IFRS 16 – Leases

April 10, 2019

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Caution regarding Forward-Looking Information

This presentation includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as “preliminary”, “anticipate”, “believe”, “could", “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions. You are cautioned that our expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking information.

Any forward-looking information included in this presentation is subject to and should be read in conjunction with the cautionary statements in our Annual Information Form dated March 20, 2019, and filed on SEDAR on March 29, 2019, Management Information Circular dated March 20, 2019 filed on SEDAR on April 5, 2019, Management’s Discussion and Analysis of Financial Condition and Operating Results for the years ended December 31, 2018 and 2017, and filed on SEDAR on February 5, 2019 (“Annual MD&A”), as applicable. 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 industry conditions, volatility of fuel prices, maintenance and operating costs, dependence on key markets, airports, partnerships and suppliers, loss of contracts or adverse changes to existing agreements, failure of critical systems, privacy and security of guest information, terrorism, safety incidents, currency fluctuations, interest rates, competition from other industry participants (including new entrants and more generally in regards to capacity fluctuations and the pricing environment), adverse changes to our corporate culture, internal and third-party labor matters, government regulation, stock-market volatility, weather conditions, pandemics, political or economic instability in emerging international markets, the ability to access sufficient capital from internal and external sources, the ability to service financial obligations, the risks set out under the heading “Risks and Uncertainties” in our Annual MD&A and other documents we file from time to time with securities regulatory authorities, which are available on SEDAR or, upon request, without charge from us.

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

Note: All references to dollars contained in the presentation refer to Canadian Dollars (CAD), unless otherwise noted

Important notifications

GAAP and NON-GAAP MEASURES

This presentation contains disclosure respecting non-GAAP financial measures including, without limitation, return on invested capital (ROIC); free cash flow, adjusted net debt to earnings before interest, taxes, depreciation, aircraft rent and other items (EBITDAR) and adjusted debt to equity. These measures are included to enhance the overall understanding of WestJet’s financial performance and to provide an alternative method for assessing WestJet’s operating results in a manner that is focused on the performance of WestJet’s ongoing operations, and to provide a more consistent basis for comparison between reporting periods. These measures are not calculated in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures provided by other entities. Readers are urged to review the section entitled “Reconciliation of non-GAAP and additional GAAP measures” in WestJet’s Management’s Discussion and Analysis of Financial Condition and Operating Results for the years ended December 31, 2018 and 2017, which is available under WestJet’s profile at www.sedar.com, for a further discussion of such non-GAAP measures.

KEY OPERATING INDICATORS

Key operating indicators used herein have the meanings ascribed thereto in WestJet’s Management’s Discussion and Analysis of Financial Condition and Operating Results for the years ended December 31, 2018 and 2017, under the heading “Definition of key operating indicators”.

PRESENTATION OF FINANCIAL INFORMATION

The information presented by WestJet on the International Financial Reporting Standards ("IFRS") 16 – Leases is for the sole purpose of providing our investors and others information on the expected impact of IFRS -16 on WestJet’s accounting policies and financial results for the year ended December 31, 2018. Users are cautioned that this information may not be appropriate for other purposes. The information included in today’s presentation is not final and incorporates assumptions and estimates as of February 4th, 2019 all of which may be subject to change. Circumstances could arise including changes in IFRS standards, published interpretations or other changes in regulations that could impact our assumptions and estimates. The financial impacts have not yet been subject to an external review or audit.

Today's Agenda

1. Overview of IFRS 16 - Leases
2. WestJet’s selection of accounting policy and adoption choices
3. Implications and changes to WestJet’s financial results
4. Non-GAAP reconciliations

Overview IFRS 16 – Leases

- Effective for annual periods beginning on or after January 1, 2019.
- The objective of the new standard is to move operating leases to the lessee’s balance sheet creating a lease liability and a right-of-use asset.
- Recognition exemptions exist for low value and short term leases.
- Per IFRS 16, “a contract is, or contains a lease if the contract conveys **the right to control the use of an identified asset** for a period of time in exchange for consideration”.
- Removes the previous lease classification test to determine which leases are on (finance leases) or off the balance sheet (operating leases).

