

2018 Annual Report

Love where you're going

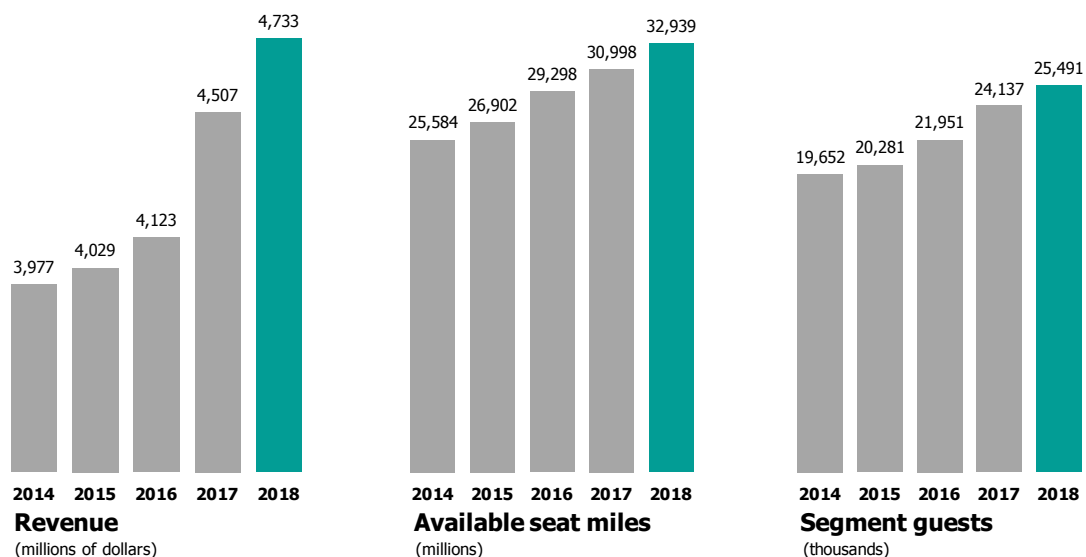
WESTJET 



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Financial Overview ⁽ⁱ⁾



(\$ in thousands, except per share data)	2018	2017 ⁽ⁱⁱ⁾	2016	2015	2014
Consolidated financial information					
Revenue	\$ 4,733,462	\$ 4,506,655	\$ 4,122,859	\$ 4,029,265	\$ 3,976,552
Earnings before income taxes	\$ 135,882	\$ 397,940	\$ 416,233	\$ 520,258	\$ 390,307
Net earnings	\$ 91,465	\$ 279,058	\$ 295,458	\$ 367,530	\$ 283,957
Adjusted net earnings	\$ 91,465	\$ 279,058	\$ 295,458	\$ 367,530	\$ 317,188
Cash and cash equivalents	\$ 1,279,577	\$ 1,373,166	\$ 1,520,822	\$ 1,183,797	\$ 1,358,071
Earnings per share					
Basic	\$ 0.80	\$ 2.40	\$ 2.46	\$ 2.94	\$ 2.22
Diluted	\$ 0.80	\$ 2.38	\$ 2.45	\$ 2.92	\$ 2.20
Adjusted diluted earnings per share	\$ 0.80	\$ 2.38	\$ 2.45	\$ 2.92	\$ 2.46
Operational highlights					
Available seat miles (ASM)	32,939,257,510	30,998,306,475	29,298,340,363	26,902,227,359	25,584,033,077
Revenue passenger miles (RPM)	27,587,366,052	25,903,948,781	23,967,614,295	21,525,979,116	20,828,992,613
Load factor	83.8%	83.6%	81.8%	80.0%	81.4%
Yield (cents)	17.16	17.40	17.20	18.72	19.09
Revenue per ASM (cents)	14.37	14.54	14.07	14.98	15.54
Cost per ASM (cents)	13.90	13.14	12.57	12.86	13.68
Cost per ASM, excluding fuel and employee profit share (cents)	10.11	9.93	9.75	9.46	9.15

(i) Please refer to page 8 of this Annual Report

(ii) Certain 2017 numbers have been restated for the adoption of IFRS 15

President's message to shareholders

In 2018, we were proud to celebrate 22 years of offering Canadians a lower-cost alternative for air travel and welcomed a record 25 million guests into our growing global network. We achieved top-line revenue growth, delivered consistent year-over-year traffic growth and achieved our highest ever full year load factor of 83.8 per cent.

We reported net earnings of \$91.5 million or \$0.80 cents per diluted share. Total revenue increased by 5.0 per cent year over year, driven by increased guest revenue and higher ancillary. In the fourth quarter of 2018, we achieved net earnings of \$29.2 million or \$0.26 cents per diluted share.

We will look back on 2018 as exciting, challenging, and a pivotal year of execution in WestJet's evolution. Throughout the course of the year, we launched Swoop and WestJet Link, announced the first destinations on our Boeing 787 Dreamliner, strengthened and deepened relationships with global partners, enhanced our loyalty program, and continued to make investments in the infrastructure and premium features required to become a high-value network carrier.

In 2018, we were also honoured to receive several awards and recognitions, which would not have been possible without the commitment and care delivered everyday by WestJetters across our network. These awards reinforce that the dynamic culture of WestJet is something that translates directly into benefit for our guests. It's something we work very hard not just to preserve but to build. In 2018, we were recognized as:

- WestJet RBC® MasterCard® named Canada's best airline rewards card by Rewards Canada;
- 2018/2017 Best Airline in Canada, 2018 Travellers' Choice Winner – North America and 2018 Travellers' Choice Winner – Economy, North America by TripAdvisor Travellers' Choice awards for airlines;
- Bombardier 2017 Airline Reliability Performance award winner (WestJet Encore);
- North America's Best Low-Cost Airline at Skytrax's 2018 World Airline Awards;
- Canada's Most Trusted Airline (Peter B. Gustavson School of Business at the University of Victoria) for the third year in a row;
- Best Use of Influencers, Best Airline in Driving Revenue, Best Overall Airline and Hall of Fame inductee at Simplifying Awards;
- Top Three Best Workplaces in Alberta by Indeed, Canada; and
- Best Low-Cost Airline (Americas) by AirlineRatings.com.

2018 was not without its challenges. We faced compounding headwinds which culminated in us slowing capacity growth in the fourth quarter. Recently, our business has not performed to where we believe we could and should perform. To reverse this trend, we have taken a proactive approach to margin expansion and are in the early stages of turning around our financial results. We are confident in the underlying strength of the fundamentals of our business model, our ability to withstand and adapt to a tougher competitive and economic environment and our ability to execute on our strategic initiatives.

In 2018, we were proud to exceed our \$60 million-dollar cost reduction target through our Owner's Mindset program and are confident that we will deliver our target of \$200 million by 2020. We also continued to make investments in the infrastructure required to diversify into new geographies, effectively segment our guests, improve the quality of our revenue and reduce our dependency on individual routes or regions within our network.

As of December 31, 2018, we now have two flagship brands in WestJet and Swoop, sell seats in three different cabins across seven different fare bundles, have four tiers within our loyalty program and serve over 100 destinations in 22 countries. We are creating a sustainable business that can be both a provider of low fares to price-sensitive guests and a provider of a suite of elevated products to guests who value and are willing to pay for a premium experience. We are cognizant that this premium business must be earned, but we are already seeing early results that validate our direction.

Turning to our network, we were extremely excited to share our first three destinations on our new Boeing 787-9 Dreamliner, augmenting non-stop service from Calgary to London (Gatwick) and announcing new non-stop service from Calgary to Paris, France and Dublin, Ireland, commencing in spring 2019. We also announced non-stop service from Toronto to Barcelona and Calgary to Atlanta. As we embark on the next phase of growth and extend to global destinations we are committed to maintaining our award-winning service while increasing connectivity through our hubs and reliability across our entire schedule.

Helping to maximize connectivity and feed guests through our network is WestJet's regional airline, WestJet Encore, who celebrated five years of bringing choice and competition to regional markets across Canada in 2018. Since its launch in 2013, powered by Canadian-made Bombardier Q400 aircraft, WestJet Encore has lowered airfares by as much as 50 per cent while stimulating travel by as much as 90 per cent in small and medium-sized communities where populations are not large enough to sustain larger jet aircraft. In 2018, we further enhanced our regional presence with the launch of WestJet Link, our first third-party capacity purchase agreement with Pacific Coastal Airlines on their fleet of 34-seat Saab 340B aircraft. In its first half year of operations WestJet Link has exceeded expectations and continues to bring high yield guests into our network. Based on this early success, we are now evaluating expansion in Calgary and Western Canada as well as further opportunities across Canada.

We launched WestJet's wholly owned subsidiary Swoop in June 2018. As at December 31, 2018 Swoop operated six aircraft providing service to 14 destinations and 18 markets across 4 countries. We are pleased with the first half-year of Swoop's operational and financial performance. As we enter 2019, Swoop will grow to ten aircraft and continue to bring another segment of traveller into the WestJet group while leveraging the lowest costs in the Canadian aviation industry.

Complementary to our global growth ambitions, we continue to align ourselves with powerful partners who help to further strengthen and de-risk our global and premium initiatives. In 2018, we officially submitted our proposal to form a joint-venture with our codeshare partner Delta Air Lines on Transborder routes between Canada and the United States. We signed a new long-term agreement with MasterCard on our award-winning travel rewards credit-card, the WestJet RBC MasterCard. The extension of this partnership provides certainty, value and growth while further strengthening our coalition with RBC and MasterCard. Our joint platform, the WestJet RBC World Elite Mastercard has continued its success growing by an average compound annual growth rate of 40% over the last five years, compared to other industry travel card growth of just 9% over the same period. In 2018, we unveiled a new Platinum rewards tier featuring even more benefits for frequent travellers, enhanced benefits to our Gold and Silver tiers and welcomed more members to Gold by lowering qualifying spend by \$1,000. We are not only enhancing the attractiveness of our program for both leisure and premium guests, but are also building an extremely competitive and transparent dollar based loyalty program that provides our guests with unlimited flexibility and choice while removing the concept of blackout periods and the opacity that comes with mileage based schemes.

We remain committed to returning value to shareholders. Through our normal course issuer bids, we repurchased and cancelled 3,648,151 shares through the program over the past two years. When combined with our dividend, we returned over \$200 million to shareholders over the same period. As of December 31, 2018, the combined effect of these two distributions since we initiated them in November 2010 has resulted in WestJet returning over \$1 billion to our shareholders.

In closing, I want to reiterate that we are highly focused on the creation of shareholder value and have a very clear vision of strategic execution over not just the next financial year, but over the 20+ year life of our newest asset, the Boeing 787-9 Dreamliner. We are running the business to achieve our long-term financial, operational and guest satisfaction targets and continue to build momentum. We now look forward to a successful 2019 and beyond.

On behalf of the Board of Directors, the Executive leadership team, and more than 14,000 WestJetters, thank you for your continued support of our airline.



Ed Sims

President and Chief Executive Officer

February 5, 2019

Caution regarding forward-looking statements

This president's message to shareholders contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation our expectations regarding: long term financial and performance targets; financial and operating performance including around the impact of our Owner's mindset program; timing and impact of new facilities and infrastructure; timing and impact of introducing new, and building upon existing, aircraft, destinations, technologies and initiatives; impact of our guest experience, marketing and branding strategy; expansion in existing and new markets and our ability to create demand in those markets; success of our competitive strategy; continued operation and impact of WestJet Link; consummation and impact of the Delta joint venture; our airline, loyalty and other strategic partnerships; our fleet and ownership mix; aircraft deliveries; future acquisitions, dispositions, option exercises and other access to fleet flexibility; operation and performance of Swoop; our ability to continue to our expectations regarding our internal control over financial reporting and ability to maintain compliance with accounting standards and adoption of new accounting standards; our ability to access financing; fuel prices; the value of the Canadian dollar; receipt of governmental certifications and the absence of material adverse regulatory changes; and outcome and impact of ongoing legal proceedings. By its nature, forward-looking information is subject to numerous risks and uncertainties, some of which are beyond WestJet's control. The forward-looking information is based on the terms of our agreements; our ability to execute on our strategic plans and initiatives; the expected demand environment; our assessment of and access to meet infrastructure requirements; our forecasts and budgets concerning financial performance and capital expenditures; our assessment of the markets in which we operate or plan to operate; our assessment of the economic environment in Canada, foreign exchange rates and fuel prices; our discussions with governmental agencies and contractual counterparties; current legislation and expectations regarding legislative changes; and our assessment of legal proceedings, but may vary due to factors including, but not limited to changes in fuel prices, changes in guest demand, general economic conditions, competitive environment, ability to effectively implement and maintain critical systems, ability to successfully negotiate and effectively implement new partnering relationships, regulatory approvals and requirements, and other factors described in WestJet's public reports and filings, which are available on WestJet's profile at sedar.com. Readers are cautioned that undue reliance should not be placed on forward-looking information as actual results may vary materially from the forward-looking information. WestJet does not undertake to update, correct or revise any forward-looking information as a result of any new information, future events or otherwise, except as may be required by applicable law.

Non-GAAP measures

This president's message to shareholders contains disclosure respecting non-GAAP measures including, without limitation, adjusted diluted earnings per share and ROIC. Non-GAAP measures are included to enhance the overall understanding of our financial performance or current financial condition. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations, and to provide a more consistent basis for comparison between 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.



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

For the years ended December 31, 2018 and 2017

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Advisories

The following Management's Discussion and Analysis of Financial Condition and Operating Results (MD&A), dated February 4, 2019, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as WestJet's audited consolidated financial statements and notes thereto, for the years ended December 31, 2018 and 2017. Except as otherwise noted, all financial information has 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 the documents we file from time to time with Canadian securities regulatory authorities, which are available on SEDAR at sedar.com or, upon request, without charge from us. Readers are urged to consult the disclosures provided below for important information respecting material risks and uncertainties applicable to our forward-looking information.

The disclosure found under the heading *Outlook* in this MD&A, including the guidance summary for the three months ended March 31, 2019 and the year ended December 31, 2019 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 in the *Outlook* section in this MD&A may not be appropriate for other purposes and is expressly qualified by this cautionary statement. Please refer to page 54 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 otherwise update 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 to provide a more consistent basis for comparison between periods. These measures are not in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures presented by other entities.

Please refer to pages 57 and 59 of this MD&A for definitions of the non-GAAP measures and 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; diluted operating cash flow per share; adjusted net earnings, adjusted diluted earnings per share, and adjusted earnings before income tax (EBT) margin, 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 and other items (EBITDAR), adjusted net debt to adjusted EBITDAR and the cash to trailing twelve months revenue ratio.

Included in net income for the year ended December 31, 2014, is an after-tax \$33.2 million non-cash loss associated with the sale of 10 aircraft to Southwest Airlines being classified to assets held for sale. As this non-cash loss is a non-recurring item we have adjusted certain non-GAAP measures to remove this item so as to improve comparability of such measures between periods. In the fourth quarter of 2014, this resulted in the presentation of new non-GAAP measures or a change in composition of certain non-GAAP measures including: adjusted net debt to adjusted EBITDAR, adjusted EBT margin, adjusted net earnings, and adjusted diluted earnings per share, all of which exclude this non-cash loss (pre-tax or after-tax depending on the measure).

Definitions

Various terms used throughout this MD&A are defined at page 57 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, WestJet Encore, a regional airline which operates a fleet of turboprop aircraft in a network of destinations in Canada and the United States, and Swoop, an ultra-low-cost carrier (ULCC), which was launched in June 2018 to provide affordable air transportation to the most price-sensitive travellers.

As of December 31, 2018, our airline offered scheduled service to over 100 destinations in North America, Central America, the Caribbean and Europe with our fleet of 115 Boeing 737 Next Generation (Boeing 737 NG) aircraft, 11 Boeing MAX 737 (Boeing MAX) aircraft, 47 Bombardier Q400 (Q400) aircraft and four wide-body, Boeing 767-300 ERW (Boeing 767) aircraft. When including connectivity provided through our airline partners, including our expanded codeshare agreements, we serve over 240 destinations. We will continue to build diversity and frequency in our network through portfolio management of our fleet.

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.

Our 2022 vision focuses 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

Select annual financial information and operational highlights for WestJet for the past five years are as follows:

(\$ in thousands, except per share amounts and unless otherwise noted)		2018	2017 ⁽ⁱ⁾	2016	2015	2014
Financial highlights	Revenue	4,733,462	4,506,655	4,122,859	4,029,265	3,976,552
	Operating expenses	4,578,235	4,073,890	3,682,762	3,459,512	3,501,081
	Earnings from operations	155,227	432,765	440,097	569,753	475,471
	Operating margin	3.3%	9.6%	10.7%	14.1%	12.0%
	Earnings before income taxes (EBT)	135,882	397,940	416,233	520,258	390,307
	Adjusted EBT ⁽ⁱⁱ⁾	135,882	397,940	416,233	520,258	435,766
	EBT margin ⁽ⁱⁱ⁾	2.9%	8.8%	10.1%	12.9%	9.8%
	Adjusted EBT margin ⁽ⁱⁱ⁾	2.9%	8.8%	10.1%	12.9%	11.0%
	Net earnings	91,465	279,058	295,458	367,530	283,957
	Adjusted net earnings ⁽ⁱⁱ⁾	91,465	279,058	295,458	367,530	317,188
	Earnings per share:					
	Basic	0.80	2.40	2.46	2.94	2.22
	Diluted	0.80	2.38	2.45	2.92	2.20
	Adjusted diluted ⁽ⁱⁱ⁾	0.80	2.38	2.45	2.92	2.46
	ROIC ⁽ⁱⁱ⁾	5.0%	9.8%	11.3%	15.3%	14.3%
	Cash, cash equivalents and marketable securities	1,279,577	1,373,166	1,520,822	1,183,797	1,358,071
	Total assets	6,758,055	6,522,684	6,164,296	5,129,024	4,646,433
	Total long-term liabilities	2,180,281	2,577,527	2,482,261	1,617,106	1,530,630
	Cash dividends declared per share ⁽ⁱⁱⁱ⁾	0.56	0.56	0.56	0.56	0.48

		2018	2017 ⁽ⁱ⁾	2016	2015	2014
Operational highlights	ASMs	32,939,257,510	30,998,306,475	29,298,340,363	26,902,227,359	25,584,033,077
	RPMs	27,587,366,052	25,903,948,781	23,967,614,295	21,525,979,116	20,828,992,613
	Load factor	83.8%	83.6%	81.8%	80.0%	81.4%
	Yield (cents)	17.16	17.40	17.20	18.72	19.09
	RASM (cents)	14.37	14.54	14.07	14.98	15.54
	CASM (cents)	13.90	13.14	12.57	12.86	13.68
	CASM, excluding fuel and employee profit share (cents) ⁽ⁱⁱ⁾	10.11	9.93	9.75	9.46	9.15
	Fuel consumption (litres)	1,523,700,982	1,482,849,838	1,405,488,934	1,278,079,174	1,214,001,002
	Fuel costs per litre (cents)	81	64	54	64	90
	Segment guests	25,491,290	24,137,477	21,951,463	20,281,376	19,651,977
	Average stage length (miles)	860	879	911	910	936
	Departures	268,232	249,709	227,866	209,770	192,858
	Utilization (hours)	10.9	11.2	11.2	11.6	11.8
	Full-time equivalent employees at period end	11,624	11,089	9,988	9,211	8,698
	Fleet size at period end	177	168	153	140	122

- (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. Periods prior to 2017 have not been restated for the adoption of the IFRS 15. Please refer to page 50 for a description of the restatements performed under IFRS 15.
- (ii) Please refer to page 59 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.
- (iii) Identical dividends are paid on our common and variable voting shares.

Annual Overview

2018 represented a pivotal year for WestJet as we continued to transition to our revised strategy as a global airline with an increasing focus on premium travellers, as well as the launch of new regional service under WestJet Link and our ultra-low-cost-carrier (ULCC), Swoop. The investment in these initiatives resulted in a significant increase in costs during the year, and when combined with the impact of challenges related to the unionization of various labour groups within WestJet, rising fuel costs and increased domestic competition, resulted in unfavourable impacts to net earnings and other profitability metrics for the year ended December 31, 2018. We ended the year with net earnings of \$91.5 million and annual diluted earnings per share of \$0.80.

We returned approximately \$66.2 million to our shareholders through our dividend and share buy-back programs in 2018. Since these programs began in 2010, we have returned over \$1,163.9 million to our shareholders. At December 31, 2018, our annual ROIC was 5.0 per cent, which represents a decrease of 4.8 percentage points compared to our 2017 annual ROIC of 9.8 per cent. We expect our ROIC to return to double-digits in 2020 and reach 13.0 per cent in 2022.

2018 Summary

- Earned total revenue of \$4,733.5 million, an increase of 5.0 per cent from \$4,506.7 million in 2017.
- Increased capacity, measured in available seat miles (ASMs), by 6.3 per cent over 2017.
- Increased traffic, measured in revenue passenger miles (RPMs), by 6.5 per cent over 2017.
- Realized yield of 17.16 cents, down 1.4 per cent from 17.40 cents 2017.
- Realized RASM of 14.37 cents, down 1.2 per cent from 14.54 cents in 2017.
- Realized CASM of 13.90 cents, up 5.8 per cent from 13.14 cents in 2017.
- Realized CASM, excluding fuel and employee profit share, of 10.11 cents, up 1.8 per cent from 9.93 cents in 2017.
- Recorded an operating margin of 3.3 per cent, down 6.3 percentage points from 9.6 per cent in 2017.
- Recorded EBT margin of 2.9 per cent, down 5.9 percentage points from 8.8 per cent in 2017.
- Reported net earnings of \$91.5 million, a decrease of 67.2 per cent from \$279.1 million in 2017.
- Reported diluted earnings per share of \$0.80, a decrease of 66.4 per cent from \$2.38 per share in 2017.

Please refer to page 59 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

WestJetters

To guide our transition to a global airline, we have assembled an executive leadership team with over 150 years of aviation experience. Following the retirement of Gregg Saretsky in March 2018, Ed Sims, former EVP, Commercial, was named President and Chief Executive Officer and was also appointed as a director of the Company. We were also excited to announce the following new executive leadership members during the year:

- Steven Greenway – Executive Vice President (EVP), President Swoop, effective March 5, 2018;
- Captain Jeffrey Martin – EVP, Chief Operating Officer, effective September 24, 2018; and
- Arved von zur Muehlen – EVP, Chief Commercial Officer, effective January 2, 2019.

Further to these additions to the executive team, on October 4, 2018, former recipient of Canada's CFO of the Year and Canada's Most Powerful Women: Top 100 Hall of Fame inductee, Colleen Johnston, was appointed to our Board of Directors. Effective August 1, 2018, Charles Duncan, former EVP and President Encore, was appointed EVP, Chief Strategy Officer following the retirement of Bob Cummings, former EVP, Strategy and Guest Services. Finally, Cam Kenyon, former EVP, Operations, departed WestJet in August 2018 following the expiration of his contract.

In June 2018 we celebrated the fifth anniversary of the launch of our regional airline, WestJet Encore. Over the past five years, WestJet Encore has grown from a fleet of two Q400 aircraft serving five destinations in Western Canada, to operating over 250 flights every day with a fleet of 47 Q400 aircraft, connecting over 16 million guests to destinations across Canada and the United States. The successful growth of our WestJet Encore operations has contributed to the growth in WestJet's overall network, providing feeder traffic into our domestic hub airports from the smaller regions of Canada.

Throughout 2018, we were honoured to receive numerous awards and recognitions, which would not have been possible without the commitment and care delivered by our over 14,000 WestJetters:

- WestJet RBC® MasterCard® named Canada's best airline rewards card by Rewards Canada;
- 2018/2017 Best Airline in Canada, 2018 Travellers' Choice Winner – North America and 2018 Travellers' Choice Winner – Economy, North America by TripAdvisor Travellers' Choice awards for airlines;
- Bombardier 2017 Airline Reliability Performance award winner (WestJet Encore);
- North America's Best Low-Cost Airline at Skytrax's 2018 World Airline Awards;
- Canada's Most Trusted Airline (Peter B. Gustavson School of Business at the University of Victoria) for the third year in a row;
- Best Use of Influencers, Best Airline in Driving Revenue, Best Overall Airline and Hall of Fame inductee at Simplifying Awards;
- Top Three Best Workplaces in Alberta by Indeed, Canada; and
- Best Low-Cost Airline (Americas) by AirlineRatings.com.

On July 31, 2018, the Canadian Union of Public Employees (CUPE) was certified as the bargaining agent for WestJet cabin crew members, excluding WestJet Encore and Swoop cabin crew members. In August 2018 the Canadian Air Line Dispatchers Association (CALDA) were certified as the bargaining agent for WestJet flight dispatchers. The collective bargaining process for both labour relations groups are scheduled to commence in early 2019. On December 21, 2018, WestJet received the decision of the arbitrator in the interest arbitration between WestJet, Swoop and the Air Line Pilots Association (ALPA). The decision is binding on all parties and sets the terms for the first collective agreement, including terms and conditions of employment for pilots at WestJet and Swoop. There are no terms in the agreement which are retroactive. WestJet Encore pilots are also represented by ALPA in a separate bargaining unit, which is currently engaged in collective bargaining with the Company.

Going global and premium traveller

In 2018, we unveiled our refreshed brand reflecting our global growth strategy aimed at international and premium guests which included refreshed fare bundles and an update to the tiers included under our WestJet Rewards program. We also updated our livery reflecting our transition from a regional airline with operations limited to Western Canada in 1996, to a global airline with flights spanning across North America, South America, the Caribbean and Europe. The new livery will gradually appear across our entire fleet as new aircraft are delivered, and as aircraft are repainted in their normal cycle.

We introduced new cabin interior and configurations, including our first-ever business class cabin which will be available on our Boeing 787-9 Dreamliner (Boeing 787) aircraft. Our Boeing 787s will feature a three-class cabin configuration including business class, premium economy and economy seating. Business class will feature touchscreen service, on-demand dining

and lay-flat mattresses, bedding and turn-down service. Premium economy will offer comfort enhancements relative to economy class, a premium menu and a self-serve social area with more room to move around and relax. In the economy cabin, guests will enjoy oversized, self-dimming windows, leading-edge inflight entertainment system and connectivity with in-seat device charging.

