Ground property and equipment	172,492	(101,880)	70,612
Spare engines and rotables	318,733	(118,172)	200,561
Deposits on aircraft	624,023	-	624,023
Buildings	136,781	(38,353)	98,428
Leasehold improvements	32,033	(15,287)	16,746
Assets under development	120,775	-	120,775
	6,573,308	(1,945,411)	4,627,897

December 31, 2017	Cost	Accumulated depreciation	Net book value
Aircraft	5,078,004	(1,598,265)	3,479,739
Ground property and equipment	169,946	(97,000)	72,946
Spare engines and rotables	307,594	(111,665)	195,929
Deposits on aircraft	650,487	-	650,487
Buildings	136,781	(37,472)	99,309
Leasehold improvements	31,641	(14,071)	17,570
Assets under development	51,524	-	51,524
	6,425,977	(1,858,473)	4,567,504

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was $1,369,852 at March 31, 2018 (December 31, 2017 – $1,446,554).

8. Maintenance provisions and reserves

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

	March 31 2018	December 31 2017
Opening balance	352,476	366,234
Additions	12,492	45,682
Change in estimate(i)	(1,563)	16,544
Foreign exchange	7,866	(22,559)
Accretion(ii)	1,626	3,146
Settled	(24,872)	(56,571)
Ending balance	348,025	352,476
Current portion	(81,995)	(82,129)
Long-term portion	266,030	270,347

(i) Reflects changes to the timing and scope of maintenance activities and the discount rate used to present value the liability. Of the total change in estimate for the twelve months ended December 31, 2017, $18,464 relates to a cumulative catch up adjustment.

(ii) At March 31, 2018, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.84% (December 31, 2017 – 1.61%) to reflect the weighted average remaining term of approximately 38 months (December 31, 2017 – 40 months) until cash outflow.

At March 31, 2018, the current portion of maintenance reserves included in prepaid expenses, deposits and other is $19,474 (December 31, 2017 – $16,281) and the long-term portion of maintenance reserves included in other assets is $11,581 (December 31, 2017 – $13,761).

9. Long-term debt

	March 31 2018	December 31 2017
Term loans – purchased aircraft(i)	46,354	59,770
Term loans – purchased aircraft(ii)	151,737	156,929
Term loans – purchased aircraft(iii)	651,344	645,501
Senior unsecured notes(iv)	399,273	399,139
Non-revolving facility(v)	284,533	288,196
USD senior unsecured notes(vi)	511,958	499,512
Ending balance	2,045,199	2,049,047
Current portion	(154,289)	(153,149)
Long-term portion	1,890,910	1,895,898

(i) 16 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling $11,387, at an effective weighted average fixed rate of 6.07%, maturing between 2018 and 2020. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by 16 Boeing 737 Next Generation aircraft. There are no financial covenants related to these term loans.

(ii) Seven individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling $5,576, in addition to a floating rate of interest at the three month Canadian Dealer Offered Rate plus a basis point spread, with an effective weighted average floating interest rate of 3.27% at March 31, 2018, maturing between 2024 and 2025. The Corporation has fixed the rate of interest on these seven term loans, at a weighted average rate of 3.20%, using interest rate swaps. These facilities are guaranteed by Ex-Im Bank and secured by seven Boeing 737 Next Generation aircraft. There are no financial covenants related to these term loans.

(iii) 44 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling $15,199, at an effective weighted average fixed rate of 3.21%, maturing between 2025 and 2029. Each term loan is secured by one Q400 aircraft. There are no financial covenants related to these term loans.

(iv) 3.287% Senior Unsecured Notes with semi-annual interest payments and an effective interest rate of 3.43% at March 31, 2018, with principal due upon maturity in July 2019. The notes rank equally in right of payment with all other existing and future unsubordinated debt of the Corporation, but are effectively subordinate to all of the Corporation's existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenants related to these senior unsecured notes.

(v) Non-revolving, unsecured term loan repayable in quarterly principal instalments of $7,500, increasing annually, with an effective weighted average floating interest rate of 3.18% at March 31, 2018, maturing in 2020. The Corporation has fixed the rate of interest on the term loan, at a weighted average rate of 2.51%, using interest rate swaps. The credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1 measurable on a quarterly basis. At March 31, 2018 the Corporation has met both covenants.

