



Executing on our strategies

WestJet Annual Report 2014



Executing on our strategies

WestJet had another record year in 2014 as we marked our tenth consecutive year of profitability. We continued to execute on our profitable growth strategies throughout the year, including the continued expansion of WestJet Encore, the further evolution of our fare bundles product, the expansion of our code-share and interline partnerships, the introduction of WestJet Rewards tiers, and the extremely successful launch of our first transatlantic service to Dublin, Ireland.

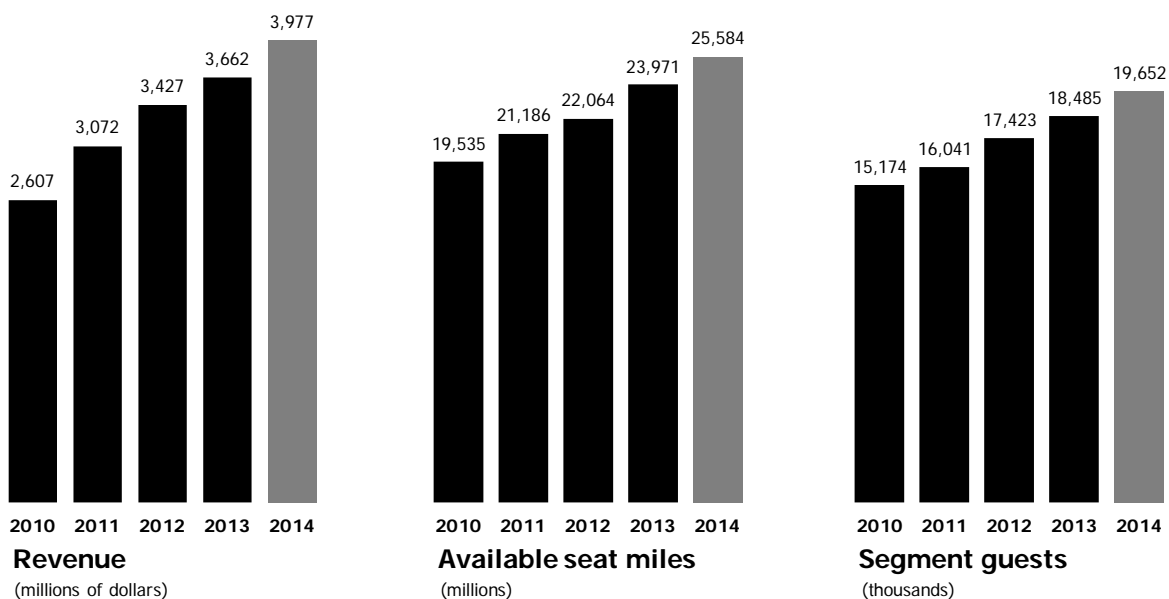
In 2014, WestJet earned awards for being a top employer once again, and for the first time there are more than 10,000 WestJetters delivering our remarkable brand of friendly, caring service.

We look forward to continuing our profitable growth in 2015, including the further expansion of WestJet Encore, increased transatlantic service, and flying our own wide-body aircraft for the first time.

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Financial Overview



(\$ in thousands, except per share data)	2014	2013	2012	2011	2010
Consolidated financial information					
Revenue	\$ 3,976,552	\$ 3,662,197	\$ 3,427,409	\$ 3,071,540	\$ 2,607,294
Earnings before income taxes	\$ 390,307	\$ 372,085	\$ 340,229	\$ 208,006	\$ 133,465
Net earnings	\$ 283,957	\$ 268,722	\$ 242,392	\$ 148,702	\$ 90,197
Adjusted net earnings	\$ 317,188	\$ -	\$ -	\$ -	\$ 92,269
Cash and cash equivalents	\$ 1,358,071	\$ 1,256,005	\$ 1,408,199	\$ 1,243,605	\$ 1,159,316
Earnings per share ⁽ⁱ⁾					
Basic	\$ 2.22	\$ 2.05	\$ 1.79	\$ 1.06	\$ 0.62
Diluted	\$ 2.20	\$ 2.03	\$ 1.78	\$ 1.06	\$ 0.62
Adjusted diluted earnings per share ⁽ⁱ⁾	\$ 2.46	\$ -	\$ -	\$ -	\$ 0.66
Operational highlights*					
Available seat miles (ASM)	25,584,033,077	23,970,921,260	22,063,583,754	21,186,304,409	19,535,291,313
Revenue passenger miles (RPM)	20,828,992,613	19,591,173,039	18,262,554,881	16,890,941,121	15,613,121,610
Load factor	81.4%	81.7%	82.8%	79.7%	79.9%
Yield (cents)	19.09	18.69	18.77	18.18	16.70
Revenue per ASM (cents)	15.54	15.28	15.53	14.50	13.35
Cost per ASM (cents)	13.68	13.61	13.83	13.29	12.37
Cost per ASM, excluding fuel and employee profit share (cents)	9.15	9.06	9.12	8.85	8.80