In 2019 and 2020, we will also be upgrading our current Boeing 737 fleet as part of our continued focus on attracting premium travellers and business class guests, increasing our revenue generating opportunities and ensuring a seamless guest experience across our entire fleet and network offerings. We are replacing our current Plus section with a new Premium cabin as our new configuration, comprised of a dedicated and divided cabin with 2x2 seating. This new configuration is available on our most recent Boeing MAX deliveries with the rest of our Boeing 737 fleet scheduled to be retrofitted throughout 2019 and 2020.

In the third quarter of 2018, we updated our existing fare classes in preparation for our Boeing 787 deliveries, allowing us to implement a multi-cabin configuration in our booking systems and to align with industry standards. Our new fare classes reflect the introduction of Business and BusinessFlex fares, which will be available on flights operated on our Boeing 787 aircraft. Our Plus fare has been renamed Premium and PremiumFlex, offering guests additional leg and elbow room, checked bag allowances and complimentary inflight food and beverage service. Our Econo and EconoFlex fares offer our lowest levels of bundled services, providing guests with our standard onboard food and beverage options, access to our inflight entertainment system and is the lowest fare class guests are eligible to earn WestJet Rewards. Flex fares within the above categories offer the ability for guests to change or cancel itineraries for no additional fee. Our new Basic fare includes additional restrictions relating to itinerary changes or cancellations, inability to 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, leverages WestJet's growing network to stimulate new air travel demand with attractive prices and to compete in the price-sensitive segment of the market.

WestJet Rewards program

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 and when combined with our strengthened relationships with a number of our global airline partners, including Air France-KLM, Delta Air Lines and Qantas Airways (Qantas), we offer expanding opportunities to earn and redeem WestJet dollars on flights operated by our airline partners, as well as providing additional benefits such as the annual companion flight, free first checked bag and welcome WestJet dollars. In the fourth quarter of 2018, we announced the long-term extension of our partnership agreement with Mastercard on its travel rewards credit cards, RBC® World Elite MasterCard[±] and WestJet RBC® MasterCard[±].

In the fourth quarter of 2018, we introduced our newest WestJet Rewards tier, Platinum, which offers the highest WestJet dollar earn rates and benefits, including access to priority services such as a dedicated support number, an unlimited number of advance seat selections, additional checked baggage allowance, lounge access and complimentary upgrades to our Premium cabin with the purchase of EconoFlex fares. Changes within our other WestJet Rewards tiers allow for the more frequent issuance of milestone rewards, such as companion vouchers. Future enhancements to WestJet Rewards are anticipated throughout 2019, including enhanced lounge benefits, additional priority services, the introduction of a comprehensive upgrade program, improved self-serve automation features, as well as reciprocal tier benefits with, Delta Air Lines.

Swoop

In June 2018, we launched Swoop, Canada's leading ultra-low-cost airline, offering point-to-point scheduled service to 14 destinations in Canada, the US, Mexico and the Caribbean on a modern fleet of high-density Boeing 737-800NG aircraft. As at December 31, 2018, Swoop had a total fleet of six aircraft, purchased from WestJet, and expects to grow to a total fleet size of 10 aircraft by the end of 2019. Swoop offers completely unbundled products and services, allowing travellers to purchase only the amenities they desire through Swoop's website or mobile app. Through the mobile app, travellers can purchase inflight entertainment and internet connectivity features, book flights, manage itineraries and boarding passes and check-in for their flights. Since launch, Swoop has expanded its offering of ancillary products and services available for purchase to

include the ModIFly feature, which must be purchased for all travellers on a single itinerary and allows for a one-time change to flight date and/or time up to 24 hours prior to departure. This feature provides additional flexibility when desired and allows travellers to further customize their flight experience.

Network

Throughout 2018 we implemented several initiatives to support our hub network strategy and provide both our premium and leisure travellers with strong connectivity and schedule frequency, including the launch of WestJet Link, entry into a joint venture agreement with Delta Air Lines, expansion of our codeshare agreement with Qantas, the launch of our ULCC, Swoop, and the continued expansion of our international network through service to new global destinations serviced by our future deliveries of Boeing 787 aircraft.

To further strengthen our competitive position in our transborder and international markets and enable future growth in these markets, WestJet has focused on developing strong strategic relationships with certain airline partners through the development of a joint venture arrangement with Delta Air Lines and expanded codeshare agreements with Qantas. In the third quarter of 2018, we signed a definitive agreement with Delta Air Lines to create a transborder joint venture arrangement, which will result in expanded codesharing, access to an extensive transborder route network, better flight connections, enhanced frequent flyer benefits and shared airport facilities and amenities. The proposed arrangement has been submitted for review to competition and regulatory authorities in both Canada and the US, and we expect approval to be received in late 2019. During 2018, we also expanded our codeshare agreement with Qantas, providing our guests access to flights operated between Los Angeles and the Australian destinations of Sydney, Melbourne and Brisbane.

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. Highlights of changes to our schedule announced during the year included service to new domestic (Terrace), transborder (Atlanta and Denver) and international (Barcelona and Paris) destinations. Additionally, we continued to implement improvements to our schedule to enhance connectivity and increase frequency from each of our domestic hub airports to a number of transborder and sun destinations, including service between Saskatoon and Orlando and Calgary to Montego Bay. Our winter schedule released in the fourth quarter of 2018 also reflects the reduction of capacity on certain domestic routes, and redeployment of capacity to more profitable routes resulting in yield improvement during the quarter.

In June we launched our new regional air service, WestJet Link, under our first capacity purchase agreement (CPA). WestJet Link flights are operated by Pacific Coastal Airlines on their fleet of 34-seat Saab 340B aircraft providing year-round non-stop service from Calgary to five destinations, including Lethbridge, Lloydminster, Medicine Hat, Cranbrook and Prince George.

Also, in June, we celebrated the successful launch of our ULCC, Swoop, which in two full quarters of operations has grown to a fleet of six Boeing 737-800NG aircraft. Swoop commenced service with an initial network of five Canadian destinations, including Abbotsford, Edmonton, Halifax, Hamilton and Winnipeg. In the third quarter of 2018, Swoop expanded their network to include transborder routes to five US destinations; Mesa (Phoenix) from Edmonton, Las Vegas from Abbotsford, Edmonton and Hamilton, and Fort Lauderdale, Orlando and Tampa Bay from Hamilton. After temporary regulatory approval delays, Swoop commenced transborder service on October 27, 2018. Following their expansion to the US, Swoop announced service to four sun destinations: Montego Bay, Jamaica commencing in December 2018 and service to three Mexican destinations (Cancun, Mazatlán and Puerto Vallarta), commencing January 2019. Subsequent to the end of the year, as part of their summer schedule, Swoop announced new domestic service to Kelowna and London, as well as an additional transborder destination, Oakland.

In October 2018, we announced the routes that will be serviced by our first three Boeing 787 aircraft, with new non-stop service starting in the spring of 2019 from Calgary to European destinations including London (Gatwick), Paris and Dublin. WestJet is investing in Alberta to bring further economic growth, boost tourism to the province, and further position our city as an international aviation hub. By servicing these destinations to start, we are able to capitalize on current business processes at known airports, taking advantage of existing infrastructure.

Subsequent to the end of the year, we released our schedule for the 2019 summer months, which included the announcements of new service from key business and leisure markets, including two new destinations: Austin, Texas and Portland, Oregon.

Fleet

During the year, we took delivery of our final two purchased Q400 aircraft and two leased Q400 aircraft to end the year with a total of 47 Q400s. Additionally, we took delivery of seven Boeing MAX aircraft, while returning two leased Boeing NG aircraft to end the year with a total of 126 Boeing narrow-body aircraft. We also executed lease extensions on a total of eight aircraft leases scheduled to expire in 2018 and 2019, for periods ranging from approximately four years to 11 years and executed lease agreements for two Boeing MAX-8 aircraft with scheduled delivery in 2019. Subsequent to the end of the year, we received delivery of our first Boeing 787 aircraft, financed under a sale and operating leaseback arrangement. As our fleet, including our future deliveries of Boeing MAX and Boeing 787 aircraft, continues to expand, we expect to establish additional profitable routes in Canada, the US and internationally. Our evolving aircraft mix allows us to provide increased route frequency, increased non-stop routes and improved scheduling times and connectivity to our guests.

Business development

In the second quarter of 2018, we launched a cost savings and margin improvement initiative to refocus our airline on cost control which continues to be of increasing importance in an environment of rising fuel costs, increased domestic competition and the uncertain future cost impact of ongoing contract negotiations with various labour groups within WestJet. Through this initiative, we have implemented numerous margin enhancing changes, including the alignment of our guest atonement and re-accommodation policies related to uncontrollable flight delays or cancellations to that of our competitors, capacity reductions on less profitable routes, reduction of buy-on-board product wastage, enhanced collection of fees as well as reducing weight on our aircraft. Throughout 2018 we identified and implemented approximately \$64.3 million in margin improvement opportunities, which exceeded our targeted goal of \$60.0 million in 2018, and are on track to achieve our 2019 and 2020 targets, resulting in \$200.0 million annualized savings by the year 2020.

In August 2018, we launched Juliet, a text-based, artificial intelligence powered chatbot. Juliet is available in both English and French, through Facebook Messenger, and enables guests to easily manage many aspects of their trip, including: destination inspiration and discovery, flight booking and day-of travel information and many of the simpler questions encountered by our guests. This allows our Contact Centre to focus on more complex guest issues. Juliet is one example of our ongoing focus on digital innovations and projects.

In the third quarter of 2018, following the implementation of all required safety and training programs, our WestJet Cargo operations obtained approval from Transport Canada to accept and transport dangerous goods in the cargo holds of our aircraft at a number of locations. This certification allows us to transport cargo such as pharmaceuticals, lithium ion batteries contained in equipment, dry ice, internal combustion engines, as well as WestJet aircraft parts. Our cargo operations will continue to play an important role in our future expansion and growth as we continue to add new destinations and new aircraft to our growing network.

Outlook

For the first quarter of 2019, we expect system-wide capacity to grow between 5.5 and 6.5 per cent year over year, and domestic capacity to be flat to up 1.0 per cent. In the first quarter, our capacity growth is driven by the incremental capacity associated with Swoop, a shift in mix to high-demand leisure destinations and densification of our narrow-body aircraft. For the full-year 2019, we now anticipate system-wide capacity growth of between 6.0 and 8.0 per cent, down from previous guidance of up 6.5 per cent to 8.5 per cent, driven by the continuation of tactical adjustments to our schedule in response to current competitive and economic conditions. We continue to expect domestic capacity growth of between 1.0 and 3.0 per cent year over year. Growth in 2019 is entirely attributed to the launch of transatlantic service on our Boeing 787 aircraft and the incremental capacity associated with Swoop increasing to ten aircraft.

For the first quarter of 2019, we expect year-over-year RASM to be up 0.5 to 2.5 per cent driven by solid demand, strength in WestJet's core business, multi-cabin configuration of our revenue management and reservation systems, branded fares and Swoop operating with six aircraft which has a dilutive effect on overall RASM performance. For the full-year 2019, we continue to anticipate RASM to be up 2.0 to 4.0 per cent year over year driven by solid demand, strength in the core WestJet business, the roll-out of branded fares across all WestJet operated routes, the increase in WestJet's first bag fee, Swoop ancillary per traveller increasing to \$40 and the introduction of premium and business cabins on the Boeing 787, offset by the incremental capacity associated with Swoop increasing to ten aircraft which has a dilutive effect on overall RASM performance.

Turning to expenses, for the first quarter and full-year 2019, we expect CASM, excluding fuel and employee profit share, to be flat to up 2.0 per cent year over year driven by continued investment in the business to support the Boeing 787 and the infrastructure required to deliver on our strategic plan, the estimated impact of agreements with unions representing employee groups and Swoop operating with six aircraft in the first quarter, increasing to ten by year end, which has a dilutive effect on overall CASM performance.

For the first quarter of 2019, we expect fuel costs to range between 76 and 78 cents per litre, representing a year-over-year increase of approximately 4 to 7 per cent. The first quarter 2019 expected fuel costs are based on current forecasted jet fuel prices of US \$80 per barrel and an average foreign exchange rate of approximately 1.32 Canadian dollars to one US dollar.

For the full-year 2019, we continue to expect capital expenditures of between \$1.0 billion and \$1.2 billion driven by deposits and acquisition of Boeing MAX and Boeing 787 aircraft. For the first quarter of 2019, we expect our capital expenditures to be between \$515 million and \$535 million.

We continue to anticipate our annual effective consolidated income tax rate for the full year 2019 to be in the range of 29 to 31 per cent.

The first quarter and full-year 2019 expected CASM, excluding fuel and employee profit share and capital expenditures are based on an average forecasted foreign exchange rate of approximately 1.32 Canadian dollars to one US dollar.

Guidance summary⁽ⁱ⁾

		Three months ended March 31, 2019	Year ended December 31, 2019
Guidance summary	RASM	Up 0.5% to 2.5%	Up 2.0% to 4.0%
	Fuel cost per litre	76 to 78 cents	
	CASM, excluding fuel and employee profit share	Flat to up 2.0%	Flat to up 2.0%
	System capacity	Up 5.5% to 6.5%	Up 6.0 to 8.0%
	Domestic capacity	Flat to up 1.0%	Up 1.0% to 3.0%
	Effective tax rate		29% to 31%
	Capital expenditures	\$515.0 to \$535.0 million	\$1.0 to \$1.2 billion

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

2018 Results of Operations

Capacity

For the year ended December 31, 2018, our overall capacity increased by 6.3 per cent from 2017 primarily due to the delivery of additional Boeing MAX aircraft and Q400 aircraft during the year (please refer to the *Fleet* section in this MD&A on page 34), the launch of Swoop, as well as the launch of our new regional service, WestJet Link, with flights operated by Pacific Coastal Airlines using its fleet of Saab 340B aircraft.

The following table depicts our capacity allocation between our domestic and transborder and international markets for the years ended December 31, 2018 and 2017:

	2018		2017		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	17,226,102,529	52.3%	16,487,095,479	53.2%	4.5%
Transborder and international	15,713,154,981	47.7%	14,511,210,996	46.8%	8.3%
Total	32,939,257,510	100.0%	30,998,306,475	100.0%	6.3%

A significant portion of our domestic capacity growth in 2018 was the result of additional transcontinental Canada routes, serviced by Swoop on high-density Boeing 737-800 aircraft, as well as the launch of WestJet Link, our regional air service in Western Canada, operated under our first capacity purchase agreement. Both initiatives launched in June 2018 and further complemented the schedule enhancements at each of our three primary domestic hub airports to provide our premium and business guests improved flight schedules and connectivity across our network. These increases were partially offset by capacity reductions on less profitable routes during the period under our cost-saving initiatives to alleviate the effect of over-capacity in the domestic region during the year.

Transborder and international capacity growth during 2018 was due primarily to the introduction of additional routes to key US business and sun destinations in the transborder market, fourth quarter transborder service by Swoop and expanded service to international sun destinations and Europe.

Traffic

The following tables depict our traffic allocation between our domestic and transborder and international markets for the years ended December 31, 2018 and 2017:

	2018		2017		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	13,724,342,397	49.7%	13,119,757,851	50.6%	4.6%
Transborder and international	13,863,023,655	50.3%	12,784,190,930	49.4%	8.4%
Total	27,587,366,052	100.0%	25,903,948,781	100.0%	6.5%

For the year ended December 31, 2018, domestic traffic, measured in RPMs, increased 4.6 per cent year over year compared to the 4.5 per cent increase in capacity, driven by strong load factor performance in the first half of the year. Increased use of promotional fares in the second quarter of 2018 largely helped to offset the impact of threatened industrial action during the second and third quarters and impact of over-capacity in the region. During the fourth quarter of 2018, with the commencement of our winter schedule, capacity reductions were applied to weak performing routes in the domestic market to alleviate the impact of over-capacity, resulting in improvements to domestic load factor. Additionally, the launch of Swoop in the second quarter of 2018 further contributed to our positive load factor for the year.

Transborder and international routes continued to perform well throughout the majority of the year, due primarily to strong demand on our transborder business and leisure routes. Load factor performance for the region was negatively impacted by the delay in Swoop obtaining regulatory approval for transborder service in the fourth quarter, resulting in reduced forward bookings, which showed signs of slight improvement by the end of the year.

Revenue

(\$ in thousands, unless otherwise noted)	2018	2017	Change
Guest revenue	4,483,529	4,238,926	5.8%
Other revenue	249,933	267,729	(6.6%)
Total revenue	4,733,462	4,506,655	5.0%
RASM (cents)	14.37	14.54	(1.2%)
Load factor	83.8%	83.6%	0.2 pts.
Yield (cents)	17.16	17.40	(1.4%)

For the year ended December 31, 2018 total revenue increased by 5.0 per cent to \$4,733.5 million compared to \$4,506.6 million in 2017. The overall increase in total revenue was driven by increases in guest revenue offset slightly by decreased other revenue. On an ASM basis, total revenue decreased by 1.2 per cent to 14.37 cents, from 14.54 cents in the prior year, due to a decreased in yield in 2018.

Guest revenue

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, Premium upgrades, baggage fees, buy-on-board sales, pre-reserved seating fees and certain revenues related to our co-branded credit card arrangement.

(\$ in thousands)	2018	2017	Change
Guest revenue – domestic	2,303,641	2,254,206	2.2%
Guest revenue – transborder and international	1,712,919	1,562,650	9.6%
Ancillary revenue	466,969	422,070	10.6%
Total guest revenue	4,483,529	4,238,926	5.8%

For the year ended December 31, 2018, guest revenue increased to \$4,483.5 million, an increase of \$244.6 million or 5.8 per cent, compared to \$4,238.9 million in 2017, as a result of a year-over-year increase in capacity combined with relatively flat load factor, partially offset by a 1.4 per cent reduction in yield, primarily in the domestic market due to increased use of promotional fares during the summer months to mitigate the impact of the threatened industrial action and increased competitive pressures on bookings.

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 per guest for the years ended December 31, 2018 and 2017:

	2018	2017	Change
Ancillary revenue (\$ in thousands)	466,969	422,070	10.6%
Ancillary revenue per guest (\$)	18.79	18.22	3.1%

For the year ended December 31, 2018, ancillary revenue was \$467.0 million, an increase of \$44.9 million or 10.6 per cent, from \$422.1 million in the prior year. The increase in ancillary revenue was the result of a 7.3 per cent increase in scheduled guests during the year, recognition of ancillary revenues generated through Swoop's sale of unbundled fares and increased frequency of guests purchasing pre-reserved seating and Premium upgrades.

On a per guest basis, ancillary fees for the year increased by 3.1 per cent to \$18.79 per guest, from \$18.22 per guest in 2017. This increase is mainly attributable to the addition of ancillary revenue generated by Swoop, an increase in pre-reserved seating sales and increased 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 our co-branded credit card program. For 2018, other revenue decreased by 6.6 per cent to \$249.9 million, from \$267.7 million in 2017. This decrease was driven by a decrease in charter revenue following the completion of Suncor Energy Inc.'s (Suncor) Fort Hills construction project, partially offset by increased revenue generated by WestJet Vacations.

The non-air component of WestJet Vacations revenue includes hotels, attractions and car rentals, and is reported on the consolidated statement of earnings at the net amount received. For the year ended December 31, 2018, WestJet Vacations' non-air revenue component increased due to an increased number of guests travelling during the year.

Expenses

	Expense (\$ in thousands)			CASM (cents)		
	2018	2017	Change	2018	2017	Change
Aircraft fuel	1,231,632	950,043	29.6%	3.74	3.06	22.2%
Salaries and benefits	999,381	935,545	6.8%	3.03	3.02	0.3%
Rates and fees	691,293	644,763	7.2%	2.10	2.08	1.0%
Sales and marketing	440,292	393,582	11.9%	1.34	1.27	5.5%
Depreciation and amortization	429,906	403,021	6.7%	1.31	1.30	0.8%
Maintenance	232,053	203,227	14.2%	0.70	0.66	6.1%
Aircraft leasing	139,703	165,902	(15.8%)	0.42	0.54	(22.2%)
Other	398,038	331,014	20.2%	1.21	1.06	14.2%
Employee profit share	15,937	46,793	(65.9%)	0.05	0.15	(66.7%)
Total operating expenses	4,578,235	4,073,890	12.4%	13.90	13.14	5.8%
Total, excluding fuel and employee profit share	3,330,666	3,077,054	8.2%	10.11	9.93	1.8%

During the year ended December 31, 2018, operating expenses increased by 12.4 per cent to \$4,578.2 million, as compared to \$4,073.9 million in 2017, driven by the year-over-year ASM growth of 6.3 per cent, as well as increases in aircraft fuel expense, salaries and benefits and other operating expenses, partially offset by decreased aircraft leasing and employee profit share costs.

On an ASM basis, operating expenses for the year ended December 31, 2018 increased by 5.8 per cent to 13.90 cents from 13.14 cents in 2017 due primarily to the increase in aircraft fuel expense. CASM, excluding aircraft fuel and employee profit share expenses, increased by 1.8 per cent, to 10.11 cents from 9.93 cents in 2017, due to an increase in other operating expenses.

Aircraft fuel

	2018	2017	Change
Aircraft fuel expense (\$ in thousands)	1,231,632	950,043	29.6%
Aircraft fuel expense as a per cent of operating expenses	26.9%	23.3%	3.6 pts.
Fuel consumption (litres)	1,523,700,982	1,482,849,838	2.8%
Fuel cost per litre (cents)	81	64	26.6%
Average market price for jet fuel in US dollars (per barrel)	87	67	29.9%
Average market price for jet fuel in Canadian dollars (per barrel)	113	88	28.4%

Aircraft fuel continues to be our most significant cost, representing 26.9 per cent of total operating expenses for the year ended December 31, 2018, compared to 23.3 per cent in 2017. For the year ended December 31, 2018, aircraft fuel expense increased by 29.6 per cent to \$1,231.6 million, from \$950.0 million in 2017, due primarily to a 28.4 per cent year-over-year increase in the Canadian market price of jet fuel and a 2.8 per cent increase in fuel consumption. Fuel consumption for the year ended December 31, 2018, increased only 2.8 per cent year over year on a capacity increase of 6.3 per cent as a result of the growth of increasingly fuel-efficient aircraft within our fleet, namely our deliveries of Boeing MAX aircraft, combined with the implementation of various fuel saving initiatives during the year.

Our fuel costs per litre for the year ended December 31, 2018 increased by 26.6 per cent to 81 cents per litre, from 64 cents per litre in the prior year. The average market price for jet fuel was US \$87 per barrel for the year ended December 31, 2018 compared to US \$67 per barrel in the same period of the prior year, an increase of approximately 29.9 per cent. The average market price for jet fuel in Canadian dollars increased by 28.4 per cent to \$113 per barrel from \$88 per barrel in 2017. The slightly lower increase in the Canadian price of jet fuel compared to the US market price of jet fuel in the year is due to the slightly lower annual average foreign exchange rate for 2018 compared to 2017.

For 2019, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US \$9.7 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity of fuel costs to changes in fuel pricing to be approximately \$15.4 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 \$8.1 million on fuel costs.

As at December 31, 2018, we had 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.

(\$ in thousands, except FTE count)	2018	2017	Change
Salaries and benefits plans	880,701	819,550	7.5%
Employee share purchase plan	102,692	96,945	5.9%
Share-based payment plans	15,988	19,050	(16.1%)
Total salaries and benefits	999,381	935,545	6.8%
Full-time equivalent employees (FTE)	11,624	11,089	4.8%

Salaries and benefits expense for the year ended December 31, 2018 was \$999.4 million, a \$63.8 million or 6.8 per cent increase, from \$935.5 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 year ended December 31, 2018, salaries and benefits plans increased by 7.5 per cent to \$880.7 million, from \$819.6 million in 2017. This increase is primarily due to the 4.8 per cent increase in our total number of full-time equivalent employees to 11,624 at December 31, 2018 (December 31, 2017 – 11,089) resulting from additional staffing at our airport hubs to support our capacity growth and the launch of WestJet Link, assumption of ground-handling duties by WestJet from third-party service providers, expanded WestJet Encore operations and Swoop, as well as merit increases effective in the year. Additionally, we incurred increased severance costs related to employees who left WestJet during 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, employees may, dependent 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 December 31, 2018, approximately 79.2 per cent (December 31, 2017 – 81.7 per cent) of our eligible active employees participated in the ESPP, contributing an average of 12.2 per cent (December 31, 2017 – 14.6 per cent) of their gross salaries. Under the terms of the ESPP, we acquire voting shares on behalf of employees through open market purchases. For the year ended December 31, 2018, our matching expense was \$102.7 million, a 5.9 per cent increase from \$96.9 million in 2017, driven largely by the increased number of participating employees and higher salary rates as 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 year ended December 31, 2018, share-based payment expense totaled \$16.0 million, representing a decrease of 16.1 per cent from the \$19.1 million recognized in the prior year. This

decrease from the prior year is primarily due to a downward revision in the estimated number of PSUs expected to vest within the next three years.

Aircraft leasing expense

For the year ended December 31, 2018, our aircraft leasing expense was \$139.7 million, a \$26.2 million or 15.8 per cent decrease, from \$165.9 million in 2017. On a per ASM basis, aircraft leasing expense for the year ended December 31, 2018 was 0.42 cents, a decrease of 22.2 per cent from 0.54 cents for 2017. The year-over-year decrease in aircraft leasing expense was primarily due to the reduced rate of aircraft rent negotiated in recent lease extension agreements as well as the return of two leased aircraft in the first quarter of 2018.

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)		
	2018	2017	Change	2018	2017	Change
Technical maintenance	171,041	141,561	20.8%	0.51	0.46	10.9%
Maintenance provision	61,012	61,666	(1.1%)	0.19	0.20	(5.0%)
Total maintenance	232,053	203,227	14.2%	0.70	0.66	6.1%

Maintenance expense for the year ended December 31, 2018 was \$232.1 million, a \$28.8 million or 14.2 per cent increase from \$203.2 million in 2017. Our maintenance cost per ASM was 0.70 cents in 2018, an increase of 6.1 per cent from 0.66 cents in the prior year.

Technical maintenance expense for the year ended December 31, 2018 was \$171.0 million, a \$29.5 million or 20.8 per cent increase from \$141.6 million in 2017. Our technical maintenance cost per ASM was 0.51 cents for the fourth quarter of 2018, an increase of 10.9 per cent from 0.46 cents for the same period of 2017. The year-over-year increase was attributable to the aging of our growing fleet, leading to an increased number of maintenance events compared to the prior year, as well as additional maintenance checks performed in the year on transition to our optimized maintenance program.