Overview IFRS 16 – Leases

Initial measurement

- The lease liability is calculated as the present value of future lease payments:
  - Excluding variable lease payments other than those that are based on an index or rate.
  - The lease term includes any non-cancellable periods and optional extension periods where it is reasonably certain the extension will be taken.
  - The discount rate is based on the rate implicit in the lease and if that cannot be readily determined, the incremental borrowing rate of the lessee.
- The right-of-use asset = lease liability + initial direct costs + estimate of restoration costs - incentives received

Remeasurements

- Remeasurements occur when there are modifications to leases and treatment may differ depending on the specifics of the lease amendments.
- The impacts of the lease payment amendments are adjusted in both the lease liability and right-of-use asset based on a revised present value calculation.

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Overview IFRS 16 – Leases

Ongoing accounting

- The lease liability is measured each period using the effective interest rate method.
- The right-of-use asset is componentized under the same method as owned assets accounted for under IAS 16 – Property, Plant and Equipment.
    - These components are depreciated over the shorter of the lease term or the estimated useful life of the asset.
- Unlike the right-of-use asset, the lease liability and maintenance provision are monetary liabilities. Those balances denominated in US dollars are subject to revaluation at the period end exchange rate.

WestJet's accounting policy and adoption choices

Adoption

- The standard allows different transition options and practical expedients for lessees
  - WestJet has chosen to adopt IFRS 16 using the full retrospective approach and will apply IFRS 16 retrospectively to each reporting period.
- WestJet has elected to adopt the following practical expedients:
  - Recognition exemption for short-term and low value leases
  - On a class of underlying assets basis, the expedient to combine lease and non-lease components

WestJet's Accounting Policy - Aircraft

Componentization & Maintenance Provision

- Right of use aircraft assets will be accounted for in a consistent manner as our owned aircraft.
- Consistent with our owned aircraft, an embedded overhaul component will be recognized upon inception of the lease and the recognition of the right-of-use asset.
- Ongoing major overhaul costs will now be capitalized as leasehold improvements and depreciated over the shorter of the lease term or the expected useful life where currently we draw down the maintenance provision when incurred.
- We will continue to record a maintenance provision liability and a maintenance expense over the life of the lease for certain end-of-lease return conditions specified in the lease agreements.
- Changes to the maintenance provision assumptions are recognized immediately as a maintenance expense adjustment, consistent with today's treatment.

WestJet's Accounting Policy – Real Estate

- WestJet has a portfolio of real estate leases which relate to land leases, building space dedicated to WestJet for airport offices, storage and space for maintenance operations and parking.
- Airport terminal contracts are not considered lease contracts as the lessor has substantive substitution rights. In addition, any terminal contracts with variable lease payments that are not based on an index or a rate, are recognized as an expense when incurred.
- Contracts with mutual termination clauses of less than 12 months are expensed as incurred.
- WestJet has chosen to apply the practical expedient to combine lease and non-lease components for all real estate leases.

WestJet Impacts – Statement of Financial Position

Key changes to WestJet's Statement of Financial Position are:

- Right-of-use assets and lease liabilities as at December 31, 2018:
  - 41 leased aircraft
  - 56 leases for real estate and equipment, primarily related to land leases, building space dedicated to WestJet for airport offices, storage, space for maintenance operations and parking, and other miscellaneous equipment.
  - WestJet has three leased aircraft as part of the regional air service being provided under a capacity purchase agreement.
- Property, Plant, and Equipment has increased as a result of recording the right-of-use assets and capitalized overhauls recorded as leasehold improvements.
- A portion of the maintenance provision has been reclassified to non-current as we now provide for the end-of-lease obligation as opposed to the next leasehold improvement.
- The lease liability is mainly denominated in USD and will be revalued at the at the period end exchange rate

WestJet Impacts

Restated IFRS 16 Statement of Financial Position as at January 1, 2018 (unaudited)

(Canadian dollar in thousands)	December 31, 2017 as previously reported	Aircraft & CPA	Real Estate & Equipment Leases	January 1, 2018 as restated under IFRS 16 (unaudited)
Property and equipment	4,567,504	410,210	51,266	5,028,980
Other assets	78,584	(12,555)		66,029
Total assets	**6,522,684**	**397,655**	**51,266**	**6,971,605**
Accounts payable and accrued liabilities	546,505	3,921		550,426
Current portion of maintenance provisions	82,129	(46,729)		35,400
Current portion of long-term debt	153,149	138,943	8,137	300,229
Total current liabilities	**1,686,302**	**96,135**	**8,137**	**1,790,574**
Maintenance provisions	270,347	91,858		362,205
Long-term debt	1,895,898	281,205	49,853	2,226,956
Other liabilities	19,171		(1,607)	17,564
Deferred income tax	392,111	(19,339)	(1,383)	371,389
Total liabilities	**4,263,829**	**449,859**	**55,000**	**4,768,688**
Retained earnings	1,614,266	(52,204)	(3,734)	1,558,328
Total shareholders' equity	**2,258,855**	**(52,204)**	**(3,734)**	**2,202,917**
Total liabilities and shareholders' equity	**6,522,684**	**397,655**	**51,266**	**6,971,605**