(i) For further information please refer to page 11 of this Annual Report



President's message to shareholders

I have been incredibly privileged to be a WestJetter since 2009. In that time, I have seen our airline successfully grow and evolve to meet the challenges of a competitive and dynamic marketplace. The thing that hasn't changed over the years is our focus on keeping our costs low and WestJetters' commitment to providing guests with our remarkable brand of friendly, caring service. The positivity and passion for this company that our more than 10,000 WestJetters exhibit every day is the foundation of our success and is at the core of who we are.

2014 was about executing on our strategies, and that is the theme of this report. Throughout the year, we continued to execute on long-term revenue enhancing and cost reduction strategies, and implemented several new initiatives that will support our continued profitable growth and strengthen our proven and tested business model.

We had another great year in 2014, and our record financial and operational results are evidence of the success we are seeing from our business strategies. 2014 marked our 10th consecutive year of profitability and the 18th time we have reported an annual profit in our 19 years of reporting. We achieved record adjusted net earnings of \$317.2 million or \$2.46 per fully diluted share in 2014, up 18 per cent and 21 per cent year-over-year, respectively. The fourth quarter of 2014 also represented our 39th consecutive profitable quarter and the 10th consecutive quarter in which we exceeded our return on invested capital target of 12 per cent by achieving 14.3 per cent. Operationally, we put significant focus on improving our on-time performance in 2014 and achieved our best on-time performance rate in seven years. 78.9 per cent of our flights arrived within 14 minutes of our published timetable, up 5.0 percentage points year-over-year.

At the beginning of 2013, we set a goal for ourselves of reducing our annual costs by \$100 million by the end of 2015. I am very proud to say that by the end of 2014 we exceeded that goal, realizing approximately \$125 million of savings, one full year ahead of our initial target. Our low-cost culture is a core part of who we are, and we will continue to identify and implement efficiencies that will drive cost savings across our business in 2015 and beyond.

We implemented several initiatives in 2014 to improve our airline's value proposition to our growing number of business travelers. These initiatives included increasing schedule utility and expanding connectivity as we optimized our network and schedule using the two types of aircraft in our fleet; the continued evolution of our Plus product, which offers more comfort, convenience and flexibility for value-oriented business travelers, and the introduction of new Gold, Silver and Teal levels to our Rewards program, offering further convenience and flexibility and accelerated reward dollar earning opportunities.

Over the course of 2014, we continued to grow and strengthen our network which now serves more than 90 destinations in North America, Central America, the Caribbean and Europe. Combined with our airline partners, our virtual network provides our guests access to over 150 destinations via WestJet. During 2014, we grew the total number of airline partnerships to 46 through new interline relationships and new code-share agreements with Qantas Airways and China Airlines.

In 2014 we launched our most successful new destination ever with service to Dublin, Ireland, which proved extremely popular on both sides of the Atlantic! Building on that success and the operational experience we gained in European markets, in October 2014 we announced that we would begin service between Halifax, Nova Scotia and Glasgow, United Kingdom in May 2015 and that we would resume our seasonal service to Dublin six weeks earlier. We are very excited to continue bringing WestJet's friendly caring service to European destinations in 2015.

We continued to expand our fleet in 2014 with the addition of seven new 737NG-800s and seven new Bombardier Q400s. Supported by this fleet expansion, we flew a record 19.7 million guests in 2014, an increase of 6.3 per cent from 2013, or 1.2 million additional guests. At the same time, as part of our strategy to optimize and modernize our fleet mix, we disposed of five of our oldest Boeing 737NG-700 aircraft, and expect to dispose of five more in the first half of 2015.

In July 2014, we announced our intention to begin flying our own wide-body aircraft for the first time. We selected four Boeing 767-300ERW aircraft for that role and will deploy them on routes between Alberta and Hawaii in late 2015. Beginning in the spring of 2016, we will look to use these aircraft to expand our network into additional overseas markets.

WestJet Encore, which celebrated its first birthday in June 2014, continued to bring our remarkable brand of service to new communities, feed our existing network, and increase our overall schedule efficiency as it moved forward with its successful expansion across Canada in 2014. WestJet Encore saw its first service to central and eastern Canada in 2014, and with the announcement of destinations in New Brunswick, Nova Scotia and Newfoundland beginning in 2015, WestJet Encore now



serves Canadians coast to coast. I am excited for the continued growth of WestJet Encore in 2015 and beyond, including into the United States.