Other operating expenses

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

	Expense (\$ in thousands)			CASM (cents)		
	2018	2017	Change	2018	2017	Change
Travel and training	125,910	120,021	4.9%	0.39	0.39	-
General and administrative	122,698	89,380	37.3%	0.37	0.29	27.6%
Technical support	70,089	51,572	35.9%	0.21	0.16	31.3%
Remaining other operating expenses	79,341	70,041	13.3%	0.24	0.22	9.1%
Total other operating expenses	398,038	331,014	20.2%	1.21	1.06	14.2%

Other operating expenses for the year ended December 31, 2018 was \$398.0 million, a \$67.0 million or 20.2 per cent increase from \$331.0 million in 2017. Other operating expenses per ASM was 1.21 cents for the year ended December 31, 2018, an increase of 14.2 per cent from 1.06 cents in 2017. The increase was driven primarily by increased general and administrative expenses and technical support expenses.

For the year ended December 31, 2018, general and administrative expenses increased to \$122.7 million, a \$33.3 million increase from \$89.4 million in 2017, due primarily to increased costs related to investments in significant projects, including the launch of Swoop and preparation for the Boeing 787 entry-into-service.

For the year ended December 31, 2018, technical support costs increased to \$70.1 million, an \$18.5 million increase from \$51.6 million in 2017. Increased technical support costs reflect the execution of various information technology initiatives during the current year, including costs incurred in relation to improved cyber security measures as well as hardware and software requirements for new onboard point of sale devices, our inflight entertainment system and our expanded call centre service offerings.

Employee profit share

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost plan, employees receive larger awards when we are more profitable. Conversely, the amount distributed to employees is reduced in less profitable periods. Profit share expense is estimated based on a year to date eligible earnings margin of not less than 10 per cent. Our employee profit share expense for the year ended December 31, 2018, was \$15.9 million, a 65.9 per cent decrease from \$46.8 million in the prior year. This year-over-year decrease is directly attributable to lower earnings eligible for profit share in 2018.

Foreign exchange

The gain or loss on foreign exchange included in our consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary assets and liabilities. Monetary assets consist mainly of US dollar cash, cash equivalents and marketable securities, accounts receivable, security deposits on 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 December 31, 2018, US-dollar-denominated net monetary assets totaled approximately US \$32.2 million compared to US \$61.6 million at December 31, 2017. The decrease in US-dollar-denominated net monetary assets compared to 2017 year end is largely due to decreased US dollar cash and marketable securities balances. For the year ended December 31, 2018, we reported a foreign exchange gain of \$3.0 million (December 31, 2017 – loss of \$4.9 million), as a result of the fluctuations in the valuation of the Canadian dollar relative to the US dollar on the revaluation and settlements of our US-dollar-denominated monetary assets and liabilities.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At December 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 \$20.1 million per month for the period from January 2019 to December 2019, for a total of US \$241.0 million, at a weighted average contract price of 1.3070 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 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 consolidated statement of financial position at December 31, 2018 and 2017 and on the consolidated statement of earnings for the years ended December 31, 2018 and 2017.

(\$ in thousands)	Statement presentation	2018	2017
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	13,113	820
Fair value	Accounts payable and accrued liabilities	(30)	(5,345)
Unrealized gain/(loss)	Hedge reserves (before tax)	11,888	(4,305)

(\$ in thousands)	Statement presentation	2018	2017
Statement of Earnings:			
Realized gain/(loss)	Aircraft leasing	581	(2,182)
Realized gain/(loss)	Other revenue	5,043	(5,816)
Realized gain/(loss)	Gain (loss) on derivatives	51	(2,206)
Unrealized gain/(loss)	Gain (loss) on derivatives	1,195	(220)

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 (US Dollar Notes). The cross-currency swap terms are from June 16, 2016 to June 16, 2021, which matches the five-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 was 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 consolidated statement of financial position at December 31, 2018 and 2017 and the consolidated statement of earnings for the years ended December 31, 2018 and 2017.

(\$ in thousands)	Statement presentation	2018	2017
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	845	-
Fair value	Accounts payable and accrued liabilities	-	(560)
Fair value	Other assets	28,963	-
Fair value	Other liabilities	-	(8,749)
Unrealized gain/(loss)	Hedge reserves (before tax)	29,808	(9,309)

(\$ in thousands)	Statement presentation	2018	2017
Statement of Earnings:			
Realized gain	Finance costs	424	56

For 2019, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar would have an approximate impact of \$12.2 million on our annual unhedged operating costs (approximately \$8.1 million for fuel expense and \$4.1 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 December 31, 2018, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar would have an approximate impact of \$34.1 million on our future US-dollar-denominated purchase obligations.

Income taxes

Our effective consolidated income tax rate for the year ended December 31, 2018 was 32.7 per cent, as compared to 29.9 per cent in 2017. The increase in the rate for the twelve months ended December 31, 2018, compared to 2017, is due to decreased earnings in the current year. As earnings decrease, the impact of relatively fixed permanent differences on the overall effective tax rate is more pronounced, resulting in a corresponding increase in the rate.

Our effective income tax rate for the year ended December 31, 2018 of 32.7 per cent was below our previous guidance of between 37 and 39 per cent, provided in the third quarter of 2018, due to our better than forecasted fourth quarter 2018 earnings before tax.

2018 Fourth Quarter Results of Operations

Our 2018 fourth quarter financial results reflect continued recovery in profitability, following our first reported loss in the second quarter of 2018, with net earnings of \$29.2 million and diluted earnings per share of \$0.26 representing year-over-year declines of 39.0 per cent and 36.6 per cent, respectively. During the quarter, our revenue increased by 6.6 per cent when compared to the fourth quarter of 2017, driven by increases in guest revenue. RASM increased 0.7 per cent year over year, due to slight improvements in yield following the redeployment of capacity to stronger performing markets. Additionally, the pace of growth in CASM, excluding fuel and employee profit share, throughout 2018 slowed in the quarter due to the continued implementation of cost saving initiatives throughout the period.

Fourth quarter overview

- Recognized total revenue of \$1,193.3 million, an increase of 6.6 per cent from \$1,119.1 million in the fourth quarter of 2017.
- Increased capacity, measured in ASMs, by 5.9 per cent over the fourth quarter of 2017.
- Increased traffic, measured in RPMs, by 4.5 per cent over the fourth quarter of 2017.
- Realized yield of 18.04 cents, up 2.0 per cent from 17.68 cents in the fourth quarter of 2017.
- Realized RASM of 14.72 cents, up 0.7 per cent from 14.61 cents in the fourth quarter of 2017.
- Realized CASM of 14.11 cents, up 3.7 per cent from 13.61 cents in the fourth quarter of 2017.
- Realized CASM, excluding fuel and employee profit share, of 10.29 cents, up 0.3 per cent from 10.26 cents in the fourth quarter of 2017.
- Recorded an operating margin of 4.1 per cent, down 2.8 percentage points from 6.9 per cent in the fourth quarter of 2017.
- Recorded an EBT margin of 3.4 per cent, down 3.1 percentage points from 6.5 per cent in the fourth quarter of 2017.
- Realized net earnings of \$29.2 million, a decrease of 39.0 per cent from \$47.8 million in the fourth quarter of 2017.
- Reported diluted earnings per share of \$0.26, down 36.6 per cent from \$0.41 in the fourth quarter of 2017.

Please refer to page 59 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

The following table presents our fourth quarter 2018 and 2017 financial and operational summary:

(\$ in thousands, unless otherwise noted)		Three months ended December 31		
		2018	2017 ⁽ⁱ⁾	Change
Financial highlights	Revenue	1,193,263	1,119,079	6.6%
	Operating expenses	1,144,204	1,041,951	9.8%
	Earnings from operations	49,059	77,128	(36.4%)
	Operating margin (per cent) ⁽ⁱⁱ⁾	4.1%	6.9%	(2.8 pts.)
	Earnings before tax	40,089	72,562	(44.8%)
	EBT margin (per cent) ⁽ⁱⁱ⁾	3.4%	6.5%	(3.1 pts.)
	Net earnings	29,170	47,806	(39.0%)
	Earnings per share:			
	Basic	0.26	0.42	(38.1%)
	Diluted	0.26	0.41	(36.6%)
	Cash dividends declared per share	0.14	0.14	-
Operational highlights	ASMs	8,108,583,582	7,658,815,460	5.9%
	RPMs	6,615,140,624	6,329,077,433	4.5%
	Load factor	81.6%	82.6%	(1.0 pts.)
	Yield (cents)	18.04	17.68	2.0%
	RASM (cents)	14.72	14.61	0.7%
	CASM (cents)	14.11	13.61	3.7%
	CASM, excluding fuel and employee profit share (cents) ⁽ⁱⁱ⁾	10.29	10.26	0.3%
	Fuel consumption (litres)	366,137,846	366,078,926	-
	Fuel costs per litre (cents)	83	69	20.3%
	Segment guests	6,185,541	6,010,069	2.9%
	Average stage length (miles)	848	864	(1.9%)
	Departures	66,572	63,111	5.5%
	Utilization (hours)	10.5	10.9	(3.7%)
	Full-time equivalent employees at period end	11,624	11,089	4.8%

- (i) We have adopted 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 50 for a description of the restatements performed under IFRS 15.
- (ii) Please refer to page 57 and 59 of this MD&A for definitions of key operating indicators and a reconciliation of the non-GAAP measures and additional GAAP measures.

Capacity

For the three months ended December 31, 2018, our overall capacity increased by 5.9 per cent over the same period in 2017, due to additional aircraft deliveries, Swoop operations and new regional service under WestJet Link service. The following table depicts our capacity allocation between our domestic, transborder and international markets for the three months ended December 31, 2018 and 2017:

	Three months ended December 31				
	2018		2017		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	3,795,913,390	46.8%	3,746,812,395	48.9%	1.3%
Transborder and international	4,312,670,192	53.2%	3,912,003,065	51.1%	10.2%
Total	8,108,583,582	100.0%	7,658,815,460	100.0%	5.9%

Domestic capacity growth in the fourth quarter of 2018, compared to 2017, was the result of domestic service offered by Swoop on high-density Boeing 737-800 aircraft, combined with the new regional WestJet Link service in Western Canada largely offset by the redeployment of capacity from certain domestic routes to more profitable transborder and international routes. Transborder and international capacity growth for the period was primarily due to additional capacity added to key transborder business routes combined with the launch of transborder Swoop service during the quarter.

Traffic

The following table depicts our traffic allocation between our domestic and transborder and international markets for the three months ended December 31, 2018 and 2017:

	Three months ended December 31				
	2018		2017		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	2,999,786,911	45.3%	2,949,514,694	46.6%	1.7%
Transborder and international	3,615,353,713	54.7%	3,379,562,739	53.4%	7.0%
Total	6,615,140,624	100.0%	6,329,077,433	100.0%	4.5%

For the three months ended December 31, 2018, domestic traffic growth slightly outpaced capacity resulting in positive load factor for the region as capacity reductions implemented in our winter schedule to alleviate the impact of increased competition and domestic over-capacity was offset by Swoop service during the quarter and continued demand in our core markets.

Transborder and international capacity growth outpaced traffic growth in the fourth quarter of 2018 due to weakening demand mainly driven by the devaluation in the Canadian dollar relative to other currencies.

Revenue

(\$ in thousands)	Three months ended December 31		
	2018	2017	Change
Guest revenue	1,119,682	1,046,545	7.0%
Other revenue	73,581	72,534	1.4%
Total revenue	1,193,263	1,119,079	6.6%
Load factor	81.6%	82.6%	(1.0 pts.)
Yield (cents)	18.04	17.68	2.0%
RASM (cents)	14.72	14.61	0.7%

During the fourth quarter of 2018, total revenue increased by 6.6 per cent to \$1,193.3 million compared to \$1,119.1 million in the same quarter of 2017. The year-over-year increase in revenue is due to an increase in guest revenue resulting from an improved yield and increased ancillary revenue. For the three months ended December 31, 2018, revenue on an ASM basis increased by 0.7 per cent to 14.72 cents from 14.61 cents in the same quarter of 2017 due to a slight improvement in yield following the introduction of our new fare class structure and fare increases where market demand permitted following our moderated capacity growth.

Guest revenue

(\$ in thousands)	Three months ended December 31		
	2018	2017	Change
Guest revenue – domestic	546,304	534,052	2.3%
Guest revenue – transborder and international	450,650	408,477	10.3%
Ancillary revenue	122,728	104,016	18.0%
Total guest revenue	1,119,682	1,046,545	7.0%

Guest revenue increased by 7.0 per cent to \$1,119.7 million in the fourth quarter of 2018, from \$1,046.5 million in the same period of the prior year as a result of higher yield generated through implementation of fare increases in markets with strong demand. Yield was also positively impacted by the fare class realignment effective throughout the fourth quarter of 2018, with guests electing to purchase higher priced fares that include the level of products and services they prefer.

	Three months ended December 31		
	2018	2017	Change
Ancillary revenue (\$ in thousands)	122,728	104,016	18.0%
Ancillary revenue per guest (\$)	20.28	18.02	12.5%

For the three months ended December 31, 2018, ancillary revenue was \$122.7 million, an increase of 18.0 per cent from \$104.0 million in the same quarter of 2017. This increase was driven by an increase in scheduled guests flown in the period, ancillary revenue generated by Swoop and fourth quarter baggage ancillary revenue driven by increased checked baggage fees and the introduction of checked baggage fees for WestJet vacation packages. Additionally, during the quarter we updated our estimate of the variable portion of total consideration expected to be received under our co-branded credit card agreement with RBC, resulting in additional revenue allocated to the free baggage component of the agreement.

On a per guest basis, ancillary fees for the quarter increased by 12.5 per cent to \$20.28 per guest, from \$18.02 per guest during the fourth quarter of 2017, due to increased guest purchase of pre-reserved seating, increased baggage fees, and the revenue adjustment related to the baggage component of our co-branded credit card agreement.

Other revenue

Other revenue increased by 1.4 per cent to \$73.6 million for the fourth quarter of 2018, from \$72.5 million in the same period of the prior year. This slight increase was the result of an increase in the non-air component of WestJet Vacation package revenue as well as an upward revision to the estimated variable consideration to be received under our co-branded credit card agreement related to the brand value licensing component, largely offset by reduced charter revenues resulting from the decreased number of flights operated under our charter program with Suncor.

Expenses

	Expense (\$ in thousands)			CASM (cents)		
	Three months ended Dec 31			Three months ended Dec 31		
	2018	2017	Change	2018	2017	Change
Aircraft fuel	304,944	251,619	21.2%	3.76	3.29	14.3%
Salaries and benefits	246,864	244,423	1.0%	3.04	3.19	(4.7%)
Rates and fees	160,740	156,214	2.9%	1.98	2.04	(2.9%)
Sales and marketing	114,783	102,331	12.2%	1.42	1.34	6.0%
Depreciation and amortization	108,766	105,537	3.1%	1.34	1.38	(2.9%)
Maintenance	69,314	42,440	63.3%	0.85	0.55	54.5%
Aircraft leasing	32,718	40,925	(20.1%)	0.40	0.53	(24.5%)
Other	101,541	94,061	8.0%	1.26	1.23	2.4%
Employee profit share	4,534	4,401	3.0%	0.06	0.05	20.0%
Total operating expenses	1,144,204	1,041,951	9.8%	14.11	13.60	3.8%
Total, excluding fuel and employee profit share	834,726	785,931	6.2%	10.29	10.26	0.3%

During the three months ended December 31, 2018, operating expenses increased by 9.8 per cent compared to the same period in 2017, driven by ASM growth of 5.9 per cent and increased aircraft fuel expense and maintenance expense, partially offset by lower aircraft leasing costs.

On an ASM basis, operating expenses increased by 3.8 per cent to 14.11 cents from 13.60 cents in the same period in 2017. This increase was primarily driven by increased aircraft fuel expense and maintenance expense, partially offset by lower aircraft leasing expenses.

The 0.3 per cent increase in CASM, excluding fuel and employee profit share was below our previous guidance of an expected increase of 1.0 per cent to 2.0 per cent, driven by a continuous focus on cost control which resulted in further savings identified through our cost saving initiatives and lower costs associated with irregular flight operations due to mild weather experienced over the peak travel period in the quarter.

Aircraft fuel

	Three months ended December 31		
	2018	2017	Change
Aircraft fuel expense (\$ in thousands)	304,944	251,619	21.2%
Aircraft fuel expense as a per cent of operating expenses	26.7	24.1	2.6 pts.
Fuel consumption (litres)	366,137,846	366,078,926	0.0%
Fuel cost per litre (cents)	83	69	20.3%
Average market price for jet fuel in US dollars (per barrel)	85	76	11.8%
Average market price for jet fuel in Canadian dollars (per barrel)	113	96	17.7%

Fuel remains a significant cost representing 26.7 per cent of total operating expenses for the three months ended December 31, 2018 (three months ended December 31, 2017 – 24.1 per cent). For the three months ended December 31, 2018, aircraft fuel expense increased by 21.2 per cent to \$304.9 million, from \$251.6 million in 2017, due primarily to an increase in the average Canadian dollar market price for jet fuel in the fourth quarter of 2018, compared to 2017, combined with the impact of consumption of fuel inventory within the quarter purchased at a higher cost than current quarter average market price.

Our fuel costs of 83 cents per litre for the three months ended December 31, 2018 is below our previously disclosed guidance of between 86 and 88 cents per litre as that was based on a forecasted jet fuel price of US \$94 per barrel. Fuel prices continue to be volatile due to global economic and geopolitical factors, which are outside of our control and which make accurate predictions difficult.

On average, the market price for jet fuel in the fourth quarter of 2018 was US \$85 per barrel versus US \$76 per barrel in 2017, an increase of approximately 11.8 per cent, while the Canadian dollar market price for jet fuel increased 17.7 per cent

to \$113 per barrel in the fourth quarter of 2018, from \$96 per barrel in 2017, as a result of the significant devaluation of the Canadian dollar relative to the US dollar in the final quarter of the year.

Aircraft leasing expense

For the fourth quarter of 2018, our aircraft leasing expense was \$32.7 million, an \$8.2 million or 20.1 per cent decrease, respectively, from \$40.9 million for the same period in 2017. Aircraft leasing expense per ASM for the three months ended December 31, 2018 was 0.40 cents, a decrease of 24.5 per cent, from 0.53 cents for the same period in 2017. The year-over-year decrease in aircraft leasing expense was primarily due to the reduced rate of aircraft rent negotiated in recent lease extension agreements, the return of leased aircraft during the year, as well as favourable settlements of foreign currency cash flow hedges of aircraft lease payments during the quarter.

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 Dec 31			Three months ended Dec 31		
	2018	2017	Change	2018	2017	Change
Technical maintenance	48,244	36,679	31.5%	0.59	0.48	22.9%
Maintenance provision	21,070	5,761	265.7%	0.26	0.07	271.4%
Total maintenance	69,314	42,440	63.3%	0.85	0.55	54.5%

Maintenance expense for the three months ended December 31, 2018 was \$69.3 million, which represents a \$26.9 million or 63.3 per cent increase from \$42.4 million in 2017. Our maintenance cost per ASM was 0.85 cents in 2018, representing an increase of 54.5 per cent from 0.55 cents in the prior year.

Technical maintenance expense for the three months ended December 31, 2018 increased 31.5 per cent to \$48.2 million, from \$36.7 million in 2017 due to the aging of our growing fleet, leading to the performance of an increased number of maintenance events compared to the prior year.

Maintenance provision expense for the three months ended December 31, 2018 increased to \$21.1 million, up \$15.3 million, from \$5.8 million in 2017, primarily due to a \$10.6 million provision adjustment to revise end of lease compensation estimates in light of recent lease aircraft returns as well as the write-off of maintenance reserve assets that were deemed uncollectible in the current quarter. Additionally, the prior year period includes a recovery of previously derecognized maintenance reserve assets totaling \$3.3 million, contributing to the increase in expense from the fourth quarter of 2017.

Income taxes

Our effective consolidated income tax rate for the three months ended December 31, 2018 was 27.2 per cent, as compared to 34.1 per cent for the same period of 2017. The decrease in the effective consolidated income tax rate in the fourth quarter of 2018, compared to 2017, is due primarily to the impact of lower than expected permanent differences.

Summary of Quarterly Results

	Three months ended			
	Dec. 31 2018	Sept. 30 2018	Jun. 30 2018	Mar. 31 2018
(\$ in thousands, except per share data)				
Total revenue	1,193,263	1,260,902	1,087,573	1,191,724
Net earnings	29,170	45,855	(20,758)	37,198
Basic earnings per share	0.26	0.40	(0.18)	0.33
Diluted earnings per share	0.26	0.40	(0.18)	0.32

	Three months ended			
	Dec. 31 2017 ⁽ⁱ⁾	Sep. 30 2017 ⁽ⁱ⁾	Jun. 30 2017 ⁽ⁱ⁾	Mar. 31 2017 ⁽ⁱ⁾
(\$ in thousands, except per share data)				
Total revenue	1,119,079	1,214,624	1,058,282	1,114,671
Net earnings	47,806	135,937	48,611	46,706
Basic earnings per share	0.42	1.17	0.42	0.40
Diluted earnings per share	0.41	1.15	0.41	0.40

(i) We have adopted 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.

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 (first and fourth 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.

Our results for the year ended December 31, 2018 reflect revenue and net earnings fluctuations consistent with historical trends, with the first and third quarters of the year representing our most profitable periods. However, in spite of growing revenue, we faced downward pressure on net earnings throughout the year as a result of increased costs incurred in the first quarter related to weather delays and cancellations, threatened industrial action in the second quarter which impacted revenue and expenses into the third quarter due to reduced bookings, increased use of promotional fares to stimulate demand due to increased competition within various markets and significant increases in aircraft fuel prices.

Throughout the year we have focused on positioning our airline for successful expansion of our widebody service, with imminent deliveries of our first three Boeing 787 aircraft for service to a growing number of global destinations, enhancing our product and service offerings, including our WestJet Rewards program, to appeal to premium travellers across our network, and continued focus on enhancing our network through increased frequencies at our primarily domestic hub airports.

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 December 31			Twelve months ended December 31		
	2018	2017	Change	2018	2017	Change
On-time performance	77.6%	73.5%	4.1 pts.	78.1%	77.6%	0.5 pts.
Completion rate	98.6%	98.3%	0.3 pts.	98.0%	98.0%	-
Mishandled bag ratio	3.77	5.14	(26.7%)	4.12	4.59	(10.2%)

Due to overall favourable weather conditions in the fourth quarter of 2018, operating metrics across all categories reported above reflect improved results when compared to the same periods of 2017. For the three and twelve months ended December 31, 2018, our on-time performance improved by 4.1 and 0.5 percentage points, respectively, compared to the same periods of 2017. The fourth quarter of 2017 was impacted by severe winter storms across Canada during the peak holiday travel period as well as delays encountered on transition to a new catering service provider.

Our completion rate for both the three and twelve months ended December 31, 2018 remained relatively consistent with the prior year periods. The slight improvement in completion rate during the fourth quarter of 2018, compared to 2017, is primarily due to the increased number of flight cancellations in the prior year as a result of poor weather conditions during the peak holiday travel period. Our completion rate for both the three and twelve months ended December 31, 2018 reflect above average performance compared to our North American peer airlines.

For the three and twelve months ended December 31, 2018, our mishandled bag ratio improved 26.7 per cent and 10.2 per cent, respectively, compared to the same periods of 2017, primarily due to the successful implementation of a number of initiatives across our domestic hub airports during the year, as well as the prior year impact of baggage infrastructure failures at various airport locations.

Liquidity and Capital Resources

Liquidity

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. We completed the fourth quarter of 2018 with a cash, cash equivalents and marketable securities balance of \$1,279.6 million, compared to \$1,373.2 million at December 31, 2017. Through our revenue generating and cost saving initiatives, supplemented by available borrowings under our existing or new financing sources, including our \$400 million undrawn revolving credit facility, 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, the current portion of long-term debt, payments of dividends and interest and share repurchases. In addition to our restricted cash requirements, detailed below, our contractual obligations and commitments (please refer to *Contractual obligations and commitments* section in this MD&A on page 33) summarizes certain of our liquidity and working capital requirements as at December 31, 2018.

Our current ratio, defined as current assets over current liabilities, was 0.78 at December 31, 2018, as compared to 1.08 at December 31, 2017, a decrease of 27.8 per cent due primarily to the reclassification of our \$400 million Canadian dollar senior unsecured notes as a current liability due to its maturity in July 2019. We continue to evaluate our financing opportunities in the near term. During the fourth quarter of 2018, we signed a letter of intent with a third party for the sale and operating leaseback of WestJet's first three Boeing 787 aircraft scheduled for delivery within the first quarter of 2019, and subsequent to year end, on January 17, 2019, we took delivery of the first aircraft financed under such arrangement. Proceeds from the sale and operating leaseback will help fund our capital commitment requirements for 2019. Further to this and in support of our changes to capacity, during the third quarter of 2018, we signed an agreement with Boeing to defer four of our Boeing MAX 8 aircraft, originally scheduled for delivery in 2019 (please refer to *Fleet* on page 34 of this MD&A).

In addition to our cash, cash equivalents and marketable securities balance of \$1,279.6 million at December 31, 2018, we have available our undrawn revolving credit facility of \$400 million, totaling \$1,679.6 million in unrestricted liquidity (please refer to the section called *Capital Resources* on page 31 of this MD&A).

The following table lists our restricted cash balances for the years ended December 31, 2018 and 2017.

	2018	2017	Change
Cash held in trust for WestJet Vacations Inc.	79,403	76,389	3,014
Security on facilities for letters of guarantee	34,684	32,234	2,450
Passenger facility charges	1,528	1,077	451
Total restricted cash	115,615	109,700	5,915

Restricted cash related to WestJet Vacations relates to vacation package sales to guests in Ontario, where regulations require us to hold the cost of the vacation package in trust until the guest departs. Due to the seasonality in our vacation package sales, this balance generally decreases over the Canadian summer months and increases later in the year when demand for travel to sun destinations increases. Additionally, for certain foreign jurisdictions, we are required to hold letters of guarantee for certain guest ticket taxes, which have increased significantly in the year due to our expanded international operations. The letters of guarantee were issued under our revolving letter of credit facility by assigning restricted cash.

Part of our cash, cash equivalents and marketable securities balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2018, was \$695.4 million, an increase of 5.4 per cent from \$660.0 million at December 31, 2017. At December 31, 2018, we had cash on hand of 1.84 (December 31, 2017 – 2.08) times our advance ticket sales balance.