(vi) Senior unsecured notes denominated in US Dollars with semi-annual interest payments and a fixed effective rate of 3.78% at March 31, 2018, with principal due upon maturity in June 2021. The notes rank equally in right of payment with all other existing and future unsubordinated debt of the Corporation, but are effectively subordinate to all of the Corporation's existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenants related to these senior unsecured notes.

Future scheduled principal and interest repayments of long-term debt at March 31, 2018 are as follows:

Within 1 year	219,887
1 – 3 years	916,566
4 – 5 years	732,913
Over 5 years	398,828
	2,268,194

9. Long-term debt (continued)

The Corporation has an unsecured, revolving syndicated credit facility of $300,000 available for general corporate purposes, including the funding of future aircraft acquisitions, maturing in June 2020 with an option to extend the three year term on an annual basis. Funds from the revolving credit facility can be drawn through various debt instruments and interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on the Corporation's debt rating. The Corporation also pays a standby fee for the undisbursed portion of the revolving credit facility. At March 31, 2018, the Corporation has $nil (December 31, 2017 – $nil) drawn on the facility. The credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. At March 31, 2018 the Corporation has met both covenants.

The Corporation has an $820,000 loan agreement with Export Development Canada for the future purchase of Bombardier Q400 NextGen aircraft. The Corporation is charged a non-refundable commitment fee of 0.2 per cent per annum on the undisbursed portion of the loan. The undisbursed portion of the loan at March 31, 2018, is $27,019 (December 31, 2017 – $47,575). Availability of any undrawn amount expires on December 31, 2018. The expected amount available for each aircraft is up to 80 per cent of the net price with a term to maturity of up to 12 years, repayable in quarterly instalments, including interest at a floating or fixed rate, determined at the inception of the loan.

10. Share capital

(a) Issued and outstanding

	March 31 2018		December 31 2017	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of period	114,052,889	548,977	117,200,439	555,716
Issuance of shares pursuant to compensation plans	16,261	509	376,047	10,131
Shares repurchased	-	-	(3,523,597)	(16,870)
Balance, end of period	114,069,150	549,486	114,052,889	548,977

At March 31, 2018, the number of common voting shares outstanding was 81,537,968 (December 31, 2017 – 87,360,973) and the number of variable voting shares was 32,531,182 (December 31, 2017 – 26,691,916).

On May 16, 2016, 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 4,000,000 common voting shares and variable voting shares (representing approximately 3.3 per cent of the Corporation's issued and outstanding shares as of April 30, 2016) during the period May 18, 2016 to May 17, 2017 (the 2016 bid), or until such time as the bid is completed or terminated at the Corporation's option. Any shares purchased under this bid are 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 are cancelled. The 2016 bid expired on May 17, 2017, with the Corporation purchasing and cancelling all 4,000,000 of the shares it was authorized.

On August 1, 2017, 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 5,856,671 common voting shares and variable voting shares (representing approximately five per cent of the Corporation's issued and outstanding shares as of July 20, 2017) during the period August 3, 2017 to August 2, 2018 (the 2017 bid), or until such time as the bid is completed or terminated at the Corporation's option. Any shares purchased under this bid are 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 are cancelled. During the three months ended March 31, 2018, the Corporation purchased and cancelled a total of nil shares (three months ended March 31, 2017- nil shares). At March 31, 2018, 3,330,425 shares have been repurchased under this bid with 2,526,246 remaining.

10. Share capital (continued)

(b) Stock option plan

The fair value of options granted and the assumptions used in their determination are as follows:

	Three months ended March 31, 2018
Weighted average fair value per option	4.60
Expected life of options (years)	4.2
Weighted average risk-free interest rate	2.1%
Weighted average expected volatility	25.9%
Weighted average dividend yield	2.2%

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

	Three months ended March 31			
	2018		2017	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of period	9,429,826	22.95	8,622,779	22.91
Granted	18,172	24.30	-	-
Exercised	(124,803)	22.35	(26,666)	20.33
Forfeited	(20,450)	21.95	(4,091)	21.87
Expired	(6,438)	25.28	(39,036)	27.07
Stock options outstanding, end of period	9,296,307	22.96	8,552,986	22.90
Exercisable, end of period	5,069,199	23.70	4,616,487	24.62

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 three months ended March 31, 2018, option holders exercised 124,803 options (three months ended March 31, 2017 – 26,666 options) on a cashless basis and received 16,261 shares (three months ended March 31, 2017 – 2,924 shares).