WestJet Impacts

Restated IFRS 16 Statement of Financial Position as at December 31, 2018 (unaudited)

(Canadian dollar in thousands)	December 31, 2018 as previously reported	Aircraft & CPA	Real Estate & Equipment Leases	December 31, 2018 as restated under IFRS 16 (unaudited)
Prepaid expenses, deposits and other	190,242		(18)	190,224
Property and equipment	4,814,200	444,574	54,221	5,312,995
Other assets	118,284	(15,747)		102,537
Total assets	**6,758,055**	**428,827**	**54,203**	**7,241,085**
Accounts payable and accrued liabilities	654,422	3,645		658,067
Current portion of maintenance provisions	101,852	(79,276)		22,576
Current portion of long-term debt	536,044	143,691	9,400	689,135
Total current liabilities	**2,275,207**	**68,060**	**9,400**	**2,352,667**
Maintenance provisions	278,898	108,125		387,023
Long-term debt	1,442,913	340,862	53,050	1,836,825
Other liabilities	33,512	(20,999)	(2,250)	10,263
Deferred income tax	424,958	(18,179)	(1,619)	405,160
Total liabilities	**4,455,488**	**477,869**	**58,581**	**4,991,938**
Retained earnings	1,640,077	(49,042)	(4,378)	1,586,657
Total shareholders' equity	**2,302,567**	**(49,042)**	**(4,378)**	**2,249,147**
Total liabilities and shareholders' equity	**6,758,055**	**428,827**	**54,203**	**7,241,085**

WestJet Impacts – Statement of Earnings

Statement of earnings

- The “aircraft leasing expense” for contracts under IFRS 16 has been eliminated.
- Depreciation related to right-of-use assets is recorded in “Depreciation and amortization”
- Interest expense related to the lease liability is recorded in “Finance Costs”
- We expect more volatility in foreign exchange expense due to the revaluation of the lease liabilities which are denominated in USD and translated at the rate of exchange in effect at the date of the balance sheet.
- The right-of-use assets are based on historical rates and are not revalued at period ends.

WestJet Impacts

2018 Statement of Earnings (unaudited)

(Canadian dollar in thousands, except earnings per share)	December 31, 2018 as previously reported	Aircraft & CPA	Real Estate & Equipment Leases	December 31, 2018 as restated under IFRS 16 (unaudited)
Total Revenue	**4,733,462**	-	-	**4,733,462**
Depreciation and amortization	429,906	139,703	11,021	580,630
Aircraft leasing	139,703	(139,703)		-
Maintenance	232,053	(43,557)		188,496
Other operating expenses	3,776,573	344	(12,073)	3,764,844
Total Operating Expenses	4,578,235	(43,213)	(1,052)	4,533,970
Earnings from operations	155,227	43,213	1,052	199,492
Non-operating income (expense):				
Finance cost	(57,027)	(8,685)	(1,799)	(67,511)
Gain (loss) on foreign exchange	2,966	(30,205)	(133)	(27,372)
Other	34,716	-	-	34,716
Earnings before income tax	135,882	4,323	(880)	139,325
Income tax expense	44,417	1,160	(236)	45,341
Net earnings	**91,465**	**3,163**	**(644)**	**93,984**
Earnings per share				-
Basic	0.80	0.03	(0.01)	0.82
Diluted	0.80	0.03	(0.01)	0.82

WestJet Impacts

Key Metrics

	December 31, 2018 as previously reported	December 31, 2018 as restated under IFRS 16 (unaudited)	Variance
CASM	13.9	13.8	-1.0%
CASM, excluding fuel and employee profit share	10.11	9.98	-1.3%
Operating margin	3.3%	4.2%	0.6 pts
ROIC	5.0%	4.4%	-13%
Net debt to EBITDAR	2.40	1.59	-34%
Free cash flow	128,675	304,141	136%
Adjusted debt to equity	1.32	1.13	-15%

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Thank you

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Appendix – Non-GAAP Key Metrics