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

	December 31 2018	December 31 2017	Change
Cash to trailing 12 months revenue (TTM) ⁽ⁱ⁾⁽ⁱⁱ⁾	27.0%	30.5%	(3.5 pts.)
Adjusted debt-to-equity ⁽ⁱ⁾	1.32	1.46	(9.6%)
Adjusted net debt to EBITDAR ⁽ⁱ⁾	2.40	1.90	26.3%

(i) Please refer to page 59 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

(ii) In addition to our cash, cash equivalents and marketable securities, as of December 31, 2018, we have available our entire \$400.0 million revolving credit facility that expires in June 2022 (please refer to the section *Capital Resources* found on page 31 of this MD&A).

As of December 31, 2018, our cash to TTM revenue ratio was 27.0 per cent, compared to 30.5 per cent at December 31, 2017, which is slightly below our internal target of approximately 30 per cent. At December 31, 2018, our adjusted debt-to-equity ratio decreased 9.6 per cent to 1.32, from 1.46 in the prior year, primarily due to the impact of lower aircraft leasing costs. Our adjusted net debt to EBITDAR ratio of 2.40 increased from 1.90 at December 31, 2017 due primarily to lower net earnings in the current year. Both ratios continue to meet our internal threshold of not more than 2.5.

Select cash flow information

(\$ in thousands)	2018	2017	Change
Cash provided by operating activities	758,580	1,012,073	(253,493)
Less:			
Cash used by investing activities	(487,398)	(1,167,715)	680,317
Cash used by financing activities	(257,641)	(200,441)	(57,200)
Cash flow from operating, investing and financing activities	13,541	(356,083)	369,624
Effect of foreign exchange on cash and cash equivalents	25,189	(17,663)	42,852
Net change in cash and cash equivalents	38,730	(373,746)	412,476
Cash and cash equivalents, beginning of period	1,147,076	1,520,822	(373,746)
Cash and cash equivalents, end of period	1,185,806	1,147,076	38,730

Operating cash flows

For the year ended December 31, 2018, our cash provided by operating activities decreased 25.0 per cent to \$758.6 million compared to \$1,012.1 million in the prior year. Similarly, on a diluted per share basis, for the year ended December 31, 2018, our cash flow from operations decreased 23.2 per cent to \$6.62 per diluted share compared to \$8.62 per diluted share in the prior year (please refer to page 59 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures). These year-over-year decreases were primarily the result of lower earnings generated during 2018.

Investing cash flows

For the year ended December 31, 2018, cash flow used by investing activities totaled \$487.4 million compared to \$1,167.7 million in the prior year. The decrease in our cash outflows for investing activities compared to the prior year is primarily due to reduced capital spending on purchased aircraft and cash receipts related to marketable securities reaching maturity as compared to outflows relating to the initial cash payment for the purchase of such instruments in 2017.

Our investing activities during 2018 related primarily to the delivery of seven Boeing MAX aircraft, additional deposits for future Boeing MAX aircraft and Boeing 787-9 aircraft as well as spare engines for these aircraft series.

Financing cash flows

For the year ended December 31, 2018, our cash used by financing activities totaled \$257.6 million, compared to \$200.4 million in the prior year, due primarily to reduced debt issuances relating to the financing of Q400 aircraft, partially offset by decreased cash expenditures related to share repurchases during the year. For the year ended December 31, 2018, net cash outflow relating to financing activities was comprised of debt repayments of principal and interest of \$218.9 million and dividends paid of \$63.8 million, partially offset by \$41.1 million of additional debt related to the financing of new aircraft.

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 year ended December 31, 2018, was \$128.7 million or \$1.12 per share, compared to \$77.0 million or \$0.66 per share in the prior year. The improvement in free cash flow and free cash flow per share amounts was driven by reduced capital expenditures on aircraft additions.

As previously announced, building off a challenging base year in 2018, from 2019 to 2022, we continue to expect to deliver cumulative free cash flow of \$0.9 to \$1.1 billion, including proceeds from the sale and operating leaseback of our first three Boeing 787 aircraft.

Please refer to page 59 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

Capital Resources

In 2018, our final two Q400 direct aircraft deliveries under our purchase agreement with Bombardier were financed by individual secured term loans with Export Development Canada (EDC) for approximately 80 per cent of the purchase price of the aircraft, after which delivery the remaining undrawn amount under the \$820 million guaranteed loan agreement with EDC was cancelled. During 2018, we also took delivery of seven Boeing MAX aircraft, funded with cash. At December 31, 2018, we had secured loans financing 14 Boeing 737 NG aircraft and 45 Q400 aircraft with a remaining debt balance of \$781.7 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 77 unencumbered aircraft, representing over 40 per cent of our total fleet. This provides us with additional liquidity to manage our capital resource requirements through varying arrangements such as direct sales, leaseback agreements and the issuance of secured debt.

In the second quarter of 2018, we extended our unsecured revolving credit facility by two years, to a four-year term ending in June 2022, and increased the limit available to be drawn to \$400 million from \$300 million. At December 31, 2018, we have not drawn on our revolving credit facility thus the undisbursed portion of the credit facility was \$400 million, on which we pay a standby fee. Additionally, \$255.0 million of our four-year term non-revolving credit facility, drawn using Canadian dollar bankers' acceptances, remained outstanding at December 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 December 31, 2018, the Corporation was in compliance with both ratios.

Our total outstanding debt balance at December 31, 2018 is \$1,979.0 million, net of transaction costs (December 31, 2017 – \$2,049.0 million).

Our credit ratings, discussed below, are important factors 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 year ended December 31, 2018, we incurred \$57.0 million in interest (December 31, 2017 – \$53.7 million) on our long-term debt. During the year ended December 31, 2018, \$18.9 million of interest was capitalized (December 31, 2017 – \$19.8 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 December 31, 2018, the interest rate swap contracts continued 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 consolidated statement of financial position at December 31, 2018 and 2017 and on the consolidated statement of earnings for the years ended December 31, 2018 and 2017.

(\$ in thousands)	Statement presentation	2018	2017
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	2,743	2,067
Fair value	Other assets	40	2,814
Fair value	Accounts payable and accrued liabilities	(504)	(1,299)
Fair value	Other liabilities	(1,150)	(1,414)
Unrealized gain	Hedge reserves (before tax)	2,067	3,106

(\$ in thousands)	Statement presentation	2018	2017
Statement of Earnings:			
Realized gain/(loss)	Finance costs	464	(2,746)

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 entered into cross currency interest rate swaps 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 *Foreign exchange* on page 20 of this MD&A).

Credit ratings

On May 31, 2018, Moody's Investors Service downgraded our issuer and senior unsecured credit ratings to Baa3, from Baa2, while keeping the outlook as negative. On August 2, 2018, Standard and Poor's Rating Services affirmed our 'BBB-' long-term corporate credit rating while revising the outlook to negative, from stable. Both of our credit ratings continue to be 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 December 31, 2018, our contractual obligations and commitments are indicated in the following table. All US-dollar amounts have been converted at the foreign exchange rate in effect at December 31, 2018 and presented in Canadian dollars.

(\$ in thousands)	Total	Within 1 year	1 - 3 years	4 - 5 years	Over 5 years
Long-term debt repayments ⁽ⁱ⁾	2,157,025	603,429	1,004,508	213,856	335,232
Leases and commitments ⁽ⁱⁱ⁾	844,312	239,096	360,875	132,656	111,685
Purchase obligations ⁽ⁱⁱⁱ⁾	4,644,073	854,146	1,697,380	905,158	1,187,389
Total contractual obligations^(iv)	7,645,410	1,696,671	3,062,763	1,251,670	1,634,306

(ii) Includes contractual principal and interest payments on long-term debt.

(iii) Relates to leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and inflight entertainment.

(iv) Relates to obligations for our confirmed purchased aircraft deliveries for Boeing MAXs, Boeing 787s and spare engines.

(v) 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 *Foreign exchange* found on page 20 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, proceeds from the sale and operating leaseback of our first three Boeing 787 aircraft, and future sources of 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 any outstanding matters will not have a material effect upon our financial position, results of operations or cash flows.

Fleet

During 2018 we took delivery of seven Boeing MAX aircraft and four Q400 aircraft, two of which were leased, and returned two leased Boeing 737-700 aircraft, to end the year with a fleet of 177 aircraft with an average age of 8.1 years. During the year, we also executed lease agreements for two Boeing MAX 8 aircraft to be delivered in 2019, while extending a total of eight lease agreements for aircraft leases scheduled to expire in 2018 and 2019. The terms of the lease extensions ranged from approximately four years to 11 years.

In the third quarter of 2018, we signed an agreement with Boeing to defer the delivery of four Boeing MAX 8 aircraft, originally scheduled for delivery in 2019, to two aircraft deliveries in each of 2020 and 2021.

On October 29, 2018, we signed a letter of intent for sale and operating leaseback of the three Boeing 787 aircraft, scheduled for delivery within the first quarter of 2019. Subsequent to the end of the year, we received delivery of our first Boeing 787 aircraft, financed under this arrangement.

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 193 and 233 aircraft, depending on future decisions to renew leases.

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

	Total		Future Deliveries							Total
	Dec. 31, 2017	Dec. 31, 2018	2019	2020	2021	2022	2023-24	2025-27	Total	2027
Boeing narrow-body aircraft										
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)}	—	—	—	—	1	1	6	14	22	22
737 MAX 8 ^{(iii)(iv)}	4	11	4	2	4	2	—	—	12	23
737 MAX 10 ^{(iii)(iv)}	—	—	—	—	—	6	5	1	12	12
Boeing wide-body aircraft										
767-300 ERW	4	4	—	—	—	—	—	—	—	4
787-9 Dreamliner ⁽ⁱⁱⁱ⁾	—	—	3	3	4	—	—	—	10	10
Total Boeing aircraft	125	130	7	5	9	9	11	15	56	186
Lease expiries	—	—	(2)	(5)	(11)	(4)	(13)	(3)	(38)	(38)
Boeing aircraft after lease expiries	125	130	5	—	(2)	5	(2)	12	18	148
Bombardier aircraft										
Q400 NextGen ^(v)	43	47	—	—	—	—	—	—	—	47
Lease expiries	—	—	—	—	—	—	—	(2)	(2)	(2)
Bombardier aircraft after lease expiries	43	47	—	—	—	—	—	(2)	(2)	45
Fleet before lease expiries	168	177	7	5	9	9	11	15	56	233
Fleet after lease expiries	168	177	5	—	(2)	5	(2)	10	16	193

(i) At December 31, 2018, of the 54 Boeing 737 NG 700 aircraft in our fleet, 25 are leased (Dec. 31, 2017 – 27) and 29 are owned (Dec. 31, 2017 – 29).

(ii) At December 31, 2018, of the 48 Boeing 737 NG 800 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 19 Boeing 737 MAX aircraft and an additional 10 Boeing 787 aircraft between the years 2021 and 2026.

(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.

(v) At December 31, 2018, of the 47 Bombardier Q400 aircraft in our fleet, 2 are leased (Dec. 31, 2017 – nil) and 45 are owned (Dec. 31, 2017 – 43).

Off-Balance Sheet Arrangements and Related-Party Transactions

Aircraft leases

Future cash flow commitments in connection with our leased Boeing NG aircraft totaled US \$373.5 million at December 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 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 20 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 US 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, 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 FFCs 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 \$1,034.3 million and liabilities of approximately \$1,053.7 million, based on the FFCs and DFCs' most recently completed financial reports.

Related-party transactions

At December 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:

	January 31, 2019	December 31, 2018
Total voting shares issued and outstanding	113,948,623	113,948,623⁽ⁱ⁾
Stock options	11,162,121	11,193,031
RSUs – Key employee plan	488,843	488,957
RSUs – Executive share unit plan	208,362	208,362
PSUs – Executive share unit plan	403,417	403,417
Total voting shares potentially issuable	12,262,743	12,293,767
Total outstanding and potentially issuable voting shares	126,211,366	126,242,390

(i) At December 31, 2018, 82,069,418 common voting shares were outstanding and 31,879,205 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 February 4, 2019, the Board of Directors declared our 2019 first quarter dividend of \$0.14 per common voting share and variable voting share payable on March 29, 2019 to shareholders of record on March 13, 2019, which remains consistent with the \$0.14 per common voting share and variable voting share declared and paid quarterly throughout 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 1, 2017, we filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to purchase up to 5,856,671 outstanding common voting shares and variable voting shares (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. Shares purchased under the bid were 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. During 2018, 124,554 Shares were repurchased and cancelled for total consideration of \$2.4 million. The bid expired on August 2, 2018 with 2,401,692 Shares left unpurchased.

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

Financial Instruments and Risk Management

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

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

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

Fuel risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, we are exposed to the risk of volatile fuel prices. Fuel prices are affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. For the year ended December 31, 2018, aircraft fuel expense represented approximately 26.9 per cent (2017 – 23.3 per cent) of our total operating expenses. Refer to *Aircraft fuel* on page 17 for a discussion of our sensitivity to fuel costs and changes in the market price of jet fuel and foreign exchange rate.

Under our fuel price risk management policy, we are permitted to hedge a portion of our future anticipated jet fuel purchases for up to 36 months. As at and for the year ended December 31, 2018, we are not party to any fuel hedging contracts. 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.

Foreign exchange risk

Our financial results are reported in Canadian dollars, while a large portion of our expenses, debt obligations and capital commitments are in foreign currencies, primarily US dollars. Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate as a result of changes in foreign exchange rates. We are exposed to foreign exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated monetary assets and liabilities, contractual commitments and our US-dollar-denominated operating expenditures, mainly aircraft fuel, aircraft leasing expense, the land component of vacations packages and certain maintenance and airport operation costs. For a discussion of our sensitivity to changes in the value of the Canadian dollar compared to the US dollar, please refer to *Foreign exchange* on page 20.

To manage our exposure to foreign exchange risk, we periodically use financial derivative instruments, such as US-dollar foreign exchange forward contracts. Upon proper qualification, we designate our foreign exchange forward contracts as cash flow hedges for accounting purposes. For a discussion of the nature and extent of our use of US-dollar foreign exchange derivatives, including the business purposes they serve, the financial statement classification and amount of income, expense, gain and loss associated with these instruments and the significant assumptions made in determining their fair value, please refer to *Foreign exchange* on page 20 of this MD&A.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on short-term investments included in our cash, cash equivalents and marketable securities balance. A change of 25 basis points in the market interest rate would have had an approximate impact on net earnings of \$3.3 million for the year ended December 31, 2018 (2017 – \$3.7 million) as a result of our short-term investment activities. We are also exposed to interest rate fluctuations on our interest-bearing deposits that relate to certain airport operations which, at December 31, 2018, totalled \$14.6 million (2017 – \$14.6 million). A change of 25 basis points in market interest rates at December 31, 2018, would not have significantly impacted our net earnings due to the small size of these deposits.

The fixed-rate nature of the majority of our long-term debt mitigates the impact of interest rate fluctuations on our cash flows over the term of the outstanding debt. We account for our long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates at December 31, 2018, would not impact net earnings. We are exposed to interest rate fluctuations on our variable-rate long-term debt, which, at December 31, 2018 totalled \$390.8 million or 20.0 per cent of our total long-term debt. To manage this exposure, we entered into interest rate swap agreements to fix the interest rates over the term of all such debt. The swap agreements were designated as cash flow hedges for accounting purposes.

For a discussion of the nature and extent of our use of interest rate swap agreements, including the business purposes they serve, the financial statement classification and amount of income, expense, gain and loss associated with these instruments and the significant assumptions made in determining their fair value, please refer to *Capital Resources* on page 31 of this MD&A.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2018, our credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, operating deposits, aircraft deposits and the fair value of derivative financial assets.

Our maximum exposure to credit risk is represented by the balances in the aforementioned accounts:

(\$ in thousands)	2018	2017 ⁽ⁱ⁾
Cash, cash equivalents and marketable securities ⁽ⁱⁱ⁾	1,279,577	1,373,166
Restricted cash ⁽ⁱⁱ⁾	115,615	109,700
Accounts receivable ⁽ⁱⁱⁱ⁾	145,544	152,492
Other deposits ^(iv)	97,752	82,655
Derivative financial assets ^(v)	45,705	5,701

(i) We have adopted 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.

(ii) Consist of bank balances and short-term investments with terms of up to 91 days and marketable securities with terms up to 365 days. Credit risk associated with cash, cash equivalents and marketable securities and restricted cash is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions, some with provincial-government-backed guarantees. We manage our exposure by assessing the financial strength of its counterparties and by limiting the total exposure to any individual counterparty.

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

(iv) WestJet is exposed to counterparty credit risk on its deposit relating to certain leased aircraft and airport operations; however, we consider this risk to be remote because of the nature and size of the counterparty.

(v) Derivative financial assets consist of foreign exchange forward contracts, interest rate swap contracts and cross-currency interest rate swap contracts. We review the size and credit rating of both current and any new counterparties in addition to limiting the total exposure to any individual counterparty.

Liquidity risk

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

The table below presents a maturity analysis of our undiscounted contractual cash flow for our non-derivative and derivative financial liabilities as at December 31, 2018. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date and includes both principal and interest cash flows for long-term debt.

(\$ in thousands)	Total	Within 1 year	1 - 3 years	4 - 5 years	Over 5 years
Accounts payable and accrued liabilities ⁽ⁱ⁾	653,888	653,888	-	-	-
Derivative financial liabilities ⁽ⁱⁱ⁾	1,684	534	1,150	-	-
Long-term debt and interest	2,157,025	603,429	1,004,508	213,856	335,232
Total	2,812,597	1,257,851	1,005,658	213,856	335,232

(i) Excludes foreign exchange derivative liabilities of \$30, interest rate derivative liabilities of \$504 and cross currency interest rate swap derivatives of \$nil.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$30, interest rate derivative contracts of \$1,654 and cross currency interest rate swap derivatives of \$nil. The Corporation reports interest rate derivatives at their net position.

Fair value of financial instruments

Fair value represents a point-in-time estimate. The carrying amount of cash, cash equivalents and marketable securities, restricted cash, accounts receivable and accounts payable and accrued liabilities included in the statement of financial position approximate their fair values because of the short-term nature of the instruments. At December 31, 2018, the fair value of our other deposits was approximately \$95.1 million (2017 – \$81.7 million) and is determined by discounting the future contractual cash flows based on yield curves for zero coupon Government of Canada bonds.

The fair value of our long-term debt was approximately \$1,858.4 million (2017 – \$1,906.2 million). The fair value of our fixed-rate long-term debt is determined by discounting the future contractual cash flows under the current financing arrangements at discount rates presently available for loans with similar terms and remaining maturities. At December 31, 2018, the weighted average rate used in determining the fair value was 5.37 per cent (2017 – 4.85 per cent). The decrease in the fair value of our long-term debt is due to the increase in the rate used to discount our debt. The fair value of our variable-rate long-term debt approximates its carrying value, as it is at a floating market rate of interest. Please refer to *Foreign exchange* and *Capital Resources* on page 20 and page 31, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of derivatives designated in an effective hedging relationship at December 31, 2018.

Risks and Uncertainties

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

Risks relating to the business

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

Our corporate culture and brand recognition are key competitive advantages for us, especially in the Canadian market. We strive to maintain an innovative corporate culture that results in a unique, safe and caring guest experience that sets our Company and our brand apart from our competitors. Failure to maintain our unique corporate culture that results in a safe and caring guest experience could adversely affect our brand, our operating results and/or our financial condition.

The airline industry is labour intensive and we are subject to increasing labour, retention and succession costs and further potential unionization.

The labour intensive nature of the airline industry places additional emphasis on our human resource policies such as hiring, retention, working environment and compensation policies. Given the competitive nature of the airline industry, we are constantly balancing the interests of our business and the interests of our employees. We have developed strong compensation policies that have both fixed and variable components, a mix of full-time, part-time, casual and contract labour and a share ownership and profit sharing program that align the interests of our employees with the interests of our business. These policies allow our business and our employees to be rewarded in strong operating environments, but also protect and sustain our business and our employees in weaker operating environments. Should our labour costs not be able to suitably respond to changes in the economic and competitive environment, our operations and earnings could be negatively impacted.

From time to time, certain groups of our employees have been subjected to unionization drives and may be subjected to further unionization drives in the future that could result in these classes of employees having a collective voice to bargain terms and conditions of employment outside of the scope of our existing employee association. The *Canada Labour Code*

provides that a union can once again be automatically certified where more than 50 per cent of a group of employees sign membership cards. Additionally, evidence that 35 to 50 per cent of the proposed bargaining unit are members in a union will trigger a secret ballot. When an employee group unionizes, we are required to bargain in good faith with the trade union regarding the implementation of a collective agreement. Depending on the ability to reach a collective agreement and the final terms of that agreement, we are subject to potential disruption in scheduled service, changes to our current work rules and processes and increases to our labour costs, reducing our ability to sustain our business objectives or pursue strategic initiatives. Further unionization could also fundamentally change the dynamic of our relationship with our employees and may diminish our employee-friendly corporate culture and reputation, which could ultimately have a negative impact on our earnings.

The below groups have been certified as the collective bargaining agents on behalf of various employee groups within WestJet:

- ALPA (Pilots) - During 2017, both WestJet (including Swoop) and WestJet Encore pilot groups voted in favour of union representation and are now represented by separate bargaining groups within ALPA. On December 21, 2018, due to the inability of WestJet management and ALPA to reach a negotiated collective agreement, an arbitrator's award was issued to finalize the terms and conditions of the first collective agreement for WestJet and Swoop pilots. Negotiations are ongoing between WestJet and ALPA with respect to a collective agreement for WestJet Encore pilots.
- CUPE (WestJet cabin crew) – In July 2018, CUPE was certified as the bargaining agent for WestJet cabin crew members, excluding WestJet Encore and Swoop cabin crew members. WestJet and CUPE will commence collective bargaining negotiations in March 2019 to work towards attaining the first collective agreement for this employee group.
- CALDA (Dispatchers) – In August 2018, CALDA was certified as the bargaining agent representing WestJet flight dispatchers. Negotiations for a collective agreement for this group will commence in 2019.

If we are unable to reach agreement with any of our unionized employee groups on current and future negotiations regarding the terms of their collective bargaining agreements, we may be subject to work interruptions or stoppages which may adversely impact our ability to conduct business. We believe our employee associations continue to play a key role in balancing the interests of the business with the interests of WestJetters through a pro-active approach to identifying and resolving issues that have important implications for our business, our employees and our culture.

Failure of strategic initiatives and changes to our business model to deliver expected economic benefits may adversely impact our financial condition and results of operations.

WestJet operates in an increasingly competitive environment, subject to competition from existing domestic and international airlines as well as the threat of new competition from established airlines operating in WestJet's desired future markets and new ULCCs establishing operations in current WestJet markets. Our transition from a low-cost point-to-point business model to a high value-based network airline with global operations may be impacted by factors both within and outside of our ability to control, such as the need to obtain regulatory approvals, the implementation and integration of these operations into our current operations and the increased costs associated with the implementation of these initiatives. A delay or failure to successfully identify and implement these important strategic initiatives may adversely impact our earnings, financial condition and/or impact the demand for WestJet mainline, WestJet Encore and Swoop flights.

The launch of our ULCC product, Swoop, is one of our key initiatives to defend our market position within the price-sensitive traveller market segment within Canada and increase our ability to attract guests currently travelling to US airports in close proximity to the Canadian border to fly with low-cost US airlines. Additionally, we are expecting to incur incremental costs associated with the establishment of the ULCC entity and supporting operations, including investments in personnel, technology and regulatory compliance, the extent of which may be difficult to predict.

The expansion of our wide-body program and increased international flying will result in the modification of certain business processes due to differences in airport operations, local operating requirements and cultural implications. Additionally, flying to new international markets increases our foreign currency risks to the extent that we choose to, or are required to, transact in currencies other than the Canadian or US dollar. Our expansion into new markets also increases our requirement to comply with the laws and regulations of new jurisdictions. Any violation by WestJet of such laws or regulations could result in penalties or fines which may adversely impact our earnings or financial condition.

Further to the launch of Swoop, our planned expansion of our wide-body program and further expansion into new international markets will be impacted by our ability to profitably operate new Boeing 787-9 Dreamliner aircraft, of which we have committed to purchase 10 aircraft within the upcoming periods, with deliveries beginning in 2019. Our ability to successfully introduce these aircraft into service may impact our earnings and financial condition.

Failure to maintain our low-cost operating model would have adverse effects on our business strategy, financial condition and results of operations.

Our low-cost business model is a key factor that enables us to provide low fares to our guests, protect and increase our market share through competitive pricing and fund our future growth initiatives. We continuously monitor and evaluate our operations for current and future cost saving opportunities that enable us to maintain or enhance our low-cost business model. Although we have been effective in executing our low-cost business model to date, there is no assurance that we will be able to do so in the future, especially related to costs that are outside our control, including fuel, foreign exchange rates, interest rates, government rates and fees, insurance and competitive and inflationary labour market pressures. Should we not be able to maintain a cost advantage over our competitors, this would affect our ability to offer competitively low fares to our guests. We are particularly dependent on the price sensitive leisure traveller and therefore our ability to profitably offer competitive and low fares is critical to protecting and increasing our market share and funding our future growth initiatives. Should we not be able to accomplish these objectives due to higher costs, this would have negative impacts on our earnings and financial condition.

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

Jet fuel pricing represents a significant risk, representing 26.9 and 23.3 per cent of operating costs in 2018 and 2017, respectively. Fuel prices are affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity and global demand and supply. A small change in the price of fuel can significantly affect our fuel costs and ultimately our earnings. Due to the competitive nature of the airline industry, we may not be able to increase our fares, impose fuel surcharges or otherwise increase revenues sufficiently to offset increases in fuel costs.

The ability to protect and grow our earnings in a volatile and rising fuel price environment is affected by our ability to manage fuel costs through key cost initiatives such as investments in fuel efficient aircraft as well as cost effective fuel management IT systems and fuel purchasing and dispensing services. These cost initiatives can only partially mitigate volatile and rising fuel prices, require long lead times to implement, and may or may not create a competitive cost advantage compared to the effectiveness of our competitors' fuel savings investments and technologies at a given point in time. We continue to monitor hedging opportunities as changing markets and competitive conditions warrant. There is no assurance that any new fuel hedging program will be effective in offsetting volatile or rising fuel prices or create a competitive advantage compared to our competitors.