(c) Key employee plan

Changes in the number of units, with their weighted average fair value, are summarized below:

	Three months ended March 31			
	2018		2017	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	231,640	22.04	238,381	22.50
Granted	7,972	24.30	-	-
Units, in lieu of dividends	1,435	23.33	1,404	22.96
Settled	(541)	21.47	(8,096)	19.00
Forfeited	(506)	21.04	-	-
Units outstanding, end of period	240,000	22.13	231,689	22.63

10. Share capital (continued)

(d) Executive share unit plan

Changes in the number of units, with their weighted average fair value, are summarized below:

	Three months ended March 31							
	2018				2017			
	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 period	259,672	22.46	488,452	22.42	197,865	22.80	336,718	22.78
Units granted in lieu of dividends	1,537	23.33	2,882	23.33	1,206	22.96	2,053	22.96
Forfeited	(3,494)	21.46	(8,179)	22.28	-	-	-	-
Units outstanding, end of period	257,715	22.48	483,155	22.43	199,071	22.80	338,771	22.78

(e) Share-based payment expense

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

	Three months ended March 31	
	2018	2017
Stock option plan	2,863	2,721
Key employee plan	335	375
Executive share unit plan	680	1,049
Total share-based payment expense	3,878	4,145

11. Dividends

On February 5, 2018 the Board of Directors declared our 2018 first quarter dividend of $0.14 per common and variable voting share. For the three months ended March 31, 2018, the Corporation paid dividends totaling $15,970 (three months ended March 31, 2017 – $16,408).

12. Earnings per share

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

	Three months ended March 31	
	2018	2017
Weighted average number of shares outstanding – basic	114,061,568	117,202,055
Effect of dilution	1,206,410	725,099
Weighted average number of shares outstanding – diluted	115,267,978	117,927,154

For the three months ended March 31, 2018, 2,339,655 employee stock options (three months ended March 31, 2017 – 4,529,721 options) were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

13. Finance cost

	Three months ended March 31	
	2018	2017
Interest on long-term debt	17,903	17,934
Capitalized interest(i)	(4,936)	(3,815)
Accretion on maintenance provisions	(1,857)	1,583
	11,110	15,702

(i) Relates to interest capitalized on deposits paid for Boeing and Bombardier aircraft yet to be delivered using a weighted average interest rate of 3.27%.

14. Financial instruments and risk management

Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, marketable securities, restricted cash, accounts receivable, derivatives, other deposits that will be settled in cash, accounts payable and accrued liabilities and long-term debt. 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 at March 31, 2018 and December 31, 2017:

	Fair value	**Amortized cost**		**Total**	
March 31, 2018	Through profit or loss	Financial assets	Financial liabilities	Carrying amount	Fair value
Asset (liability):					
Cash and marketable securities [(i)]	–	1,514,552	–	1,514,552	1,514,552
Accounts receivable	–	150,506	–	150,506	150,506
Foreign exchange derivatives[(ii)]	1,940	–	–	1,940	1,940
Interest rate derivatives[(iii)]	2,798	–	–	2,798	2,798
Cross-currency interest rate swap derivatives[(iv)]	(2,388)	–	–	(2,388)	(2,388)
Other deposits[(v)]	–	87,171	–	87,171	86,153
Accounts payable and accrued liabilities[(vi)]	–	–	(557,005)	(557,005)	(557,005)
Long-term debt[(vii)]	–	–	(2,045,199)	(2,045,199)	(1,884,390)
	2,350	1,752,229	(2,602,204)	(847,625)	(687,834)