	December 31, 2018 as previously reported	December 31, 2018 as restated under IFRS 16 (unaudited)
Long-term debt	1,978,957	2,525,960
Off-balance sheet aircraft operating leases	1,047,773	-
Adjusted debt	3,026,730	2,525,960
Less: cash, cash equivalents and marketable securities	(1,279,577)	(1,279,577)
Adjusted net debt	**1,747,153**	**1,246,383**
Total shareholders' equity	2,302,567	2,249,147
Add (deduct): Hedge reserves	(6,856)	(6,856)
Adjusted equity	2,295,711	2,242,291
Adjusted debt-to-equity	**1.32**	**1.13**
Net earnings	91,465	93,984
Add:		
Net finance costs	27,606	38,090
Taxes	44,417	45,341
Depreciation and amortization	429,906	580,630
Aircraft leasing	139,703	-
Other	(4,212)	26,126
EBITDAR	**728,885**	**784,171**
Adjusted net debt to EBITDAR	**2.40**	**1.59**

Appendix – Non-GAAP Key Metrics

($ in thousands)	December 31, 2018 as previously reported	December 31, 2018 as restated under IFRS 16 (unaudited)
Operating expenses	4,578,235	4,533,970
Aircraft fuel expense	(1,231,632)	(1,231,632)
Employee profit share expense	(15,937)	(15,937)
Operating expenses, adjusted	3,330,666	3,286,401
ASMs	32,939,257,510	32,939,257,510
CASM, excluding above items (cents)	**10.11**	**9.98**
Earnings before income taxes	135,882	139,325
Add:		
Finance costs	57,027	67,511
Implicit interest in operating leases	73,344	-
Return	**266,253**	**206,836**
Invested capital:		
Average long-term debt	2,014,002	2,526,573
Average shareholders' equity	2,280,711	2,226,032
Off-balance sheet aircraft leases	1,047,773	-
Invested capital	**5,342,486**	**4,752,605**
Return on invested capital	**5.0%**	**4.4%**

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Appendix – Non-GAAP Key Metrics

($ in thousands)	December 31, 2018 as previously reported	December 31, 2018 as restated under IFRS 16 (unaudited)
Cash flow from operating activities	758,580	940,766
Adjusted for:		
Aircraft additions	(495,235)	(495,235)
Other property and equipment and intangible additions	(134,670)	(141,390)
Free cash flow	128,675	304,141

Appendix – 2018 Statement of Earnings by Quarter restated for IFRS 16 (unaudited)

(Canadian dollar in thousands, except earnings per share)	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Full Year 2018
Revenue					
Guest	1,109,307	1,039,317	1,215,223	1,119,682	4,483,529
Other	82,417	48,256	45,679	73,581	249,933
	1,191,724	1,087,573	1,260,902	1,193,263	4,733,462
Operating expenses:					
Aircraft fuel	281,151	302,261	343,276	304,944	1,231,632
Salaries and benefits	255,125	247,659	249,733	246,864	999,381
Rates and fees	168,930	175,624	185,999	160,740	691,293
Sales and marketing	119,579	98,871	107,059	114,783	440,292
Depreciation and amortization	146,499	146,184	141,931	146,016	580,630
Maintenance	49,995	35,636	30,708	72,157	188,496
Other	103,134	92,745	93,007	97,423	386,309
Employee profit share	6,384	(3,257)	8,276	4,534	15,937
	1,130,797	1,095,723	1,159,989	1,147,461	4,533,970
Earnings from operations	**60,927**	**(8,150)**	**100,913**	**45,802**	**199,492**
Non-operating income (expense):					
Finance income	6,710	7,191	6,862	8,658	29,421
Finance cost	(13,532)	(15,527)	(12,857)	(25,595)	(67,511)
(Loss) gain on foreign exchange	(7,101)	(5,718)	7,731	(22,284)	(27,372)
Gain (loss) on disposal of property and equipment	2,217	595	1,333	(96)	4,049
Gain (loss) on derivatives	65	(30)	(21)	1,232	1,246
	(11,641)	(13,489)	3,048	(38,085)	(60,167)
Earnings before income tax	**49,286**	**(21,639)**	**103,961**	**7,717**	**139,325**
Income tax expense (recovery)					
Current	7,824	(7,597)	4,507	10,078	14,812
Deferred	7,262	1,784	29,395	(7,912)	30,529
	15,086	(5,813)	33,902	2,166	45,341
Net earnings	**34,200**	**(15,826)**	**70,059**	**5,551**	**93,984**
Earnings per share:					
Basic	0.30	(0.14)	0.61	0.05	0.82
Diluted	0.30	(0.14)	0.61	0.05	0.82