Initiatives relating to improving fuel efficiency and reducing fuel burn continue to be an ongoing focus for our Company, as a result of which, we continue to identify and implement initiatives to manage fuel costs under our current cost saving and margin expansion initiatives. In 2017, we received our first deliveries of Boeing MAX aircraft, with Boeing's Advanced Technology winglets, resulting in approximately 14 per cent increased fuel efficiency compared to our Boeing 737 NG fleet.

There is no guarantee that our fuel cost initiatives and revenue management practices will be effective in offsetting volatile or increasing fuel prices. If we are unable to mitigate volatile or increasing fuel prices, this would have an adverse effect on our earnings and our low-cost operation, which significantly contributes to our growth strategy. In turn, this could affect the timing and nature of our growth strategy and initiatives and could also result in the curtailment of scheduled service.

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

We are highly dependent on automated systems to operate our business and support our initiatives. These systems include our flight control systems, computerized airline reservation systems, revenue management systems, telecommunication systems, aircraft maintenance systems, airport kiosk terminals and website. The integration of these complex systems and technologies present significant challenges in terms of managing increasing technology development and maintenance costs, human resources and the development of effective internal controls. Additionally, portions of key technology systems, including our revenue accounting system and reservation systems, are outsourced to third parties on whom we are reliant for timely and accurate processing of information critical to our business.

We may occasionally experience system interruptions and delays that make our website, contact centre and services unavailable or slow to respond, which could prevent us from efficiently processing guest transactions or providing services. Our computer and communications systems and operations could be damaged or interrupted by catastrophic events such as natural disasters, power loss, computer and telecommunications failures, acts of war or terrorism, computer viruses, security breaches, and similar events or disruptions. Any disruption to these systems could result in the loss of important data, reallocation of personnel, failure to meet critical deadlines, increased expenses, and could generally harm our business, guest experience and reputation.

In the regular operation of our business, we collect and store sensitive data, including personal information of our guests, employees and business partners. We are subject to compliance with certain requirements established by credit card companies and non-compliance with these requirements, whether through system breaches or limitations, may result in substantial fines or temporary or permanent exclusion from one or more credit card acceptance programs. The inability to process one or more credit card brands could have a material adverse impact on our guest bookings and could harm our business.

Our reliance on these information systems increases our exposure to cyber security risks, which are becoming more numerous and sophisticated over time. As a result of these types of risks, we maintain and regularly update security initiatives, including a disaster recovery plan, however, it may be difficult to prevent all data security breaches or misuse of data which may result in the loss, disclosure, misappropriation of, or access to, information of our guests, employees, or business partners, which could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business.

If we fail to maintain the privacy and security of our guests' information, we could damage our reputation and incur substantial costs.

In the ordinary course of our business we receive, process and store vast amounts of information from our guests and others, including personal information of our guests and employees and information of our business partners, often through online operations that depend upon the secure communication of information over public networks and in reliance on third party service providers. The secure operation of the networks and systems on which this type of information is stored, processed and maintained is critical to our business operations and strategy. Although we maintain systems to protect this information, these systems must be continuously monitored and updated and could be compromised, in which case our guest information could become subject to intrusion, tampering or theft.

Any compromise of our data security systems or the security systems of our third-party service providers could have an adverse impact on our reputation, could be costly to remediate and could result in litigation or regulatory sanctions, any of which could have a material adverse effect on our business.

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

We are exposed to foreign exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated net monetary assets and liabilities and operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs, a portion of airport operation costs, certain IT and computer reservation system fees, and the land components associated with our WestJet Vacation packages. Since our revenues are received primarily in Canadian dollars, we do not have offsetting gains, therefore we are fully exposed to fluctuations in the US-dollar exchange rate with respect to these payment obligations.

As of the date of this MD&A, we are also exposed to fluctuations in the US-dollar exchange rate relating to our future Boeing MAX aircraft purchase commitments and Boeing 787 aircraft purchase commitments. The purchase of our Boeing aircraft are financed by funds drawn in Canadian dollars while the aircraft are paid for in US funds at the date of each aircraft deposit and delivery payment. As a result, we are exposed to foreign currency fluctuations prior to each deposit and delivery date.

A significant deterioration of the Canadian dollar against the US dollar would have an adverse effect on our US-dollar operating and capital costs and our earnings would be negatively impacted. In addition, our foreign exchange hedging is currently limited to certain US-dollar operating expenditures and there is no assurance that this hedging will be effective in mitigating the impact of adverse changes in the US-dollar exchange rate on our earnings.

We are also exposed to general market fluctuations in interest rates for our future aircraft purchase commitments that will be financed at prevailing market rates. We continuously review financing alternatives available to us for our future aircraft deliveries. A significant increase in market interest rates would have an adverse impact on our future borrowing costs and earnings and there is no assurance our interest rate hedging activities will be effective in mitigating these increases.

Inability to retain key personnel could harm our business.

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

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

Our operations are becoming increasingly complex as we continue to add different aircraft to our fleet mix, expand into new markets and expand product offerings. The complexities of a mixed fleet, new markets and expanded product offerings could result in unexpected costs, stronger than expected competitive reactions and weaker than expected demand environments, which could adversely affect our financial condition and results of operations.

The continued expansion of our fleet through smaller regional Bombardier Q400 turboprop aircraft and larger wide-body Boeing 787 aircraft create additional operational complexity, new costs and stronger competition not previously encountered with our previous fleets of only Boeing 737 NG aircraft. Additionally, expanding our fleet through the acquisition of multiple series and model of aircraft may result in unforeseen or unexpected costs and operational complexities that may adversely affect our financial condition, results of operations and guest experience.

The addition of new markets also exposes us to further operational complexity and uncertainty, new competition and new demand environments. Should we not be able to effectively mitigate these additional complexities, competitive forces and new markets this may adversely affect our financial condition, results of operations and guest experience.

In 2018, WestJet Cargo obtained dangerous goods certification from Transport Canada, increasing the safety and compliance requirements of the Company with respect to this new cargo offering. The improper handling of such items could pose a risk to the health, safety and property of both guests travelling aboard our aircraft as well as flight and ground crew. We have implemented all required safety and training programs to mitigate these potential risks.

Our maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2018, was 8.1 years. Our maintenance costs will increase as our fleet ages and our aircraft warranties expire. Since we began acquiring our Boeing 737 NG aircraft, 97 aircraft have come off warranty, with an additional 12 coming off warranty in 2019. Since we began acquiring Q400 aircraft in 2013, 15 have come off warranty, with a further nine coming off warranty within 2019. None of our Boeing MAX aircraft have come off warranty and none of our Boeing 767s are under warranty. Our repair and maintenance programs include larger overhauls to engines, landing gear and airframes in addition to smaller ongoing maintenance requirements. Overhaul costs on owned components are separately capitalized and amortized over the period until the next overhaul whereas smaller ongoing maintenance activities are expensed when incurred. Overhaul costs for leased aircraft are accrued for in our maintenance provision expense and liability until the date of expected overhaul. Certain leased engines also require maintenance reserve payments to the lessor, which we expect to reclaim upon performing eligible engine overhaul activities. Unanticipated maintenance events outside our scheduled programs due to mechanical failures or mandatory aircraft directives from manufacturers or regulators would increase our maintenance costs and could potentially affect our scheduled flying by taking our aircraft out of service, both of which would negatively impact our earnings and guest experience.

Our network and operations are increasingly dependent on a few key markets and airports including Toronto's Pearson International Airport, Calgary International Airport and Vancouver International Airport.

To efficiently serve our network of destinations we are increasingly dependent on the markets and airport operations at Toronto's Pearson International Airport, Calgary International Airport and Vancouver International Airport. A significant change

in the demand environment in one or more of these markets, a significant change to airport rates and fees or significant operational disturbances due to weather or other acts outside our control would have an adverse impact to our operations and financial results.

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

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

We continue to expand our service to Mexico, Central America and countries in the Caribbean, some of which have less developed legal systems, financial markets, and business and political environments than Canada and the US, and therefore present greater political, economic and operational risks. We emphasize legal compliance through a code of conduct and have implemented policies, procedures and ongoing training of employees to ensure compliance with all legal requirements. However, there can be no assurance that our employees will adhere to our codes of conduct and other policies and as such we may be subject to sanctions, investigation costs and other potential penalties and costs, which could negatively affect our business and ability to continue to operate in certain jurisdictions.

We are dependent on single aircraft and engine suppliers for our Boeing 737 NG, Boeing MAX, Boeing 767 and Boeing 787 aircraft and separate single aircraft and engine suppliers for our Bombardier Q400 aircraft. Additionally, a significant number of key aircraft component parts are obtained from a single supplier. Any interruption in the provision of goods and services from these suppliers, or other significant third-party suppliers, as well as mechanical or regulatory issues associated with their equipment, could have a material adverse effect on our business, operating results and financial condition.

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

We are dependent on Boeing as supplier for our Boeing 737 NG, Boeing MAX aircraft and Boeing 787 aircraft, as well as certain aircraft component parts. If we were unable to acquire additional aircraft or parts, from these suppliers, or if they were unable or unwilling to provide adequate support for their products, our operations would be materially adversely affected. If Boeing was unable to adhere to its contractual obligations in meeting scheduled delivery dates for our aircraft, we would be required to find another supplier of aircraft to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs and, additionally, aircraft may not be available at similar prices or received during the same scheduled delivery dates, which could adversely affect our business, operating results and financial condition. In addition, we would be materially adversely affected in the event of a mechanical or regulatory issue associated with the aircraft type, including negative perceptions from the travelling community.

During the year, Bombardier announced that it had entered into a definitive agreement with Longview Aviation Capital Corp. (Longview) for the sale of its Q400 line, with the transaction expected to close by the second half of 2019. We have no further Q400 aircraft purchases awaiting delivery. Under this agreement, Longview has assumed responsibility for product support.

We are also dependent on General Electric as supplier of aircraft engines on our Boeing 737 NG, Boeing MAX and Boeing 767 aircraft, and are dependent on Pratt & Whitney Canada as supplier of aircraft engines for our Bombardier Q400 aircraft, and would therefore be materially adversely affected in the event of a mechanical or regulatory issue associated with our engines or if either supplier was unable or unwilling to provide adequate support for their products.

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

Additionally, numerous components within our supply-chain, including the provision of aircraft, aircraft parts and maintenance services, are sourced from suppliers within the US. The ratification by Canada, the US, and Mexico of the Canada-United States-Mexico Agreement, which will supersede the North American Free Trade Agreement when ratified by all three

countries, could result in supply-chain disruptions or increased costs in the form of higher tariffs or trade duties, which we may not be able to pass on to our guests in the form of increased fares due to the competitive environment in which we operate, and as such, may adversely impact our earnings or financial condition.

We have a significant amount of fixed obligations and expect to incur significantly more fixed obligations, which could harm our ability to service our fixed obligations, obtain future sources of financing and meet our growth strategy.

Our significant fixed obligations include our working capital requirements, long-term debt, leased aircraft maintenance provisions, future tax liabilities and certain contractual lease payments for aircraft and other operating assets and services to maintain and expand our operations. We also have significant future firm commitments for new aircraft, engines and other operating assets and services to support our growth strategy. Our existing fixed obligations require significant funds to service interest, principal and other contractual operating obligations. Our future operating performance and cash flows as well as changes in the debt and equity markets will determine whether we are able to continue to successfully service our fixed obligations as well as obtain suitable new sources of financing in the future. Adverse impacts to our future operating performance and cash flows or adverse changes in the debt and equity markets, including any adverse regulatory or government-imposed changes, would negatively impact our ability to service our existing fixed obligations as well as obtain new sources of financing on reasonable terms. In turn, this could have adverse effects on our future operations and financial condition and prevent us from achieving our desired growth strategy.

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

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

As we have expanded our use of partnership agreements with other airlines our financial results, network and system integration and guest experience will become more sensitive to the effectiveness of our airline partnership agreements.

We continue to expand our network through interline and codeshare partnerships, as well as joint ventures and capacity purchase agreements, with other airlines around the world. As our partnerships continue to mature and grow we expect to see a larger volume of traffic being exchanged between us and our partners resulting in a larger impact to our financial results and an increased reliance on our network and systems integration with our partners. Consequently, weaker traffic coming from our partners or unexpected costs or technical issues with our partner network and systems could have an increasingly adverse effect on our operations and financial results. Additionally, the selection of specific airline partners within a region or strengthening of certain airline partnerships, may impact our attractiveness as a partner to other airlines operating within a region, resulting in a limitation of potential airline partnerships or loss of previous airline partnership agreements which may impact our ability to service various markets within our network and adversely impact our operating results.

Our guest experience is also increasingly subject to variation as our guests increase their travel on our partner airlines. This could have an adverse effect on our business and financial results if our guests perceive a lower quality experience with our partners.

The failure by one of WestJet's airline partners to fulfill their obligations under the respective agreements, as well as introduction of minimum guarantees in capacity purchase agreements, may limit WestJet's ability to effectively manage capacity and related costs of operations in the event of a change in market demand conditions, which may adversely impact our financial condition or operating results.

Risks relating to the airline industry

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

The airline industry is highly competitive and particularly susceptible to price discounting, since airlines incur only nominal costs to provide services to guests occupying otherwise unsold seats. We primarily compete with a small number of Canadian airlines in our domestic market and the same Canadian airlines and numerous US and international carriers in the transborder and international markets. The emergence and growth of new low-cost and ULCCs in the Canadian domestic market may result in additional competition and pricing pressures. For example, following their acquisition of NewLeaf Travel in 2017, Flair Airlines has continued to expand their route network throughout 2018, competing directly with WestJet and Swoop on various routes. Additionally, Enerjet is relaunching as a new ULCC in 2019 after receiving financing from a large investor group which specializes in investing in ultra-low-cost airlines. Canada Jetlines has also announced plans to launch ULCC operations within 2019 after finalizing lease agreements for initial aircraft deliveries in the second quarter of 2019. Other airlines regularly match or price their fares below ours, potentially preventing us from attaining a share of the guest traffic necessary to maintain profitable operations. Our ability to successfully mitigate competitive pricing depends on our ability to operate at costs lower than that of our competitors or potential competitors over the medium to long term. Should we not be able to do this, our financial results and financial condition would be adversely impacted.

Increasing competition further is the ability of guests and wholesale travel agencies to readily shop for travel services through websites with increasingly sophisticated information on product offerings and price comparisons. The growth, popularity and sophistication of Internet distribution channels has increased the overall pricing competitiveness in the airline industry, which in turn, reduces overall yield and can negatively impact revenues and profitability if these price reductions cannot be offset by sufficient increases in load factor and cost saving initiatives.

The proximity of several US airports in cities close to the Canadian border has also presented an additional challenge for us. Higher taxes and fees for guests departing from Canada travelling to the US has redirected appreciable guest traffic away from Canadian airports. Low-cost and ULCCs based in the US have and may continue to increase their capacity at these airports to attract Canadian-originating, price-sensitive, leisure guests.

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

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

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

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

General and macroeconomic conditions may adversely affect our business, operating results and financial condition, especially in markets where we have a significant presence. Weaker economic conditions can lead to a reduction in discretionary spending and a corresponding decrease to our bookings and the price our guests are willing to pay.

Our business is sensitive to changes in economic conditions, particularly as it affects discretionary spending for leisure travel, the larger proportion of our total traffic compared to business guests. Short-haul guests have the option to replace air travel with surface travel while business travellers may use more cost-effective measures such as teleconferencing. Weaker economic environments place a greater amount of pressure on our pricing and if we are not able to operate at a competitive and profitable price level, we would experience adverse effects to our operations, financial results, financial condition and future growth plans.

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

The airline industry experienced a decline in guest traffic and revenue and increased security and insurance costs resulting from past terrorist attacks and threats. Any future incidents causing a heightened concern over potential terrorist attacks could cause a decrease in guest traffic and yields, and an increase in security measures and related costs for the airline industry generally. Increasingly restrictive security measures, such as those relating to the content of carry-on baggage, guest identification document requirements, and guest screening procedures could have a material adverse effect on guest demand for air travel and on the number of guests traveling on our flights. It could also lead to a substantial increase in insurance, airport security and other costs. Any resulting reduction in guest revenues and/or increases in costs, including insurance, security or other costs could have a material adverse effect on our business, results from operations and financial condition. Additional terrorist attacks would likely have a significant negative impact on our business and the airline industry. Should such an attack occur in Canada, the adverse impact could be material.

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

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

The increase in security measures and clearance times required for guest travel could have a material adverse effect on guest demand and the number of guests travelling on our flights and, in turn, have a negative impact on our business.

In 2018, the CTA, under the Canada Transportation Act, as amended by the Transportation Modernization Act on May 23, 2018, released proposed air passenger protection regulations for public review and comment. These regulations will establish airlines' minimum obligations, including minimum compensation requirements, towards passengers for flights to, from and within Canada in the event of flight delays and/or cancellations. Additionally, Transport Canada also introduced new regulations on flight crew fatigue management. The new regulations are designed to limit any activity that might impair pilots' ability to perform their duties, including new prescribed flight and duty limits. The implementation of additional regulations could result in increased operating costs for the Company.

Many aspects of airlines' operations are subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition of additional regulation particularly with respect to greenhouse gas emissions. Numerous jurisdictions around the world have implemented or announced measures to penalize for greenhouse gas emissions as a means to deal with climate change. Certain of these measures cover the airline industry or may do so in the future. Internationally, under the auspices of the International Civil Aviation Organization, member countries in 2016 reached agreement on developing an emission offset program to place a price on international aviation emissions as of 2020. Canada has formally stated it will adopt the program. Domestically, the Canadian federal, provincial and territorial governments have adopted or are developing emissions policies that impose a tax or emissions trading scheme on carbon emissions from fuel. Regulations related to the charging of carbon tax on inter-provincial flights has not yet been resolved. The impact to us and our industry from such actions is likely to be adverse and could be significant. This could result in additional costs that could adversely affect our business which we may not be able to recover from our guests.

Concerns about the environmental impacts of air travel and tendencies towards “green” travel initiatives where guests reduce their travel activities, could have the effect of reducing demand for air travel in Canada and abroad and could materially adversely impact our business.

Governmental fee increases discourage air travel.

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

Our operations are affected by a number of external factors that are beyond our control such as weather conditions, local and global pandemics and third-party work stoppages.

Delays or cancellations due to severe weather conditions and natural disasters decrease our aircraft utilization, which increases our costs, reduces our revenue and negatively impacts our guest experience. Increases in the frequency, severity or duration of thunderstorms, hurricanes or other severe weather events, including changes in the global climate, can also result in increased fuel consumption by flying through or avoiding such weather, which adversely affects our costs and potentially our on-time performance metric and guest experience.

Work stoppages or strikes by airport workers, baggage handlers, air traffic controllers, de-icing workers, fuel workers and other third-party workers not employed by us may also have a material adverse impact on our business depending on the severity of the service disruptions and the extent to which they cause delays, cancellations, increased costs and impact guest experience.

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

Accounting

Critical accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that could materially affect the amounts recognized in the financial statements. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. Refer to Note 1 of the Notes to the Consolidated Financial Statements for a detailed discussion our accounting estimates and assumptions underlying our estimates.

The following judgments and estimates are those deemed by management to be material to the preparation of our financial statements.

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 four categories of Teal, Silver, Gold and Platinum 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. Platinum, 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.

(iv) Componentization

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

(v) Depreciation and amortization

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

(vi) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (CGU) is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has assessed WestJet as two CGU's, with Swoop recognized as a separate CGU, and considered factors such as whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations to conclude that there is no impairment at December 31, 2018.

(vii) Lease classification

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

(viii) Unconsolidated structured entities

The classification of our participation in three Canadian DFCs, 10 Canadian FFCs and 10 US FFCs as interests in unconsolidated structured entities is based on management's judgement of each entity including contractual relationships and the absence of equity ownership. Management has considered the restricted, narrow and well-defined objectives and activities of each FFC and DFC, the financial dependence of each FFC and DFC on the contracting airlines, including us, and the contractual terms of each FFC and DFC preventing any single airline from having control or significant influence.

(ix) Operating and reportable segments

The Corporation has assessed Swoop as a separate operating segment, resulting in two operating segments for the year ended December 31, 2018. This was based on management's judgment that resource allocation decisions and performance assessments are now monitored and managed separately within the Corporation's business. Swoop did not meet the requirements to be disclosed as a separate reportable segment during the year ended December 31, 2018.

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.

(iv) Depreciation and amortization

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

(v) Maintenance provisions

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

We recognize maintenance expense in the consolidated statement of earnings based on aircraft usage and the passage of time as well as changes to previously made judgments or estimates based on new information. The unwinding of the discounted present value is recorded as a finance cost. At December 31, 2018, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.89 per cent (December 31, 2017 – 1.61 per cent) to reflect the weighted average remaining term of approximately 36 months (December 31, 2017 – 40 months) until cash outflow. A 1.0 per cent increase in the rate we use to discount our maintenance provisions at December 31, 2018 would decrease our maintenance expense by \$8.9 million in 2018.

(vi) Income taxes

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

IFRS adopted in period

In May 2014, the International Accounting Standards Board (IASB) issued 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	279,058	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	-

(\$ in thousands, except ratio, margin and per share amounts)	Year ended December 31, 2017		
	IFRS 15	Previously reported	Change
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 59 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 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 with WestJet dollars and companion vouchers is deferred until such a time that WestJet has provided the 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 Premium 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 guests.

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 or deferred rewards 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 Note 1 of the consolidated financial statements for the years ended December 31, 2018 and 2017. The additional disclosure required under IFRS 15 can be found in Note 3 of our consolidated financial statements for the years ended December 31, 2018 and 2017.

Future accounting pronouncements

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standard that has not been applied in preparing our consolidated financial statements and notes thereto, for the year ended December 31, 2018 as the effective date falls 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, IFRIC 4 - Determining whether an arrangement contains a lease	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. The service component of a lease agreement should be separated from the value of the asset and thus not reported on the statement of financial position; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities will not include variable lease payments other than those that depend on an index or rate. Entities have the option of using the full retrospective approach or a modified retrospective approach on transition to IFRS 16.

WestJet will apply the standard effective January 1, 2019 and will transition using the full retrospective approach with restatement to each prior reporting period presented and with adjustments to opening retained earnings as of January 1, 2018. We expect to elect the recognition exemption for short-term leases and will also elect on a class of underlying assets basis, the expedient to combine lease and non-lease components.

We have completed the scoping and review of contracts and are in the process of measuring the impact of IFRS 16 on the leases identified upon transition and for restatement of each reporting period in 2018. We have also selected a lease accounting system to account for leases under IFRS 16 and are currently in the process of implementation. We have largely concluded on accounting policies, discussed further below, and continue to evaluate the impact to business processes and internal controls.

We anticipate that the adoption of IFRS 16 will have a material impact on the statement of financial position primarily due to the capitalization of aircraft and real estate leases and the recognition and measurement of the right-of-use assets and lease liabilities. The impacts on the income statement will be an elimination of aircraft leasing expense and real estate rent, which is recorded in other operating expenses, for those contracts which are recognized as leases, and instead will be replaced by an amortization of the right-of-use asset and interest costs on the lease liability. Since all the aircraft lease contracts are denominated in US dollars, there will be additional volatility in the foreign exchange recognized in the income statement due to the revaluation of the lease liability each reporting period.

Aircraft Leases

As of December 31, 2017, WestJet had 41 aircraft under operating leases, and we expect to record such aircraft as right-of-use assets and lease liabilities in accordance with the requirements of IFRS 16. Additionally, in 2018, WestJet has a lease of aircraft for the regional air service operated by Pacific Coastal Airlines under a CPA, and expects to record such aircraft as right-of-use assets and lease liabilities under IFRS 16. We estimate at January 1, 2018, we will record a right-of-use asset on

the 41 leased aircraft of approximately \$250.0 to \$350.0 and a corresponding lease liability of approximately \$325.0 million to \$400.0 million, with the difference between the right-of-use asset and the lease liability to be recorded in opening retained earnings.

As right-of-use assets will be accounted for under IAS 16 Property, Plant and Equipment, aircraft recorded as right-of-use assets will be componentized and depreciated over the lesser of the useful life of the component or the lease term.

Consistent with owned aircraft, any major overhaul expenditures will be capitalized and depreciated over the lesser of the lease term and the expected useful life of the overhaul. WestJet's aircraft lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. As such, a maintenance provision will be recorded on aircraft leases as a maintenance expense over the term of the lease. Measurement of the impact of capitalizing and depreciating major overhaul expenditures related to leased aircraft and the change to the maintenance provision is in progress.

Real Estate Leases

WestJet has a portfolio of real estate leases that are expected to be recorded as right-of-use assets and lease liabilities under IFRS 16 which relate to building space dedicated to WestJet for airport offices, storage and space for maintenance operations and parking, land leases and a lease for Swoop head office space. We estimate at January 1, 2018, we will record a right-of-use asset of approximately \$40.0 million to \$50.0 million and a corresponding lease liability of approximately \$45.0 million to \$55.0 million, with the difference between the right-of-use asset and the lease liability to be recorded in opening retained earnings.

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.