	Fair value	**Amortized cost**		**Total**	
December 31, 2017	Through profit or loss	Financial assets	Financial liabilities	Carrying amount	Fair value
Asset (liability):					
Cash and marketable securities[(i)]	–	1,482,866	–	1,482,866	1,482,866
Accounts receivable	–	152,492	–	152,492	152,492
Foreign exchange derivatives[(ii)]	(4,525)	–	–	(4,525)	(4,525)
Interest rate derivatives[(iii)]	2,168	–	–	2,168	2,168
Cross-currency interest rate swap derivatives[(iv)]	(9,309)	–	–	(9,309)	(9,309)
Other deposits[(v)]	–	82,655	–	82,655	81,709
Accounts payable and accrued liabilities[(vi)]	–	–	(539,301)	(539,301)	(539,301)
Long-term debt[(vii)]	–	–	(2,049,047)	(2,049,047)	(1,906,152)
	(11,666)	1,718,013	(2,588,348)	(882,001)	(740,052)

(i) Includes restricted cash of $96,804 (December 31, 2017 – $109,700) and marketable securities of $230,290 (December 31, 2017 – $226,090).

(ii) Includes $3,098 (December 31, 2017 – $820) classified in prepaid expenses, deposits and other, and $1,158 (December 31, 2017 – $5,345) classified in accounts payable and accrued liabilities.

(iii) Includes $2,411 (December 31, 2017 – $2,067) classified in prepaid expenses, deposits and other, $1,054 (December 31, 2017 – $1,299) classified in accounts payable and accrued liabilities, $2,357 (December 31, 2017 - $2,814) classified in other long-term assets, and $916 classified in other long-term liabilities (December 31, 2017 – $1,414).

(iv) Includes $4 (December 31, 2017 - $nil) classified in prepaid expenses, deposits and other, $174 (December 31, 2017 – $560) classified in accounts payable and accrued liabilities, $nil (December 31, 2017 - $nil) classified in other long-term assets and $2,218 classified in other long-term liabilities (December 31, 2017 - $8,749).

(v) Includes $37,299 (December 31, 2017 – $36,189) classified in prepaid expenses, deposits and other, and $49,872 (December 31, 2017 – $46,466) classified in other long-term assets. The fair value of the long-term aircraft deposits is determined by discounting the future contractual cash flows using an average rate of 1.78% (December 31, 2017 – 1.49%) for an average term of 2.40 years (December 31, 2017 – 2.42 years).

(vi) Excludes foreign exchange derivative liabilities of $1,158 (December 31, 2017 – $5,345), interest rate derivative liabilities of $1,054 (December 31, 2017 – $1,299) and cross-currency interest rate swap derivative liabilities of $174 (December 31, 2017 - $560).

(vii) Includes current portion of long-term debt of $154,289 (December 31, 2017 – $153,149) and long-term debt of $1,890,910 (December 31, 2017 – $1,895,898). The fair value of the long-term debt is determined by discounting the future contractual cash flows of principal and interest under the current financing arrangements using the Corporation's March 31, 2018 implied Corporate BBB- rate of 5.11% (December 31, 2017 – 4.85%) for a 4.88 year term (December 31, 2017 – 5.07 year term), equal to the weighted average remaining term of the Corporation's long term debt at March 31, 2018.

14. Financial instruments and risk management (continued)

Fair value of financial assets and financial liabilities (continued)

The following items shown in the condensed consolidated statement of financial position at March 31, 2018 and December 31, 2017, are measured at fair value on a recurring basis using level 2 inputs. Level 1 inputs are defined as quoted prices in active markets while level 2 is defined as significant other observable inputs. There are no financial assets or liabilities classified as level 1 or level 3 (significant unobservable inputs) in the fair value hierarchy.

March 31, 2018	Level 1	Level 2	Total
Asset (liability):			
Foreign exchange derivatives	–	1,940	1,940
Interest rate derivatives	–	2,798	2,798
Cross-currency interest rate swap derivatives	–	(2,388)	(2,388)
	–	2,350	2,350

December 31, 2017	Level 1	Level 2	Total
Asset (liability):			
Foreign exchange derivatives	–	(4,525)	(4,525)
Interest rate derivatives	–	2,168	2,168
Cross-currency interest rate swap derivatives	–	(9,309)	(9,309)
	–	(11,666)	(11,666)

During the quarter ended March 31, 2018 and the year ended December 31, 2017, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

Foreign exchange derivatives: Classified as level 2, these consist of foreign exchange forward contracts where the fair value of the forward contracts is measured based on the difference between the contracted rate and the current forward price. At March 31, 2018, to fix the exchange rate on a portion of the Corporation's US dollar aircraft lease payments and hotel costs for the next twelve months, the Corporation has entered into foreign exchange contracts with an average monthly notional of US $13,639 (December 31, 2017 – US $19,013) for a total of US $163,662 (2017 – US $228,155) at a weighted average contracted rate on the forward contracts of 1.2740 (December 31, 2017 – 1.2745) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.2858 (December 31, 2017 – 1.2547) Canadian dollars to one US dollar. At March 31, 2018, a portion of the change in the fair value of foreign exchange derivatives amounting to $nil (December 31, 2017 – $399) was recognized within gain (loss) on derivatives in the consolidated statement of earnings as hedge ineffectiveness.

Interest rate derivatives: Classified as level 2, these consist of interest rate 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. At March 31, 2018, the Corporation's swap contracts have an outstanding notional value of $428,755 with a weighted average fixed interest rate of 1.60% (December 31, 2017 – 1.61%). The March 31, 2018, weighted average floating forward interest rate was 2.20% (December 31, 2017 – 2.09%).

Cross-currency interest rate swap derivatives: Classified as level 2, these consist of fixed US dollar to fixed Canadian dollar uncollateralized cross-currency interest rate swap agreements to mitigate exposure to fluctuations in future cash flows that are attributable to foreign currency risk resulting from the issuance of US denominated long-term debt. The USD $400,000 notional at 3.50% interest per annum was exchanged for CAD $511,110 at a 3.56% weighted average interest per annum through the terms of the swaps, which match the 5-year maturity of the USD senior unsecured notes. The fair value of the cross-currency interest rate swap contracts were determined by discounting the difference between the contracted prices and market based yield curves.

14. Financial instruments and risk management (continued)

Fair value of financial assets and financial liabilities (continued)

The following table represents the maturity of derivative financial instruments by risk category:

(notional in 000's)	Currency	Total	Within 1 year	1 – 5 years	Over 5 years
Foreign currency risk:					
Foreign exchange derivatives	USD	163,662	163,662	–	–
Cross-currency interest rate swap derivatives	USD	400,000	–	400,000	–
		563,662	163,662	400,000	–
Interest rate risk:					
Interest rate derivatives	CAD	428,755	56,054	332,968	39,733

15. Commitments

(a) Purchased aircraft and spare engines

At March 31, 2018, the Corporation is committed to purchase 10 787-9 Dreamliner aircraft for delivery between 2019 and 2021 and 49 737 MAX aircraft for delivery between 2018 and 2027. The Corporation is also committed to purchase one Q400 NextGen aircraft for delivery in 2018 and a total of nine Boeing and Bombardier spare engines for delivery between 2018 and 2026.

The remaining estimated deposits and delivery payments for the 60 aircraft and nine spare engines are presented in the table below. Where applicable, US dollar commitments are translated at the period end foreign exchange rate.

Within 1 year	850,583
1 – 3 years	1,457,103
4 – 5 years	993,517
Over 5 years	1,425,241
	4,726,444

(b) Leases and contractual commitments

The Corporation has entered into leases and other contractual commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and inflight entertainment. At March 31, 2018, the future payments under these commitments are presented in the table below. Where applicable, US dollar commitments are translated at the period end foreign exchange rate.

Within 1 year	273,356
1 – 3 years	348,659
4 – 5 years	162,618
Over 5 years	108,455
	893,088

(c) Letters of guarantee

At March 31, 2018, the Corporation has a revolving letter of credit facility totaling $50,000 (December 31, 2017 – $50,000). The facility requires funds to be assigned and held in cash security for the full value of letters of guarantee issued by the Corporation. At March 31, 2018, $33,283 (December 31, 2017 – $32,234) letters of guarantee were issued under the facility by assigning restricted cash.