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 December 31, 2018, our DC&P and ICFR (as defined in NI 52-109) were effective. There were no changes in our DC&P and ICFR during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our DC&P and 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
We will continue to build diversity and frequency in our network through portfolio management of our fleet.	Based on our current network planning, flight schedules and future scheduled purchased aircraft deliveries.	<i>About WestJet</i>	7
In 2019 and 2020, we will also be upgrading our current Boeing 737 fleet as part of our continued focus on attracting premium travellers and business class guests	Based on our current maintenance schedule.	<i>Going global and premium traveller</i>	10
Future enhancements to WestJet Rewards are anticipated throughout 2019, including enhanced lounge benefits, additional priority services, the introduction of a comprehensive upgrade program, improved self-serve automation features, as well as reciprocal tier benefits with our joint venture partner, Delta Air Lines, subject to regulatory approval.	Based on the execution of our strategic initiatives as planned.	<i>WestJet Rewards program</i>	11
Swoop expects to grow to a total fleet size of 10 aircraft by the end of 2019.	Based on our fleet plan and business strategy.	<i>Swoop</i>	11
The commercial terms of our proposed joint venture arrangement with Delta Air Lines has been submitted for review to competition and regulatory authorities in both Canada and the US, and we expect approval to be received in late 2019.	Based on our discussions with members of regulatory approval bodies and current status of the review and approval of the proposed arrangement.	<i>Network</i>	12
As our fleet, including our future deliveries of Boeing MAX and Boeing 787 aircraft, continues to expand, we expect to establish additional profitable routes in Canada, the US and internationally.	Based on our current business strategy. Boeing will be able to meet our aircraft delivery commitments.	<i>Fleet</i>	13
Our cargo operations will continue to play an important role in our future expansion and growth as we continue to add new destinations and new aircraft to our growing network.	Based on our current network planning, flight schedules and future scheduled purchased aircraft deliveries.	<i>Business development</i>	13
For 2019, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US \$9.7 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity of fuel costs to changes in fuel pricing to be approximately \$15.4 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 \$8.1 million on fuel costs.	Forecasted jet fuel prices of US \$80 per barrel for the first quarter of 2019. Average foreign exchange rate of approximately 1.32 Canadian dollars to one US dollar for the first quarter of 2019 and approximately 1.32 for the full-year 2019. No significant changes to current tax legislation. Boeing will meet our aircraft delivery schedules. Based on our current network planning and schedules.	<i>Aircraft fuel</i>	17

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.	<i>Aircraft fuel</i>	17
		<i>Fuel risk</i>	36
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.	Based on the execution of our strategic initiatives as planned.	<i>Liquidity</i>	29
We continue to evaluate our financing opportunities in the near term.	We will maintain our investment grade credit ratings.	<i>Liquidity</i>	29
We expect to deliver cumulative free cash flow of \$0.9 to \$1.1 billion, including proceeds from the sale and operating leaseback of our first three Boeing 787 aircraft.	Based on the execution of our strategic initiatives as planned.	<i>Liquidity</i>	29
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.	We will maintain our investment grade credit ratings.	<i>Capital resources</i>	31
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 financing.	Based on our current forecast and the receipt of proceeds from financing as planned. We will be able to obtain future financing as circumstances require.	<i>Contractual obligations and commitments</i>	33
The expectation that we will end 2027 with a fleet size between 193 and 233 aircraft, depending on future decisions to renew leases.	Boeing will be able to meet our aircraft delivery commitments.	<i>Fleet</i>	34
WestJet will apply IFRS 16 effective January 1, 2019 using the full retrospective approach with restatement to each prior reporting period presented and with adjustments to opening retained earnings as of January 1, 2018.	Based on our current assessment of the standard and status of the transition project.	<i>Future accounting pronouncements</i>	52
<p>As a result of the transition to IFRS 16, we expect:</p> <ul style="list-style-type: none"> • To elect the recognition exemption for short-term leases and also to elect on a class of underlying assets basis, the expedient to combine lease and non-lease components. • IFRS 16 will have a material impact on the statement of financial position primarily due to the capitalization of aircraft and real estate leases and the recognition and measurement of the right-of-use assets and lease liabilities. • The impacts on the income statement will be an elimination of aircraft leasing expense and real estate rent, and instead will be replaced by an amortization of the right-of-use asset and interest costs on the lease liability. • There will be additional volatility in the foreign exchange recognized in the income statement due to the revaluation of USD lease liabilities. 	Based on our current assessment of the standard and status of the transition project.	<i>Future accounting pronouncements</i>	52

<ul style="list-style-type: none"> • To record such 41 aircraft as right-of-use assets and lease liabilities, in addition to aircraft deemed to be leased under a CPA agreement, resulting in estimated right-of-use assets of approximately \$250.0 to \$300.0 and a corresponding lease liability of approximately \$335.0 million to \$385.0 million. • To record right-of-use assets of approximately \$40.0 million to \$50.0 million and a corresponding lease liability of approximately \$45.0 million to \$55.0 million, for real estate leases. 			
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Definition of Key Operating Indicators

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

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 diluted earnings per share: This measure is used to assess the overall performance of the Company without the effects of significant non-recurring special items that may reduce the comparability between periods and do not represent the Company's ongoing performance. We excluded the effect of the after-tax non-cash loss of \$33.2 million related to the 10 aircraft sold to Southwest Airlines (Southwest) being classified as held for sale in the third quarter of 2014 from net earnings to calculate adjusted diluted earnings per share for the year ended December 31, 2014.

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

Adjusted net earnings: This measure is used to assess the overall performance of the Company without the effects of significant non-recurring special items that may reduce the comparability between periods and do not represent the Company's ongoing performance. We excluded the effect of the after-tax non-cash loss of \$33.2 million related to the 10 aircraft sold to Southwest being classified as held for sale in the third quarter of 2014 from net earnings to calculate adjusted diluted earnings per share for the year ended December 31, 2014.

Adjusted EBT Margin: This measure is used to assess the profitability of the Company from period to period by measuring each dollar of profit generated from revenue without the effects of significant non-recurring special items that may reduce the comparability between periods and do not represent the Company's ongoing performance. The adjusted EBT margin for the year ended December 31, 2014 excludes the effect of the pre-tax non-cash loss of \$45.5 million related to the 10 aircraft sold to Southwest.

EBITDAR: Earnings before net finance costs, taxes, depreciation and amortization, aircraft rent and other items, including asset impairments, gains and losses on derivatives, and foreign exchange gains or losses. Trailing 12 months EBITDAR is a measure commonly used by investors 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.

Adjusted EBITDAR: Adjusted EBITDAR excludes the effect of the pre-tax non-cash loss of \$45.5 million recorded in the third quarter of 2014, related to the 10 aircraft sold to Southwest, which is not considered to represent the Company's ongoing performance, increasing comparability between periods.

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 measure commonly used by investors 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 by investors 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 by investors 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 by investors 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

(\$ in thousands)	Three months ended December 31			Twelve months ended December 31		
	2018	2017 ⁽ⁱ⁾	Change	2018	2017 ⁽ⁱ⁾	Change
Operating expenses	1,144,204	1,041,951	102,253	4,578,235	4,073,890	504,345
Aircraft fuel expense	(304,944)	(251,619)	(53,325)	(1,231,632)	(950,043)	(281,589)
Employee profit share expense	(4,534)	(4,401)	(133)	(15,937)	(46,793)	30,856
Operating expenses, adjusted	834,726	785,931	48,795	3,330,666	3,077,054	253,612
ASMs	8,108,583,582	7,658,815,460	5.9%	32,939,257,510	30,998,306,475	6.3%
CASM, excluding above items (cents)	10.29	10.26	0.3%	10.11	9.93	1.8%

(i) This measure has been restated as a result of the adoption of IFRS 15 under the fully retrospective transition approach.

Adjusted debt-to-equity

(\$ in thousands)	December 31 2018	December 31 2017 ⁽ⁱ⁾	Change
Long-term debt ⁽ⁱⁱ⁾	1,978,957	2,049,047	(70,090)
Off-balance-sheet aircraft operating leases ⁽ⁱⁱⁱ⁾	1,047,773	1,244,265	(196,492)
Adjusted debt	3,026,730	3,293,312	(266,582)
Total shareholders' equity	2,302,567	2,258,855	43,712
Add (deduct): Hedge reserves	(6,856)	1,902	(8,758)
Adjusted equity	2,295,711	2,260,757	34,954
Adjusted debt-to-equity	1.32	1.46	(9.6%)

(i) This measure has been restated as a result of the adoption of IFRS 15 under the fully retrospective transition approach.

(ii) At December 31, 2018, long-term debt includes the current portion of long-term debt of \$536,044 (December 31, 2017 – \$153,149) and long-term portion of \$1,442,913 (December 31, 2017 – \$1,895,898).

(iii) Off-balance-sheet aircraft operating leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2018, the trailing 12 months of aircraft leasing expenses totalled \$139,703 (December 31, 2017 – \$165,902).

Adjusted net debt to EBITDAR⁽ⁱ⁾

(\$ in thousands)	December 31 2018	December 31 2017 ⁽ⁱⁱ⁾	Change
Adjusted debt	3,026,730	3,293,312	(266,582)
Less: Cash, cash equivalents and marketable securities	(1,279,577)	(1,373,166)	93,589
Adjusted net debt	1,747,153	1,920,146	(172,993)
Net earnings	91,465	279,058	(187,593)
Add:			
Net finance costs ⁽ⁱⁱⁱ⁾	27,606	34,084	(6,478)
Taxes	44,417	118,882	(74,465)
Depreciation and amortization	429,906	403,021	26,885
Aircraft leasing	139,703	165,902	(26,199)
Other ^(iv)	(4,212)	7,303	(11,515)
EBITDAR	728,885	1,008,250	(279,365)
Adjusted net debt to EBITDAR^(iv)	2.40	1.90	26.3%

(i) All net earnings adjustments included in the metric above reflect the earnings impact for the trailing 12-month period.

(ii) This measure has been restated as a result of the adoption of IFRS 15 under the fully retrospective transition approach.

(iii) At December 31, 2018, net finance costs includes the trailing 12 months of finance income of \$29,421 (December 31, 2017 – \$19,626) and the trailing 12 months of finance cost of \$57,027 (December 31, 2017 – \$53,710).

(iv) At December 31, 2018, other includes the trailing 12 months foreign exchange gain of \$2,966 and a gain on derivatives of \$1,246 (December 31, 2017 – loss of \$4,877 and loss of \$2,426).

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

Free cash flow

(\$ in thousands, except per share data)	Twelve months ended December 31		
	2018	2017	Change
Cash flow from operating activities	758,580	1,012,073	(253,493)
Adjusted for:			
Aircraft additions ⁽ⁱ⁾	(495,235)	(890,815)	395,580
Other property and equipment and intangible additions ⁽ⁱ⁾	(134,670)	(44,217)	(90,453)
Free cash flow	128,675	77,041	51,634
Weighted average number of shares outstanding - diluted	114,553,266	117,364,926	(2,811,660)
Diluted free cash flow per share	1.12	0.66	69.7%

(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.

Diluted operating cash flow per share

(\$ in thousands, except share per share data)	Twelve months ended December 31		
	2018	2017	Change
Cash flow from operating activities	758,580	1,012,073	(253,493)
Weighted average number of shares outstanding - diluted	114,553,266	117,364,926	(2,811,660)
Diluted operating cash flow per share	6.62	8.62	(23.2%)

Cash to trailing 12 months revenue

(\$ in thousands)	December 31 2018	December 31 2017	Change
Cash, cash equivalents and marketable securities	1,279,577	1,373,166	(93,589)
Trailing 12 months revenue	4,733,462	4,506,655	226,807
Cash to trailing 12 months revenue ⁽ⁱ⁾	27.0%	30.5%	(3.5 pts.)

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

Return on invested capital

(\$ in thousands)	December 31 2018	December 31 2017 ⁽ⁱ⁾	Change
Earnings before income taxes (trailing twelve months)	135,882	397,940	(262,058)
Add:			
Finance costs	57,027	53,710	3,317
Implicit interest in operating leases ⁽ⁱⁱ⁾	73,344	87,099	(13,755)
Return	266,253	538,749	(272,496)
Invested capital:			
Average long-term debt ⁽ⁱⁱⁱ⁾	2,014,002	2,047,853	(33,851)
Average shareholders' equity	2,280,711	2,185,204	95,507
Off-balance-sheet aircraft leases ^(iv)	1,047,773	1,244,265	(196,492)
Invested capital	5,342,486	5,477,322	(134,836)
Return on invested capital	5.0%	9.8%	(4.8 pts.)

(i) This measure has been restated as a result of the adoption of IFRS 15 under the fully retrospective transition approach.

(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 operating leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2018, the trailing 12 months of aircraft leasing expenses totalled \$139,703 (December 31, 2017 – \$165,902).

Adjusted net debt to adjusted EBITDAR

(\$ in thousands)	December 31, 2014
Adjusted debt	2,557,038
Less: Cash and cash equivalents	(1,358,071)
Adjusted net debt	1,198,967
Net earnings	283,957
Add:	
Net finance costs ⁽ⁱ⁾	34,768
Taxes	106,350
Depreciation and amortization	226,740
Aircraft leasing	182,450
Other ⁽ⁱⁱ⁾	2,064
EBITDAR	836,329
Special Item ⁽ⁱⁱⁱ⁾	45,459
Adjusted EBITDAR	881,788
Adjusted net debt to EBITDAR^(iv)	1.43
Adjusted net debt to adjusted EBITDAR	1.36

(i) At December 31, 2014, net finance costs includes the trailing 12 months of finance income of \$17,070 and the trailing 12 months of finance cost of \$51,838.

(v) At December 31, 2014, other includes the trailing 12 months foreign exchange loss of \$2,064.

(vi) Pre-tax non-cash loss of \$45.5 million recorded in the third quarter of 2014 associated with the sale of 10 aircraft to Southwest.

(vii) At December 31, 2014, the Corporation met its internal guideline of an adjusted net debt to EBITDAR measure of no more than 2.50.

Adjusted EBT Margin

(\$ in thousands)	Twelve months ended December 31, 2014
Revenue	3,976,552
EBT	390,307
Adjusted for:	
Special item ⁽ⁱ⁾	45,459
Adjusted EBT	435,766
Adjusted EBT margin	11.0%

(i) Pre-tax non-cash loss of \$45.5 million recorded in the third quarter of 2014 associated with the sale of the 10 aircraft to Southwest

Adjusted net earnings/Adjusted diluted earnings per share

(\$ in thousands, except share and per share data)	Twelve months ended December 31, 2014
Net earnings	283,957
Adjusted for:	
Special item ⁽ⁱ⁾	33,231
Adjusted net earnings	317,188
Weighted average number of shares outstanding - diluted	129,142,940
Adjusted diluted earnings per share	2.46

(i) After-tax non-cash loss of \$33.2 million recorded in the third quarter of 2014 associated with the sale of 10 aircraft to Southwest.

Return on invested capital

(\$ in thousands)	December 31 2014
Earnings before income taxes (trailing twelve months)	390,307
Special item ⁽ⁱ⁾	45,459
Adjusted earnings before income taxes (trailing twelve months)	435,766
Add:	
Finance costs	51,838
Implicit interest in operating leases ⁽ⁱⁱ⁾	95,786
Return	583,390
Invested capital:	
Average long-term debt ⁽ⁱⁱⁱ⁾	1,033,529
Average shareholders' equity	1,683,671
Off-balance-sheet aircraft leases ^(iv)	1,368,375
Invested capital	4,085,575
Return on invested capital	14.3%

(i) Pre-tax non-cash loss of \$45.5 million recorded in the third quarter of 2014 associated with the sale of 10 aircraft to Southwest.

(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 operating leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2014, the trailing 12 months of aircraft leasing expenses totaled \$182,450.



Consolidated Financial Statements and Notes

For the years ended December 31, 2018 and 2017

WestJet Airlines Ltd.
Annual 2018 Financial Statements and Notes
February 4, 2019

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When a choice between accounting methods exists, management has chosen those they deem most appropriate in the circumstances. Financial statements will, by necessity, include certain amounts based on judgments and estimates. Management has determined such amounts on a reasonable basis so that the consolidated financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

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

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

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

The consolidated financial statements have been audited by KPMG LLP, the independent external auditors, in accordance with Canadian Generally Accepted Auditing Standards on behalf of the shareholders. The auditors' report outlines the scope of their examination and sets forth their opinion.

A handwritten signature in black ink, appearing to read "Ed Sims".

Ed Sims
President and
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Harry P. Taylor".

Harry Taylor
Executive Vice-President, Finance and
Chief Financial Officer

February 4, 2019
Calgary, Canada



INDEPENDENT AUDITORS' REPORT

To the Shareholders of WestJet Airlines Ltd.

Opinion

We have audited the consolidated financial statements of WestJet Airlines Ltd. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings for the years then ended
- the consolidated statements of cash flows for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements ("Note 2"), which explains that certain comparative information presented:

- for the year ended December 31, 2017 has been restated.
- as at January 1, 2017 has been derived from the financial statements for the year ended December 31, 2016 which have been restated (not presented herein).

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises Management's Discussion and Analysis and the information, other than the financial statements and the auditors' report thereon, included in the document entitled 2018 Annual Report, to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and the information, other than the financial statements and the auditors' report thereon, included in the document entitled 2018 Annual Report, to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Gregory Scott MacDonald.

KPMG LLP

Calgary, Canada

February 4, 2019



Consolidated Statements of Earnings

For the years ended December 31

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

	Note	2018	2017 ⁽ⁱ⁾
Revenue:			
Guest	3	4,483,529	4,238,926
Other		249,933	267,729
		4,733,462	4,506,655
Operating expenses:			
Aircraft fuel		1,231,632	950,043
Salaries and benefits		999,381	935,545
Rates and fees		691,293	644,763
Sales and marketing		440,292	393,582
Depreciation and amortization	7,8	429,906	403,021
Maintenance		232,053	203,227
Aircraft leasing		139,703	165,902
Other		398,038	331,014
Employee profit share		15,937	46,793
		4,578,235	4,073,890
Earnings from operations		155,227	432,765
Non-operating income (expense):			
Finance income		29,421	19,626
Finance cost	15	(57,027)	(53,710)
Gain (loss) on foreign exchange		2,966	(4,877)
Gain on disposal of property and equipment		4,049	6,562
Gain (loss) on derivatives		1,246	(2,426)
		(19,345)	(34,825)
Earnings before income tax		135,882	397,940
Income tax expense:			
Current	11	14,812	58,645
Deferred	11	29,605	60,237
		44,417	118,882
Net earnings		91,465	279,058
Earnings per share:			
Basic	14	0.80	2.40
Diluted	14	0.80	2.38

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

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



Consolidated Statements of Financial Position

At December 31

(Stated in thousands of Canadian dollars)

	Note	2018	2017 ⁽ⁱ⁾
Assets			
Current assets:			
Cash and cash equivalents	5	1,185,806	1,147,076
Marketable securities	5	93,771	226,090
Total cash, cash equivalents and marketable securities		1,279,577	1,373,166
Restricted cash	6	115,615	109,700
Accounts receivable	3,19	145,544	152,492
Prepaid expenses, deposits and other	19	190,242	138,676
Inventory	19	39,742	43,045
		1,770,720	1,817,079
Non-current assets:			
Property and equipment	7	4,814,200	4,567,504
Intangible assets	8	54,851	59,517
Other assets	19	118,284	78,584
Total assets		6,758,055	6,522,684
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	19	654,422	546,505
Advance ticket sales	3	695,367	659,953
Deferred rewards program	3	224,608	185,991
Non-refundable guest credits	3	62,914	58,575
Current portion of maintenance provisions	9	101,852	82,129
Current portion of long-term debt	10	536,044	153,149
		2,275,207	1,686,302
Non-current liabilities:			
Maintenance provisions	9	278,898	270,347
Long-term debt	10	1,442,913	1,895,898
Other liabilities	19	33,512	19,171
Deferred income tax	11	424,958	392,111
Total liabilities		4,455,488	4,263,829
Shareholders' equity:			
Share capital	12	548,979	548,977
Equity reserves		106,655	97,514
Hedge reserves		6,856	(1,902)
Retained earnings		1,640,077	1,614,266
Total shareholders' equity		2,302,567	2,258,855
Total liabilities and shareholders' equity		6,758,055	6,522,684

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

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

On behalf of the Board:

Ed Sims, Director

Hugh Bolton, Director

Consolidated Statements of Cash Flows

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

	Note	2018	2017 ⁽ⁱ⁾
Operating activities:			
Net earnings		91,465	279,058
Items not involving cash:			
Depreciation and amortization		429,906	403,021
Change in maintenance provisions		50,637	47,439
Amortization of transaction costs		4,250	4,807
Unrealized (gain) loss on derivatives		(690)	4,059
Gain on disposal of property and equipment		(4,049)	(6,562)
Share-based payment expense	12	15,988	19,050
Deferred income tax expense		29,605	60,237
Unrealized foreign exchange (gain) loss		(7,592)	2,496
Change in non-cash working capital		221,148	243,858
Change in restricted cash		(5,916)	(7,051)
Change in other assets		(9,133)	(1,296)
Change in other liabilities		(96)	6,379
Purchase of shares pursuant to compensation plans		(6,268)	(4,784)
Maintenance provision settlements		(50,675)	(38,638)
		758,580	1,012,073
Investing activities:			
Aircraft additions		(524,272)	(881,069)
Aircraft disposals		6,282	9,511
Other property and equipment and intangible additions and disposals		(121,708)	(48,855)
Purchases of marketable securities		(58,908)	(231,293)
Maturities of marketable securities		201,415	-
Change in non-cash working capital		9,793	(16,009)
		(487,398)	(1,167,715)
Financing activities:			
Increase in long-term debt		41,131	186,796
Repayment of long-term debt		(157,451)	(154,249)
Shares repurchased	12	(2,386)	(90,317)
Dividends paid	13	(63,845)	(64,886)
Cash interest paid		(61,410)	(63,188)
Change in non-cash working capital		(13,680)	(14,597)
		(257,641)	(200,441)
Cash flow from/(used in) operating, investing and financing activities		13,541	(356,083)
Effect of foreign exchange on cash and cash equivalents		25,189	(17,663)
Net change in cash and cash equivalents		38,730	(373,746)
Cash and cash equivalents, beginning of year		1,147,076	1,520,822
Cash and cash equivalents, end of year		1,185,806	1,147,076
Supplemental disclosure of operating cash flows			
Cash interest received		30,522	17,634
Cash taxes (paid)/received, net		902	(97,911)

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

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

Consolidated Statements of Changes in Equity

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

	Note	2018	2017 ⁽ⁱ⁾
Share capital:			
Balance, beginning of year	12	548,977	555,716
Issuance of shares pursuant to compensation plans	12	602	10,131
Shares repurchased	12	(600)	(16,870)
		548,979	548,977
Equity reserves:			
Balance, beginning of year		97,514	93,039
Share-based payment expense	12	15,988	19,050
Issuance of shares pursuant to compensation plans		(6,847)	(14,575)
		106,655	97,514
Hedge reserves:			
Balance, beginning of year		(1,902)	(11,003)
Other comprehensive income		8,758	9,101
		6,856	(1,902)
Retained earnings:			
Balance, beginning of year		1,614,266	1,473,801
Dividends declared	13	(63,845)	(64,886)
Shares repurchased	12	(1,786)	(73,447)
Purchase of shares pursuant to compensation plans		(23)	(260)
Net earnings		91,465	279,058
		1,640,077	1,614,266
Total shareholders' equity		2,302,567	2,258,855

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

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

Consolidated Statements of Comprehensive Income

For the years ended December 31

(Stated in thousands of Canadian dollars)

	2018	2017 ⁽ⁱ⁾
Net earnings	91,465	279,058
Items to be reclassified to net earnings:		
Other comprehensive income (loss), net of tax:		
Net unrealized gain (loss) on foreign exchange derivatives ⁽ⁱⁱ⁾	15,924	(10,336)
Reclassification of net realized (gain) loss on foreign exchange derivatives ⁽ⁱⁱⁱ⁾	(4,107)	5,385
Net unrealized gain (loss) on interest rate derivatives ^(iv)	(420)	5,181
Reclassification of net realized (gain) loss on interest rate derivatives ^(v)	(338)	2,009
Net unrealized gain (loss) on cross-currency swap derivatives ^(vi)	(1,991)	6,903
Reclassification of net realized gain on cross-currency swap derivatives ^(vii)	(310)	(41)
	8,758	9,101
Total comprehensive income	100,223	288,159

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

(ii) Net of income taxes of \$(5,894) (2017 – \$3,814).

(iii) Net of income taxes of \$1,519 (2017 – \$(1,985)).

(iv) Net of income taxes of \$156 (2017 – \$(1,913)).

(v) Net of income taxes of \$125 (2017 – \$(737)).

(vi) Net of income taxes of \$738 (2017 – \$(2,534)).

(vii) Net of income taxes of \$114 (2017 – \$15).

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



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies

The annual consolidated financial statements of WestJet Airlines Ltd. (the Corporation) for the years ended December 31, 2018 and 2017 were authorized for issue by the Board of Directors on February 4, 2019. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline service and travel packages. The Corporation's shares are publicly traded on the Toronto Stock Exchange (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 annual consolidated financial statements and the notes hereto have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries consist of entities over which the Corporation is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. A description of the Corporation's subsidiaries is provided in Note 18. All intercompany balances and transactions between the Corporation and its subsidiaries have been eliminated.

(c) Seasonality

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

(d) Revenue recognition

(i) Guest 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, Premium 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 transaction price 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. Flights sold earning reward credits under the WestJet Rewards Program provide guests with (1) WestJet rewards 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.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(d) Revenue recognition (continued)

(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 or the credit expires unused.

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.

(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. The Corporation reviews annually the estimated variable compensation stand-alone selling price of the performance obligations for the contract and will reallocate the consideration expected to the four performance obligations.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(e) Financial instruments

Financial assets are initially measured at fair value. On initial recognition, the Corporation classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Corporation changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- (i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at their fair values with changes in fair value, including any interest or dividend income, recognized in profit or loss.

The Corporation uses the "expected credit loss" model for calculating impairment and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. The Corporation's trade and other receivables are typically short-term with payments received within a 12-month period, and do not have a significant financing component. Therefore, the Corporation recognizes an amount equal to the lifetime expected credit losses based on the Corporation's historical experience and including forward-looking information. The carrying amount of these assets in the consolidated statement of financial position is net of any loss allowance.

When financial assets and liabilities are designated as part of a hedging relationship and qualify for hedge accounting, they are classified and accounted for as either cash flow hedges, fair value hedges or a hedge of a net investment. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. At inception of designated hedging relationships, the Corporation documents the risk management objective and strategy for undertaking the hedge. The Corporation also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

(f) Cash flow hedges

The Corporation uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to certain U.S. dollar operating expenditures, including aircraft lease payments and the non-air component of vacation packages. Additionally, the Corporation also uses interest rate swaps to hedge the variability in cash flows resulting from fluctuations in interest rates on variable rate debt. The Corporation has elected to designate certain instruments as hedging instruments for hedge accounting purposes, including both the spot and forward elements of the contract in the valuation of the instrument. The Corporation has established a hedge ratio of 1:1 for all its hedging relationships.

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

With respect to hedges of foreign currency exposure, the Corporation determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Corporation assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are the effect of the counterparty and the Corporation's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in the exchange rates, and the presence of embedded derivative features in the hedged item that are not included in the terms of the related hedging instrument, such as early redemption features.

For hedges of interest rate risk exposure, the Corporation determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, repricing dates and maturities and the notional amounts. The Corporation assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. With respect to these hedging relationships, the main source of ineffectiveness relates to the effect of the counterparty and the Corporation's credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(f) Cash flow hedges (continued)

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

(g) Foreign currency

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

(h) Cash and cash equivalents

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

(i) Marketable securities

Marketable securities consist of investments with maturity dates of greater than three months but less than twelve months. All marketable securities are classified as amortized cost with interest earned reflected in finance income in the consolidated statement of earnings.

(j) Inventory

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

(k) Property and equipment

Property and equipment is stated at cost and depreciated to its estimated residual value. Expected useful lives and depreciation methods are reviewed annually.

Asset class	Basis	Rate
Aircraft, net of estimated residual value	Straight-line	15 to 20 years
Engine, airframe and landing gear overhaul	Straight-line	3 to 13 years
Ground property and equipment	Straight-line	3 to 25 years
Spare engines and rotables, net of estimated residual value	Straight-line	15 to 20 years
Buildings	Straight-line	40 years
Leasehold improvements	Straight-line	5 years/Term of lease

Estimated residual values of the Corporation's aircraft range between \$2,500 and \$8,700 per aircraft. Spare engines have an estimated average residual value equal to 10% of the original purchase price. Residual values, where applicable, are reviewed annually against prevailing market rates at the consolidated statement of financial position date.

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

Rotable parts are purchased, depreciated and disposed of on a pooled basis. When parts are purchased, the cost is added to the pool and depreciated over its useful life of 15 to 20 years. The cost to repair rotable parts is recognized in maintenance expense as incurred.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(l) Intangible assets

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

(m) Impairment

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

(n) Maintenance

(i) Provisions

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

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

(ii) Reserves

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

(iii) Power-by-the-hour maintenance contracts

The Corporation is party to certain power-by-the-hour aircraft maintenance agreements, whereby the Corporation makes payments to maintenance providers based on flight hours flown. Payments are capitalized when they relate to qualifying capital expenditures such as major overhauls, otherwise, payments are recorded to maintenance expense on the consolidated statement of earnings when incurred.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(o) Leases

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

Operating leases do not result in the transfer of substantially all risks and rewards incidental to ownership. Non-contingent lease payments are recognized as an expense in the consolidated statement of earnings on a straight-line basis over the term of the lease. The Corporation has a variety of operating and finance leases including, but not limited to, those for aircraft, land, hangar space and airport operations.

(p) Income taxes

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

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

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

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

(q) Share-based payment plans

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

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

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

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

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

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(r) Earnings per share

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

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

(s) Critical accounting judgments and estimates

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

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 four categories of Teal, Silver, Gold and Platinum 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. Platinum, 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.

(iv) Componentization

The componentization of the Corporation's assets, namely aircraft, are based on management's judgment of what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization. These judgments are made at the time the aircraft is acquired and do not change for the life of the aircraft. Management has considered market values, depreciation rates and industry practices in determining the level of componentization.

(v) Depreciation and amortization

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

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates (continued)

Judgments (continued)

(vi) Impairment

Assessment of impairment triggers are based on management's judgment of whether there are sufficient internal and external factors that would indicate an asset or CGU is impaired. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has assessed WestJet as one CGU and Swoop as one CGU and considered factors such as whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Corporation's operations. Management has concluded there are no triggers of impairment at December 31, 2018.

(vii) Lease classification

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

(viii) Unconsolidated structured entities

The classification of the Corporation's participation in 10 Canadian Fuel Facility Corporations (FFCs), 10 US FFCs and three Canadian De-Icing Facility Corporations (DFCs) as interests in unconsolidated structured entities is based on management's judgment of each entity including contractual relationships and power over the relevant decisions. Management considered the restricted, narrow and well-defined objectives and activities of each FFC and DFC, the financial dependence of each FFC and DFC on the contracting airlines, and the contractual terms of each FFC and DFC preventing any single airline from having control or significant influence. Refer to Note 18 for additional disclosures of the Corporation's interest in unconsolidated structured entities.

(ix) Operating and reportable segments

The Corporation has assessed Swoop as a separate operating segment, resulting in two operating segments for the year ended December 31, 2018. This was based on management's judgment that resource allocation decisions and performance assessments are now monitored and managed separately within the Corporation's business. Swoop did not meet the requirements to be disclosed as a separate reportable segment during the year ended December 31, 2018.

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.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates (continued)

Estimates (continued)

(iv) Depreciation and amortization

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

(v) Maintenance provisions

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

(vi) Income taxes

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

Notes to Consolidated Financial Statements

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2. New accounting standards and interpretations

Adoption of New Accounting Standards

The Corporation has adopted 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 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.

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 or deferred rewards liability, respectively. Previously, the Corporation recorded the reduction to revenue at the time the travel credit was redeemed to book a subsequent flight.

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.

Reclassification of certain ancillary services

Ancillary revenue such as fees associated with guest itinerary changes or cancellations, Premium 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	As previously reported	New revenue standard adjustments	As restated
At December 31, 2016			
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

Notes to Consolidated Financial Statements

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2. New accounting standards and interpretations (continued)

Adoption of New Accounting Standards (continued)

Consolidated Statement of Financial Position	As previously reported	New revenue standard adjustments	As restated
At December 31, 2017			
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

Consolidated Statement of Earnings	As previously reported	New revenue standard adjustments	As restated
For the twelve months ended December 31, 2017			
Guest	3,822,045	416,881	4,238,926
Other	680,275	(412,546)	267,729
Total revenue	4,502,320	4,335	4,506,655
Salaries and benefits	935,145	400	935,545
Sales and marketing	384,452	9,130	393,582
Other	330,014	1,000	331,014
Total operating expenses	4,063,360	10,530	4,073,890
Earnings from operations	438,960	(6,195)	432,765
Earnings before income tax	404,135	(6,195)	397,940
Income tax expense – Deferred	61,912	(1,675)	60,237
Net earnings	283,578	(4,520)	279,058
Earnings per share – Basic	2.44	(0.04)	2.40
Earnings per share - Diluted	2.42	(0.04)	2.38

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

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standard that has not been applied in preparing these consolidated financial statements as the effective date falls 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 that results in substantially all lessee leases being recorded on the statement of financial position.	IAS 17 – Leases; IFRIC 4- Determining whether an arrangement contains a lease	Effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

Notes to Consolidated Financial Statements

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2. New accounting standards and interpretations (continued)

Accounting Standards Issued But Not Yet Adopted (continued)

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 leased assets or together with property and equipment. The service component of a lease agreement should be separated from the value of the asset and thus not reported on the statement of financial position; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities will not include variable lease payments other than those that depend on an index or rate. Entities have the option of using the full retrospective approach or a modified retrospective approach on transition to IFRS 16.

The Corporation will apply the standard effective January 1, 2019 and will transition using the full retrospective approach with restatement to each prior reporting period presented and with adjustments to opening retained earnings as of January 1, 2018. The Corporation expects to elect the recognition exemption for short-term leases and will also elect on a class of underlying assets basis, the expedient to combine lease and non-lease components.

The Corporation has completed the scoping and review of contracts and is in the process of measuring the impact of IFRS 16 on the leases identified upon transition and for restatement of each reporting period in 2018. The Corporation has also selected a lease accounting system to account for leases under IFRS 16 and is currently in the process of implementation. The Corporation has largely concluded on accounting policies, discussed further below, and continues to evaluate the impact to business processes and internal controls.

The Corporation anticipates the adoption of IFRS 16 will have a material impact on the statement of financial position primarily due to the capitalization of aircraft and real estate leases and the recognition and measurement of the right-of-use assets and lease liabilities. The impacts on the income statement will be an elimination of aircraft leasing expense and real estate rent, which is recorded in other operating expenses, for those contracts which are recognized as leases, and instead will be replaced by an amortization of the right-of-use asset and interest costs on the lease liability. Since all the aircraft lease contracts are denominated in US dollars, there will be additional volatility in the foreign exchange recognized in the income statement due to the revaluation of the lease liability each reporting period.

Aircraft Leases

As of December 31, 2017, the Corporation had 41 aircraft under operating leases, and the Corporation expects to record such aircraft as right-of-use assets and lease liabilities in accordance with the requirements of IFRS 16. Additionally, in 2018, the Corporation has a lease of aircraft for the regional air service operated by Pacific Coastal Airlines under the capacity purchase agreement ("CPA") and expects to record such aircraft as right-of-use assets and lease liabilities under IFRS 16. The Corporation estimates at January 1, 2018, it will record a right-of-use asset on the 41 leased aircraft of approximately \$250,000 - \$350,000 and a corresponding lease liability of approximately \$325,000 - \$400,000, with the difference between the right-of-use asset and the lease liability to be recorded in opening retained earnings.

As right-of-use assets will be accounted for under IAS 16 Property, Plant and Equipment, aircraft recorded as right-of-use assets will be componentized and depreciated over the lesser of the useful life of the component or the lease term. Consistent with owned aircraft, any major overhaul expenditures will be capitalized and depreciated over the lesser of the lease term and the expected useful life of the overhaul. The Corporation's aircraft lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. As such a maintenance provision will be recorded on aircraft leases as a maintenance expense over the term of the lease. Measurement of the impact of capitalizing and depreciating major overhaul expenditures related to leased aircraft and the change to the maintenance provision is in progress.

Real Estate Leases

The Corporation has a portfolio of real estate leases that are expected to be recorded as right-of-use assets and lease liabilities under IFRS 16 which relate to building space dedicated to WestJet for airport offices, storage and space for maintenance operations, and parking, land leases and a lease for Swoop head office space. The Corporation estimates at January 1, 2018, it will record a right-of-use asset of approximately \$40,000 - \$50,000 and a corresponding lease liability of approximately \$45,000 - \$55,000, with the difference between the right-of-use asset and the lease liability to be recorded in opening retained earnings.

Notes to Consolidated Financial Statements

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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.

	Twelve months ended December 31	
	2018	2017 ⁽ⁱ⁾
Guest Revenue:		
Domestic guest ticket	2,303,641	2,254,206
Transborder and international guest ticket	1,712,919	1,562,650
Ancillary	466,969	422,070
	4,483,529	4,238,926

(i) 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 are related to amounts receivable for the co-branded credit card program. The amounts recorded within Accounts Receivable for the period ended December 31, 2018 and December 31, 2017 are \$35,745 and \$42,936 respectively.

Revenue recognized for the twelve months ended December 31, 2018 that was included in the contract liability balance at December 31, 2017 was \$779,726 and represented revenue from flights flown. Revenue recognized for the twelve months ended December 31, 2017 that was included in the contract liability balance at December 31, 2016 was \$700,138.

Unsatisfied Performance Obligations

Guest revenue is comprised of ticket sales, air component of vacation packages, as well as ancillary revenues. The advance ticket sales contract liability represents an unsatisfied performance obligation, and it is expected that the related revenue will be recognized within one year upon the purchase of a ticket, based on guests flying within a year. Similarly, the non-refundable guest credits liability is an unsatisfied performance obligation, and it is expected that the related revenue will be recognized within one year of issuance, based on guests flying within one year of purchasing a ticket.

As of December 31, 2018, the deferred rewards program contract liability is representative of the remaining performance obligation outstanding and the Corporation will recognize this as guest revenue when a guest has redeemed the reward and flown on a flight.

Included in Other revenue are amounts related to WestJet Vacations' non-air revenue, cargo revenue, charter operations and the brand value licensing component of the co-branded credit card program. Unsatisfied performance obligations related to WestJet Vacations' non-air revenue, cargo revenue, and charter operations is included in the advance ticket sales contract liability and it is expected that revenue related to these performance obligations will be recognized within a year. The unsatisfied performance obligation of the brand value licensing component is expected to be fully recognized in 2019 when the contract is completed.

Notes to Consolidated Financial Statements

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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. 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.

	2018	2017	Change
Cash to trailing 12 months revenue			
Cash, cash equivalents and marketable securities	1,279,577	1,373,166	(93,589)
Trailing 12 months revenue	4,733,462	4,506,655	226,807
Cash to trailing 12 months revenue ^(v)	27.0%	30.5%	(3.5 pts)
Adjusted debt-to-equity			
Long-term debt ⁽ⁱ⁾	1,978,957	2,049,047	(70,090)
Off-balance-sheet aircraft leases ⁽ⁱⁱ⁾	1,047,773	1,244,265	(196,492)
Adjusted debt ^(vi)	3,026,730	3,293,312	(266,582)
Total shareholders' equity	2,302,567	2,258,855	43,712
Add (deduct): Hedge reserves	(6,856)	1,902	(8,758)
Adjusted equity ^(vi)	2,295,711	2,260,757	34,954
Adjusted debt-to-equity ^(vi)	1.32	1.46	(9.6%)
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	3,026,730	3,293,312	(266,582)
Less: Cash, cash equivalents and marketable securities	(1,279,577)	(1,373,166)	93,589
Adjusted net debt	1,747,153	1,920,146	(172,993)
Net earnings	91,465	279,058	(187,593)
Add:			
Net finance cost ⁽ⁱⁱⁱ⁾	27,606	34,084	(6,478)
Taxes	44,417	118,882	(74,465)
Depreciation and amortization	429,906	403,021	26,885
Aircraft leasing	139,703	165,902	(26,199)
Other ^(iv)	(4,212)	7,303	(11,515)
EBITDAR	728,885	1,008,250	(279,365)
Adjusted net debt to EBITDAR ^{(v)(vi)}	2.40	1.90	26.3%

(i) At December 31, 2018, long-term debt includes the current portion of long-term debt of \$536,044 (December 31, 2017 – \$153,149) and long-term debt of \$1,442,913 (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 December 31, 2018, the trailing 12 months of aircraft leasing costs totaled \$139,703 (December 31, 2017 – \$165,902).

(iii) At December 31, 2018, net finance cost includes the trailing 12 months of finance income of \$29,421 (December 31, 2017 – \$19,626) and the trailing 12 months of finance cost of \$57,027 (December 31, 2017 – \$53,710).

(iv) At December 31, 2018, other includes the trailing 12 months foreign exchange gain of \$2,966 (December 31, 2017 – loss of \$4,877) and trailing 12 months non-operating gain on derivatives of \$1,246 (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) The above are non-GAAP financial measures commonly used in the airline industry.

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5. Cash, cash equivalents and marketable securities

	December 31 2018	December 31 2017
Bank balances ⁽ⁱ⁾	224,699	238,858
Short-term investments ⁽ⁱⁱ⁾	961,107	908,218
Total cash and cash equivalents	1,185,806	1,147,076
Marketable securities ⁽ⁱⁱⁱ⁾	93,771	226,090
	1,279,577	1,373,166

(i) Included in these balances, at December 31, 2018, the Corporation has US-dollar cash and cash equivalents totaling US \$11,709 (December 31, 2017 – US \$46,641).

(ii) Included in these balances, at December 31, 2018, the Corporation has US-dollar short-term investments totaling US \$207,562 (December 31, 2017 – US \$151,696).

(iii) Included in these balances, at December 31, 2018, the Corporation has US-dollar marketable securities totaling US \$50,430 (December 31, 2017 – US \$100,000).

6. Restricted cash

	Note	December 31 2018	December 31 2017
Cash held in trust for WestJet Vacations Inc.		79,403	76,389
Security on facilities for letters of guarantee	17	34,684	32,234
Passenger facility charges		1,528	1,077
		115,615	109,700

7. Property and equipment

	January 1 2018	Net Additions	Depreciation	Transfers	December 31 2018
Aircraft ⁽ⁱ⁾	3,479,739	72,766	(362,653)	533,124	3,722,976
Ground property and equipment	72,946	19,651	(20,278)	-	72,319
Spare engines and rotables	195,929	31,307	(24,677)	52,049	254,608
Deposits on aircraft	650,487	380,098	-	(492,336)	538,249
Buildings	99,309	-	(3,521)	-	95,788
Leasehold improvements	17,570	1,490	(4,664)	2,563	16,959
Assets under development	51,524	157,177	-	(95,400)	113,301
	4,567,504	662,489	(415,793)	-	4,814,200

	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 and overhaul components, and (c) inflight entertainment systems. For the year ended December 31, 2018, total aircraft depreciation expense for overhaul components was \$150,857 (December 31, 2017 – \$153,660).

Notes to Consolidated Financial Statements

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7. Property and equipment (continued)

December 31, 2018	Cost	Accumulated depreciation	Net book value
Aircraft	5,634,255	(1,911,279)	3,722,976
Ground property and equipment	188,003	(115,684)	72,319
Spare engines and rotables	389,504	(134,896)	254,608
Deposits on aircraft	538,249	-	538,249
Buildings	136,780	(40,992)	95,788
Leasehold improvements	35,702	(18,743)	16,959
Assets under development	113,301	-	113,301
	7,035,794	(2,221,594)	4,814,200

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 \$1,158,566 at December 31, 2018 (December 31, 2017 – \$1,446,554).

8. Intangible assets

	January 1 2018	Net additions	Amortization	Transfers	December 31 2018
Software	34,916	1,931	(13,133)	3,450	27,164
Landing rights	12,874	-	(892)	-	11,982
Other	5,433	-	(88)	-	5,345
Assets under development	6,294	7,516	-	(3,450)	10,360
	59,517	9,447	(14,113)	-	54,851

	January 1 2017	Net additions	Amortization	Transfers	December 31 2017
Software	33,429	1,148	(12,869)	13,208	34,916
Landing rights	13,766	-	(892)	-	12,874
Other	5,521	-	(88)	-	5,433
Assets under development	13,471	6,031	-	(13,208)	6,294
	66,187	7,179	(13,849)	-	59,517

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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8. Intangible assets (continued)

December 31, 2018	Cost	Accumulated amortization	Net book value
Software	92,332	(65,168)	27,164
Landing rights	17,845	(5,863)	11,982
Other	5,836	(491)	5,345
Assets under development	10,360	-	10,360
	126,373	(71,522)	54,851

December 31, 2017	Cost	Accumulated amortization	Net book value
Software	90,377	(55,461)	34,916
Landing rights	17,845	(4,971)	12,874
Other	5,836	(403)	5,433
Assets under development	6,294	-	6,294
	120,352	(60,835)	59,517

9. Maintenance provisions and reserves

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

	December 31 2018	December 31 2017
Opening balance	352,476	366,234
Additions	46,466	45,682
Change in estimate ⁽ⁱ⁾	11,177	16,544
Foreign exchange	28,368	(22,559)
Accretion ⁽ⁱⁱ⁾	7,656	3,146
Settled	(65,393)	(56,571)
Ending balance	380,750	352,476
Current portion	(101,852)	(82,129)
Long-term portion	278,898	270,347

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

(ii) At December 31, 2018, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.89% (December 31, 2017 – 1.61%) to reflect the weighted average remaining term of approximately 36 months (December 31, 2017 – 40 months) until cash outflow.

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

At December 31, 2018, the current portion of maintenance reserves included in prepaid expenses, deposits and other is \$16,039 (December 31, 2017 – \$16,281) and the long-term portion of maintenance reserves included in other assets is \$6,188 (December 31, 2017 – \$13,761).

Notes to Consolidated Financial Statements

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10. Long-term debt

	December 31 2018	December 31 2017
Term loans – purchased aircraft ⁽ⁱ⁾	20,007	59,770
Term loans – purchased aircraft ⁽ⁱⁱ⁾	136,010	156,929
Term loans – purchased aircraft ⁽ⁱⁱⁱ⁾	625,657	645,501
Senior unsecured notes ^(iv)	399,685	399,139
Non-revolving facility ^(v)	254,765	288,196
USD senior unsecured notes ^(vi)	542,833	499,512
Ending balance	1,978,957	2,049,047
Current portion	(536,044)	(153,149)
Long-term portion	1,442,913	1,895,898

- (i) Seven individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$5,849, at an effective weighted average fixed rate of 6.06%, maturing between 2019 and 2020. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by seven Boeing 737 Next Generation aircraft. At December 31, 2017 – 19 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$13,505, at an effective weighted average fixed rate of 6.05%, maturing between 2018 and 2020. 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 3.83% at December 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. No change from December 31, 2017, other than the weighted average floating interest rate of 2.96%. There are no financial covenants related to these term loans.
- (iii) 45 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$15,731, at an effective weighted average fixed rate of 3.24%, maturing between 2025 and 2030. Each term loan is secured by one Q400 aircraft. At December 31, 2017 – 43 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$14,643, at an effective weighted average fixed rate of 3.18%, maturing between 2025 and 2029. 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 December 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. No change from December 31, 2017. 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 3.98% at December 31, 2018, maturing in 2020. The Corporation has fixed the rate of interest on the term loan, at a weighted average rate of 2.76%, using interest rate swaps. At December 31, 2017 - effective weighted average floating interest rate of 3.00%. 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 December 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 December 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. No change from December 31, 2017.

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

Within 1 year	603,429
1 – 3 years	1,004,508
4 – 5 years	213,856
Over 5 years	335,232
	2,157,025

The Corporation has an unsecured, revolving syndicated credit facility available for general corporate purposes, including the funding of future aircraft acquisitions. During the year ended December 31, 2018, the Corporation increased the limit available to \$400,000 from \$300,000 and extended the term by two years to a four-year term maturing in June 2022. 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 December 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 December 31, 2018 the Corporation has met both covenants.

During the year ended December 31, 2018, the last Bombardier Q400 NextGen aircraft under the Export Development Canada financing agreement was delivered and the remaining undisbursed portion was cancelled. The amount financed for each aircraft was up to 80 per cent of the net price with a term to maturity of up to 12 years, and is repayable in quarterly instalments, including interest at a floating or fixed rate that was determined at the inception of the loan.

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11. Income taxes

(a) Reconciliation of total income tax expense

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

	2018	2017
Earnings before income tax	135,882	397,940
Combined Canadian federal and provincial income tax rate	27.12%	26.92%
Expected income tax provision	36,851	107,125
Add (deduct):		
Non-deductible expenses	6,354	6,042
Non-deductible share-based payment expense	2,629	3,835
Non-taxable portion of capital gain	(1,452)	-
Effect of tax rate changes	-	2,082
Other	35	(202)
Actual income tax provision	44,417	118,882
Effective tax rate	32.69%	29.87%

The increase in the effective tax rate is due to decreased earnings in the current year. As earnings decrease, the impact of relatively fixed permanent differences on the overall effective tax rate is more pronounced, resulting in a corresponding increase in the rate.

(b) Deferred tax

Components of the net deferred tax liability are as follows:

	2018	2017
Deferred tax liability:		
Property and equipment	(519,339)	(479,979)
Net unrealized gain on derivatives designated in a hedging relationship	(2,537)	-
Deferred tax asset:		
Maintenance provision	96,918	87,164
Net unrealized loss on derivatives designated in a hedging relationship	-	704
	(424,958)	(392,111)
Deferred tax liability at December 31, 2017:	(392,111)	(328,534)
Deferred income tax (expense) recovery, year ended December 31, 2018	(29,605)	(60,237)
Tax impact of net unrealized (gain) loss on effective portion of derivatives designated in a hedging relationship	(3,242)	(3,340)
Deferred tax liability at December 31, 2018	(424,958)	(392,111)

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12. Share capital

(a) Authorized

Unlimited number of common voting shares

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

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

Unlimited number of variable voting shares

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

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

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

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

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

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12. Share capital (continued)

(b) Issued and outstanding

	2018		2017	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	114,052,889	548,977	117,200,439	555,716
Issuance of shares pursuant to compensation plans	20,288	602	376,047	10,131
Shares repurchased	(124,554)	(600)	(3,523,597)	(16,870)
Balance, end of year	113,948,623	548,979	114,052,889	548,977

At December 31, 2018, the number of common voting shares outstanding was 82,069,418 (December 31, 2017 – 87,360,973) and the number of variable voting shares was 31,879,205 (December 31, 2017 – 26,691,916).

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 was 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, or until such time as the bid was completed or terminated at the Corporation's option. Any shares purchased under this bid were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid were cancelled. The bid expired on August 2, 2018 with 2,401,692 shares left unpurchased.

During the year ended December 31, 2018, the Corporation purchased and cancelled a total of 124,554 shares (December 31, 2017 – 3,523,597) for total consideration of \$2,386 (December 31, 2017 – \$90,317). The average book value of the shares repurchased was \$4.82 per share (December 31, 2017 – \$4.79) and was charged to share capital. The excess of the market price over the average book value, including transaction costs, was \$1,786 (December 31, 2017 – \$73,447) and was charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2018, 11,644,030 (2017 – 11,664,318) voting shares were reserved for issuance to officers and employees of the Corporation, subject to the following limitations:

- (i) the number of voting shares reserved for issuance to any one optionee will not exceed 5% of the issued and outstanding voting shares at any time;
- (ii) the number of voting shares reserved for issuance to insiders shall not exceed 10% of the issued and outstanding voting shares; and
- (iii) the number of voting shares issuable under the stock option plan, which may be issued within a one-year period, shall not exceed 10% of the issued and outstanding voting shares at any time.

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

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

	2018	2017
Weighted average fair value per option	3.56	3.77
Expected life of options (years)	3.6	3.6
Weighted average risk-free interest rate	2.3%	1.0%
Weighted average expected volatility	26.3%	26.9%
Weighted average dividend yield	2.3%	2.2%

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12. Share capital (continued)

(c) Stock option plan (continued)

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

	2018		2017	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of year	9,429,826	22.95	8,622,779	22.91
Granted	2,891,817	19.77	3,567,702	22.07
Exercised	(147,005)	21.69	(2,530,385)	21.57
Forfeited	(138,073)	21.03	(83,382)	21.45
Expired	(843,534)	23.78	(146,888)	23.59
Stock options outstanding, end of year	11,193,031	22.11	9,429,826	22.95
Exercisable, end of year	7,583,513	23.00	5,196,596	23.67

Under the terms of the Corporation's stock option plan, with the approval of the Corporation, option holders can either (i) elect to receive shares by delivering cash to the Corporation in the amount of the exercise price of the options, or (ii) choose a cashless settlement alternative, whereby they can elect to receive a number of shares equivalent to the market value of the options over the exercise price. For the year ended December 31, 2018, option holders exercised 147,005 options (2017 – 2,526,630 options) on a cashless basis and received 20,288 shares (2017 – 372,292 shares). For the year ended December 31, 2018, nil options were exercised on a cash basis (2017 – 3,755 options).

Options outstanding and exercisable at December 31, 2018:

Outstanding options				Exercisable options	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
14.73-20.00	2,861,712	4.10	19.68	41,670	15.49
20.01-23.00	5,695,153	2.75	21.34	4,931,984	21.31
23.01-26.00	519,365	3.13	23.77	493,058	23.72
26.01-31.16	2,116,801	0.93	26.92	2,116,801	26.92
	11,193,031	2.77	22.11	7,583,513	23.00

(d) Key employee plan

The Corporation has a key employee plan (KEP), whereby restricted share units (RSU) are issued to senior management and pilots of the Corporation. The fair market value of the RSUs at the time of grant is equal to the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the date of grant. Each RSU entitles the employee to receive payment upon vesting in the form of voting shares of the Corporation. The Corporation intends to settle all RSUs with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury; however, wholly at its own discretion, the Corporation may settle the units in cash. The RSU's time vest at the end of a two or three-year period, with compensation expense being recognized in net earnings over the service period. At December 31, 2018, 944,738 (2017 – 944,738) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2018, the Corporation settled 101,445 RSUs through the open market and nil RSUs with shares issued from treasury (December 31, 2017 – 96,068 and nil, respectively).

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

	2018		2017	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	231,640	22.04	238,381	22.50
Granted	367,856	19.73	96,697	22.21
Units, in lieu of dividends	12,566	19.18	5,584	24.75
Settled	(101,445)	23.11	(96,068)	23.57
Forfeited	(21,660)	20.77	(12,954)	21.60
Units outstanding, end of year	488,957	20.06	231,640	22.04

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12. Share capital (continued)

(e) Executive share unit plan

The Corporation has an equity-based executive share unit (ESU) plan, whereby RSUs and performance share units (PSU) may be issued to senior executive officers. At December 31, 2018, 1,011,927 (2017 – 1,011,927) voting shares of the Corporation were reserved for issuance under the ESU plan.

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

Each RSU entitles the senior executive officers to receive payment upon vesting in the form of voting shares of the Corporation. RSUs time vest over a period of up to three years, with compensation expense being recognized in net earnings over the service period.

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

The Corporation intends to settle all RSUs and PSUs with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury; however, wholly at its own discretion, the Corporation may settle the units in cash. For the year ended December 31, 2018, the Corporation settled 143,535 RSUs and 148,973 PSUs through the purchase of shares on the open market and nil through the issuance from treasury (December 31, 2017 – 62,364 and 66,063 and nil, respectively).

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

	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 year	259,672	22.46	488,452	22.42	197,865	22.80	336,718	22.78
Granted	137,420	19.69	238,997	19.73	118,392	22.25	207,755	22.19
Units, in lieu of dividends	7,735	19.65	14,384	19.62	5,779	24.84	10,042	24.90
Settled	(143,535)	22.98	(148,973)	24.57	(62,364)	23.37	(66,063)	23.89
Forfeited	(52,930)	21.43	(189,443)	21.02	-	-	-	-
Units outstanding, end of year	208,362	20.43	403,417	20.59	259,672	22.46	488,452	22.42

(f) Share-based payment expense

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

	2018	2017
Stock option plan	10,428	13,498
Key employee plan	5,039	2,109
Executive share unit plan	521	3,443
Total share-based payment expense	15,988	19,050

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12. Share capital (continued)

(g) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for independent members of the Corporation's Board of Directors. Each DSU entitles a participant to receive cash upon settlement equal to the market value of the equivalent number of shares of the Corporation. The number of DSUs granted is determined based on the closing price of the Corporation's common shares on the trading day immediately prior to the date of grant. Total compensation expense is recognized at the time of grant. Fluctuations in the market value are recognized to compensation expense in the period in which the fluctuations occur. For the year ended December 31, 2018, 58,697 (2017 – 44,576) DSUs were granted, with \$305 (2017 – \$2,222) of recaptured expense included in salaries and benefits. During the year ended December 31, 2018, the Corporation settled nil DSUs (2017 – 5,355). The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the cash-settled DSUs at December 31, 2018 is \$5,006 (2017 – \$5,784). At December 31, 2018, 278,108 (2017 – 219,411) DSUs are vested and outstanding. DSUs are redeemable upon the Director's retirement from the Board.

(h) Employee share purchase plan

The Corporation has an employee share purchase plan (ESPP), whereby the Corporation matches the contributions made by employees. Under the terms of the ESPP, employees may, dependent on their employment agreement, contribute up to a maximum of 10%, 15% or 20% of their gross salary to acquire voting shares of the Corporation at the current fair market value. The contributions are matched by the Corporation and are required to be held within the ESPP for a period of one year. Employees may offer to sell ESPP shares, which have not been held for at least one year, to the Corporation, at a purchase price equal to 50% of the weighted average trading price of the Corporation's voting shares for the five trading days immediately preceding the employee's notice to the Corporation, to a maximum of four times per year.

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

The Corporation's share of the contributions in 2018 amounted to \$102,692 (2017 – \$96,945) and is recorded as compensation expense within salaries and benefits.

13. Dividends

During the year ended December 31, 2018, the Corporation's Board of Directors declared quarterly cash dividends of \$0.14 per common voting share and variable voting share. For the year ended December 31, 2018, the Corporation paid dividends totaling \$63,845 (2017 – \$64,886).

14. Earnings per share

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

	2018	2017
Weighted average number of shares outstanding – basic	114,001,144	116,295,497
Employee stock options	124,961	707,201
Key employee-RSUs	338,232	176,167
Executive-RSUs	82,182	141,135
Executive-PSUs	6,747	44,926
Weighted average number of shares outstanding – diluted	114,553,266	117,364,926

For the year ended December 31, 2018, 6,811,301 employee stock options (2017 – 2,544,013 options) were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

15. Finance cost

	2018	2017
Interest on long-term debt	72,051	73,126
Capitalized interest ⁽ⁱ⁾	(18,930)	(19,825)
Accretion on maintenance provisions	3,906	409
	57,027	53,710

(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%.

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16. Financial instruments and risk management

(a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, 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 December 31, 2018 and 2017:

	Fair value	Amortized cost		Total	
	Through profit or loss	Financial assets	Financial liabilities	Carrying amount	Fair value
December 31, 2018					
Asset (liability):					
Cash and marketable securities ⁽ⁱ⁾	–	1,395,192	–	1,395,192	1,395,192
Accounts receivable	–	145,544	–	145,544	145,544
Foreign exchange derivatives ⁽ⁱⁱ⁾	13,083	–	–	13,083	13,083
Interest rate derivatives ⁽ⁱⁱⁱ⁾	1,129	–	–	1,129	1,129
Cross-currency interest rate swap derivatives ^(iv)	29,808	–	–	29,808	29,808
Other deposits ^(v)	–	97,752	–	97,752	95,112
Accounts payable and accrued liabilities ^(vi)	–	–	(653,888)	(653,888)	(653,888)
Long-term debt ^(vii)	–	–	(1,978,957)	(1,978,957)	(1,858,404)
	44,020	1,638,488	(2,632,845)	(950,337)	(832,424)

	Fair value	Amortized cost		Total	
	Through profit or loss	Financial assets	Financial liabilities	Carrying amount	Fair value
December 31, 2017					
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)	–	–	(542,640)	(542,640)	(542,640)
Long-term debt ^(vii)	–	–	(2,049,047)	(2,049,047)	(1,906,152)
	(11,666)	1,718,013	(2,591,687)	(885,340)	(743,391)

(i) Includes restricted cash of \$115,615 (December 31, 2017 – \$109,700) and marketable securities of \$93,771 (December 31, 2017 – 226,090).

(ii) Includes \$13,113 (December 31, 2017 – \$820) classified in prepaid expenses, deposits and other, and \$30 (December 31, 2017 – \$5,345) classified in accounts payable and accrued liabilities.

(iii) Includes \$2,743 (December 31, 2017 – \$2,067) classified in prepaid expenses, deposits and other, \$504 (December 31, 2017 – \$1,299) classified in accounts payable and accrued liabilities, \$40 (December 31, 2017 – \$2,814) classified in other long-term assets, and \$1,150 classified in other long-term liabilities (December 31, 2017 – \$1,414).

(iv) Includes \$845 (December 31, 2017 – \$nil) classified in prepaid expenses, deposits and other, \$nil (December 31, 2017 – \$560) classified in accounts payable and accrued liabilities, \$28,963 (December 31, 2017 – \$nil) classified in other long-term assets and \$nil classified in other long-term liabilities (December 31, 2017 – \$8,749).

(v) Includes \$38,535 (December 31, 2017 – \$36,189) classified in prepaid expenses, deposits and other, and \$59,217 (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 1.90% (December 31, 2017 – 1.49%) for an average term of 4.0 years (December 31, 2017 – 2.4 years).

(vi) Excludes foreign exchange derivative liabilities of \$30 (December 31, 2017 – \$5,345), interest rate derivative liabilities of \$504 (December 31, 2017 – \$1,299) and cross-currency interest rate swap derivative liabilities of \$nil (December 31, 2017 – \$560).

(vii) Includes current portion of long-term debt of \$536,044 (December 31, 2017 – \$153,149) and long-term debt of \$1,442,913 (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 December 31, 2018 implied Corporate BBB- rate of 5.37% (December 31, 2017 – 4.85%) for a 4.15 year term (December 31, 2017 – 5.07 year term), equal to the weighted average remaining term of the Corporation's long term debt at December 31, 2018.

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16. Financial instruments and risk management (continued)

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

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

Level 2	December 31, 2018	December 31, 2017
Asset (liability):		
Foreign exchange derivatives	13,083	(4,525)
Interest rate derivatives	1,129	2,168
Cross-currency interest rate swap derivatives	29,808	(9,309)
	44,020	(11,666)

During the years ended December 31, 2018 and 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 December 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 \$20,084 (December 31, 2017 – US \$19,013) for a total of US \$241,005 (2017 – US \$228,155) at a weighted average contracted rate on the forward contracts of 1.3070 (December 31, 2017 – 1.2745) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.3613 (December 31, 2017 – 1.2547) Canadian dollars to one US dollar. At December 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 December 31, 2018, the Corporation's swap contracts have an outstanding notional value of \$389,527 with a weighted average fixed interest rate of 1.59% (December 31, 2017 – 1.61%). The December 31, 2018 weighted average floating forward interest rate was 2.23% (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 was determined by discounting the difference between the contracted prices and market-based yield curves.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

16. Financial instruments and risk management (continued)

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

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

<i>(notional in 000's)</i>	Currency	Total	Within 1 year	1– 5 years	Over 5 years
Foreign currency risk:					
Foreign exchange derivatives	USD	241,005	241,005	–	–
Cross-currency interest rate swap derivatives	USD	400,000	–	400,000	–
		641,005	241,005	400,000	–
Interest rate risk:					
Interest rate derivatives	CAD	389,527	277,304	89,218	23,005

(b) Risk management related to financial instruments

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

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

Market risk

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

(i) Fuel price risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, the Corporation is exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside the Corporation's control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply.

The Corporation estimates that a one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$8,148 on fuel costs and that a change of one US-dollar per barrel of West Texas Intermediate (WTI) crude oil will have an approximate impact of US \$9,679 on fuel costs. For the year ended December 31, 2018, aircraft fuel expense represented approximately 27% (2017 – 23%) of the Corporation's total operating expenses.

(ii) Foreign exchange risk

The Corporation is exposed to foreign exchange risks arising from fluctuations in exchange rates on its US-dollar-denominated monetary assets and liabilities and its US-dollar operating expenditures, mainly aircraft fuel, aircraft leasing expense, the land component of vacations packages, aircraft purchases and depreciation and certain maintenance and airport operation costs.

US dollar monetary assets and liabilities

The gain or loss on foreign exchange included in the Corporation's consolidated statement of earnings is mainly attributable to the changes and settlements in the value of the Corporation's US-dollar-denominated monetary assets and liabilities. At December 31, 2018, US-dollar-denominated net monetary assets totaled approximately US \$32,188 (2017 – US \$61,631).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar at December 31, 2018, would have increased or decreased net earnings for the year ended December 31, 2018, by \$228 (2017 – \$433), as a result of the Corporation's US-dollar-denominated net monetary asset balance.

US-dollar aircraft leasing and vacation package hotel costs

The Corporation has foreign exchange forward contracts to fix the foreign exchange rate on a portion of US-dollar hotel costs that form part of the Corporation's vacation packages and to fix the US-dollar cost of aircraft leasing. All foreign exchange forward contracts are governed by the Corporation's Foreign Currency Risk Management Policy. The Corporation applies cash flow hedge accounting for certain foreign exchange hedges.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

16. Financial instruments and risk management (continued)

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

Market risk (continued)

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

	Statement presentation	2018	2017
Fair value	Prepaid expenses, deposits and other	13,113	820
Fair value	Accounts payable and accrued liabilities	(30)	(5,345)
Unrealized gain (loss)	Hedge reserves (before tax)	11,888	(4,305)

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

	Statement presentation	2018	2017
Realized gain (loss)	Aircraft leasing	581	(2,182)
Realized gain (loss)	Other revenue	5,043	(5,816)
Realized gain (loss)	Gain (loss) on derivatives	51	(2,206)
Unrealized gain (loss)	Gain (loss) on derivatives	1,195	(220)

The following table presents the financial impact and statement presentation of the Corporation's cross-currency swaps on the consolidated statement of financial position:

	Statement presentation	2018	2017
Fair value	Prepaid expenses, deposits and other	845	-
Fair value	Accounts payable and accrued liabilities	-	(560)
Fair value	Other assets	28,963	-
Fair value	Other liabilities	-	(8,749)
Unrealized gain (loss)	Hedge reserves (before tax)	29,808	(9,309)

The following table presents the financial impact and statement presentation of the Corporation's cross-currency swaps on the consolidated statement of earnings:

	Statement presentation	2018	2017
Realized gain	Finance cost	424	56

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2018, would impact hedge reserves, net of taxes, by \$1,505 (2017 – \$1,586) and gain on derivatives, net of taxes, by \$254 (2017 – \$79) as a result of the Corporation's foreign exchange derivatives.

(iii) Interest rate risk

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

Cash, cash equivalents and marketable securities

The Corporation is exposed to interest rate fluctuations on its short-term investments, included in cash, cash equivalents and marketable securities. A change of 25 basis points in the market interest rate would have an approximate impact on net earnings of \$3,292 (2017 – \$3,673) as a result of the Corporation's short-term investment activities.

Deposits

The Corporation is exposed to interest rate fluctuations on interest-bearing deposits related to airport operations, which, at December 31, 2018, totaled \$14,584 (2017 – \$14,584). A reasonable change in market interest rates at December 31, 2018, would not have significantly impacted the Corporation's net earnings due to the small size of these deposits.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

16. Financial instruments and risk management (continued)

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

Market risk (continued)

Long-term debt

The Corporation is exposed to interest rate risks arising from fluctuations in market interest rates on its variable-rate debt. The fixed-rate debt and interest rate swaps on the Corporation's long-term debt mitigate the majority of the impacts of interest rate fluctuations and expected cashflows over the term of the outstanding debt and therefore a change in interest rates at December 31, 2018, would not impact net earnings.

At December 31, 2018, the Corporation has entered into interest rate swaps with a weighted-average term of 6.5 years and a weighted-average fixed contracted rate was 3.21%, inclusive of a basis point spread. The Corporation applies cash flow hedge accounting to certain interest rate swaps.

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

	Statement presentation	2018	2017
Fair value	Prepaid expenses, deposits and other	2,743	2,067
Fair value	Other assets	40	2,814
Fair value	Accounts payable and accrued liabilities	(504)	(1,299)
Fair value	Other liabilities	(1,150)	(1,414)
Unrealized loss	Hedge reserves (before tax)	2,067	(3,106)

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

	Statement presentation	2018	2017
Realized gain (loss)	Finance cost	464	(2,746)

A change of 25 basis points in market interest rates at December 31, 2018, would impact hedge reserves, net of taxes, by \$1,697 (2017 – \$3,368) and loss on derivatives, net of taxes, by \$nil (2017 – \$nil) as a result of the Corporation's interest rate derivatives.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2018, the Corporation's credit exposure consists primarily of the carrying amounts of cash, cash equivalents and marketable securities, restricted cash, accounts receivable, other deposits and the fair value of derivative financial assets.

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

	2018	2017
Cash, cash equivalents and marketable securities ⁽ⁱ⁾	1,279,577	1,373,166
Restricted cash ⁽ⁱ⁾	115,615	109,700
Accounts receivable ⁽ⁱⁱ⁾	145,544	152,492
Other deposits ⁽ⁱⁱⁱ⁾	97,752	82,655
Derivative financial assets ^(iv)	45,705	5,701

(i) Consist of bank balances, short-term investments with terms of up to 91 days and marketable securities with terms up to 365 days. Credit risk associated with cash, cash equivalents, marketable securities and restricted cash is minimized substantially by ensuring that these financial assets are invested primarily in debt instruments with highly rated financial institutions, some with provincial-government-backed guarantees. The Corporation manages its exposure by assessing the financial strength of its counterparties and by limiting the total exposure to any one individual counterparty.

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

(iii) The Corporation is exposed to counterparty credit risk on its deposit relating to certain leased aircraft and airport operations, however it considers this risk to be remote because of the nature and size of the counterparties.

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

There were no new bad debts recorded for the year ended December 31, 2018 (2017 – \$nil).

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

16. Financial instruments and risk management (continued)

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

Liquidity risk

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

The table below presents a maturity analysis of the Corporation's undiscounted contractual cash flows for its non-derivative and derivative financial liabilities at December 31, 2018. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date and includes both principal and interest cash flows for long-term debt.

	Total	Within 1 year	1–3 years	4–5 years	Over 5 years
Accounts payable and accrued liabilities ⁽ⁱ⁾	653,888	653,888	–	–	–
Derivative financial liabilities ⁽ⁱⁱ⁾	1,684	534	1,150	–	–
Long-term debt and interest	2,157,025	603,429	1,004,508	213,856	335,232
	2,812,597	1,257,851	1,005,658	213,856	335,232

(i) Excludes foreign exchange derivative liabilities of \$30, interest rate derivative liabilities of \$504 and cross-currency swap derivative liabilities of \$nil.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$30, interest rate derivative contracts of \$1,654 and cross-currency swap derivative contracts of \$nil. The Corporation reports interest rate derivatives at their net position.

A portion of the Corporation's cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2018, was \$695,367 (2017 – \$659,953).

The Corporation aims to maintain a current ratio, defined as current assets over current liabilities, of approximately 1.00 or greater with the understanding that point-in-time fluctuations may periodically bring the ratio below 1.00. At December 31, 2018, the Corporation's current ratio was 0.78 (2017 – 1.08).

At December 31, 2018, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

17. Commitments

(a) Purchased aircraft and spare engines

At December 31, 2018, the Corporation is committed to purchase 10 787-9 Dreamliner aircraft for delivery between 2019 and 2021 and 44 737 MAX aircraft for delivery between 2019 and 2027. The Corporation is also committed to purchase a total of six Boeing spare engines for delivery between 2019 and 2026.

The remaining estimated deposits and delivery payments for the 54 aircraft and six 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	854,146
1 – <3 years	1,697,380
4 – <5 years	905,158
Over 5 years	1,187,389
	4,644,073

(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 December 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	239,096
1 – < 3 years	360,875
4 – <5 years	132,656
Over 5 years	111,685
	844,312

(c) Letters of guarantee

At December 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 December 31, 2018, \$34,684 (December 31, 2017 – \$32,234) letters of guarantee were issued under the facility by assigning restricted cash.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

18. Related parties

(a) Interests in subsidiaries

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

WestJet Investment Corp. (WIC)
WestJet Operations Corp. (WOC)
WestJet Vacations Inc. (WVI)
WestJet Encore Ltd. (Encore)
Swoop Inc. (Swoop)
WestJet, An Alberta Partnership (Partnership)

The Partnership is the primary operating entity of the Corporation. WIC, WOC, WVI and Encore were created for legal, tax and marketing purposes and do not operate independently of the Partnership. Their relationship is such that they depend critically on the Partnership for a variety of resources including financing, human resources and systems and technology. There are no legal or contractual restrictions on the Corporation's and subsidiaries' ability to access or use assets or settle liabilities of the consolidated group.

(b) Interests in consolidated structured entities

The Corporation also controls and consolidates two structured entities (December 31, 2017 – three entities) in which the Corporation has no equity ownership but controls and has power over all relevant activities and is exposed to and has rights to variable returns by means of contractual relationships. These entities were established for legal purposes to facilitate the financing of aircraft. These entities do not conduct any operations except to hold legal title to specific aircraft and their related debt obligations. Through these contractual relationships, the Corporation is required to fund all of the aircraft debt obligations of these entities. There are no legal or contractual restrictions between the Corporation and these entities that limit the access or use of assets or the settlement of liabilities. The full amount of the aircraft debt obligations are reported as long-term debt on the Corporation's consolidated statement of financial position. The nature of the risks associated with these entities is limited to specific tax legislation in Canada and the U.S. Although considered remote by Management, the potential for future changes to Canadian and U.S. tax legislation affecting these entities could have potential adverse tax effects on the Corporation.

(c) Interests in unconsolidated structured entities

The Corporation is a party to 20 Fuel Facility Corporations (FFCs) and three De-Icing Facility Corporations (DFCs) for the purpose of obtaining cost effective into-plane fuel services and aircraft de-icing services at select Canadian and US airports. These operating costs are recorded in aircraft fuel and other expenses, respectively, on the consolidated statement of earnings. At December 31, 2018, the Corporation has \$2,705 (December 31, 2017 – \$2,420) in operating deposits with the FFCs and DFCs classified in prepaids, deposits and other on the consolidated statement of financial position. The Corporation has no equity ownership and no control or significant influence in the FFCs or DFCs. The financing and operating costs of these entities are shared amongst numerous contracting airlines based on a variety of contractual terms including fuel volume consumption and qualifying flights. The Corporation classifies its monthly operating cost obligations to the FFCs and DFCs as other financial liabilities and these obligations are included in accounts payable and accrued liabilities on the consolidated statement of financial position. The 20 FFCs and three DFCs have combined total assets of approximately \$1,034,343 (December 31, 2017 – \$898,696) and liabilities of \$1,053,746 (December 31, 2017 – \$897,752) based on the most recent information received. In the event any or all contracting airlines default and withdraw from the FFCs and DFCs and no amounts are recovered through legal recourse, the Corporation and any remaining contracting airlines are liable for the outstanding obligations of the FFCs and DFCs. These obligations represent the Corporation's maximum exposure to loss from the FFCs and DFCs.

(d) Key management personnel

The Corporation has defined key management personnel as Senior Executive Officers and the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2018 and 2017.

	2018	2017
Salaries, benefits and other compensation ⁽ⁱ⁾	10,760	7,840
Share-based payment expense ⁽ⁱⁱ⁾	971	6,802
	11,731	14,642

(i) Other compensation includes the employee share purchase plan, profit share, cash compensation paid to the Board of Directors, payments under the Corporation's short-term incentive plan to Senior Executive Officers and amounts paid on departure.

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

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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

19. Additional financial information

(a) Assets

	Note	2018	2017 ⁽ⁱ⁾
Accounts receivable:			
Trade and industry ⁽ⁱⁱ⁾		129,733	143,362
Other		18,108	11,427
Allowance		(2,297)	(2,297)
		145,544	152,492
Prepaid expenses, deposits and other:			
Prepaid expenses ⁽ⁱⁱⁱ⁾		45,904	81,667
Short-term deposits ^(iv)		38,535	36,189
Maintenance reserves – current portion	9	16,039	16,281
Derivatives	16	16,701	2,887
Other ^(v)		73,063	1,652
		190,242	138,676
Inventory:			
Fuel		15,016	20,649
Aircraft expendables		21,455	21,483
De-icing fluid		422	380
Other		2,849	533
		39,742	43,045
Other Assets:			
Aircraft deposits ^(vi)		51,070	39,968
Maintenance reserves – long term	9	6,188	13,761
Derivatives	16	29,003	2,814
Other ^(vii)		32,023	22,041
		118,284	78,584

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

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

(iii) Includes prepaid expenses for insurance, vacation package vendors, maintenance services on owned and leased aircraft and other operating costs.

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

(v) Includes a full indemnification for a provision recorded in other liabilities within Accounts payable and accrued liabilities.

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

(vii) Includes long-term deposits for airport operations and long-term prepaid financing costs.

(b) Liabilities

	Note	2018	2017
Accounts payable and accrued liabilities:			
Trade and industry		508,155	478,777
Taxes payable		46,288	20,115
Derivatives	16	534	7,203
Other ⁽ⁱ⁾		99,445	40,410
		654,422	546,505
Other liabilities:			
Deferred contract incentives ⁽ⁱⁱ⁾		11,363	9,008
Derivatives	16	1,150	10,163
Other ⁽ⁱⁱⁱ⁾		20,999	-
		33,512	19,171

(i) Includes a provision which is fully offset by an indemnification included in other within Prepaid expenses, deposits and other above.

(ii) Deferred contract incentives relate to discounts received on aircraft related items as well as the net effect of rent free periods and cost escalations on land leases. Incentives, rent free periods and cost escalations are recognized on a straight-line basis over the terms of the related contracts.

(iii) Other includes the long-term portion of finance leases.

Corporate information

Board of Directors

Clive Beddoe,
Chair of the Board

Brad Armitage,
WEA Chair

Hugh Bolton,
Director

Ron Brenneman,
Director

Christopher Burley,
Vice Chair of the Board

Brett Godfrey,
Director

Allan Jackson,
Director

S. Barry Jackson,
Director

Colleen Johnston
Director

L. Jacques Ménard,
Director

Janice Rennie,
Director

Karen Sheriff,
Director

Edward Sims,
President and Chief Executive Officer

Executive team

Edward Sims,
President and Chief Executive Officer

Harry Taylor,
Executive Vice-President, Finance and Chief Financial
Officer

Charles Duncan,
Executive Vice-President and Chief Strategy Officer

Steven Greenway,
Executive Vice-President and President, Swoop

Craig Maccubbin,
Executive Vice-President and Chief Information Officer

Jeffrey Martin,
Executive Vice-President, Chief Operating Officer

Barbara Munroe,
Executive Vice-President, Corporate Services and General
Counsel

Mark Porter,
Executive Vice-President, People and Culture

Arved Von Zur Muehlen,
Executive Vice-President, Chief Commercial Officer

Stock exchange listing

Shares in WestJet stock are publicly traded on the Toronto
Stock Exchange under the symbol WJA.

Investor relations contact information

Phone: 1-877-493-7853

Email: investor_relations@westjet.com

WestJet headquarters

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

Annual meeting

WestJet Airlines Ltd.'s annual meeting will be held at 10
a.m. (MT) on Tuesday, May 8, 2018, at WestJet's
headquarters at 22 Aerial Place NE Calgary, Alberta T2E
3J1

Auditors

KPMG LLP, Calgary, Alberta

Transfer agent and registrar

AST Trust Company (Canada) www.astfinancial.com
Toll-free in North America: 1-800-387-0825