Our fare bundles product, which we launched in 2013, continued to evolve in 2014. Fare bundles provide our guests, who increasingly want the lowest fare possible, with the option to pay only for those services they choose. This in turn allows us to keep base fares as low as possible and is consistent with our strategy to be Canada's low fare leader. As part of this strategy, we introduced a fee for a first checked bag on the lowest fare bundle, which we expect to generate approximately \$100 million in incremental annual revenue.

We made several enhancements to our rewards program in 2014, announcing the launch of our new WestJet Rewards tiers program in October featuring three levels; Teal, Silver and Gold. In line with our partnership strategy, we launched a reciprocal frequent flyer agreement with our code-share partner Delta Airlines, allowing WestJet Rewards members to access Delta's extensive global network while earning WestJet dollars, and began offering WestJet Rewards members the opportunity to redeem their WestJet dollars on WestJet marketed flights operated by our code-share partners American Airlines and Delta Airlines. We have seen a strong response to these enhancements as well as our Status Match and Fast Track promotions, with thousands of new guests moving over to WestJet Rewards from other loyalty programs.

We announced early in 2014 that we had signed a multi-year agreement with Panasonic Avionics Corporation to provide us with a new inflight entertainment system including satellite-based WiFi, streaming video and other robust content. At the same time, we announced that we would be installing new, slimmer seats on our aircraft, including in-seat power with USB and 110-volt capability. The installation of these new features on our Boeing 737 aircraft continues, and we expect to have more than half of our fleet equipped by year-end 2015, and the entire fleet of Boeing aircraft within two years.

In February 2014, WestJet was assigned a BBB-, or investment grade, credit rating by Standard & Poor's Ratings Services. This placed us among the very few airlines in the world with an investment grade credit rating and is reflective of the strength of WestJet's culture and business model. In July 2014, we built on that rating with our inaugural offering of \$400 million of 3.287% senior unsecured notes, adding considerable flexibility to our fleet financing plan.

We were honored in the past year to receive several awards highlighting our unique culture and value proposition to our guests. Among these awards, WestJet was named one of the Best Employers in Canada for 2015 by Aon Hewitt, recognizing our engaged and dedicated workforce. We were very happy that the WestJet RBC World Elite MasterCard was once again named Canada's best travel reward card according to an annual review and ranking of credit cards in the September 2014 issue of Money Sense magazine. Our guests confirmed that ranking when the WestJet RBC World Elite MasterCard and the WestJet RBC MasterCard were ranked Canada's number one and number two travel rewards credit cards in the airline category in a consumer vote according to RewardsCanada.ca in December 2014.

I am proud that we can continue to extend WestJet's caring culture to make a difference in the communities we serve. Individual WestJetters showed their caring spirit in 2014 by donating more than 60,500 hours of their time to a variety of charitable and not-for-profit organizations across Canada, while our airline donated in excess of 16,500 single flights to community-based groups and organizations during the year. We also welcomed two new partners to the WestJet Cares for Kids program in 2014, Free the Children and the David Foster Foundation, further enabling WestJetters to support children and their families in the communities where they live.

As always, WestJetters are at the core of our success. In December 2014, we were pleased to have concluded a new pilot agreement, and we look forward to completing the first ever agreement with our flight attendants in early 2015.

We remain committed to returning value to shareholders. In 2014, we repurchased and cancelled 1,435,150 shares under our normal course issuer bids, and in February 2014, announced a 20 per cent increase in our quarterly dividend, from \$0.10 to \$0.12. Combined, we returned more than \$100 million to shareholders under these programs in 2014. In February 2015, we announced a further 17 per cent increase in our quarterly dividend from \$0.12 to \$0.14, the fifth increase since we first introduced our quarterly dividend in 2010, demonstrating our continuing confidence in WestJet's investment grade business model.



Recent volatility in markets has presented some unique challenges and opportunities for airlines and we have to be nimble as a result. The recent decline in fuel prices has provided us with some flexibility, but those prices remain volatile and we will continue to manage our business prudently as we have done in the past.

Looking forward to 2015, we will continue to execute on our revenue generation and cost-saving strategies. With a focus on continued profitable growth in the coming years, we anticipate the further expansion of WestJet Encore, increased transatlantic service, and the deployment of wide body aircraft into our network, ushering in a new era of long-haul travel at WestJet.

On behalf of the Board of Directors, the Executive team, and more than 10,000 WestJetters, thank you for your continued support of our airline.

A handwritten signature in black ink, appearing to read "Gregg Saretsky".

Gregg Saretsky

President and Chief Executive Officer

March 18, 2015



Caution regarding forward-looking statements

Certain statements set forth in the above president's message to shareholders, including without limitation, information respecting WestJet's return on invested capital target of 12 per cent; our plans to continue identifying and implementing efficiencies that will drive cost savings across our business in 2015 and beyond; our expectation that we will dispose of five more Boeing 737NG-700 aircraft in the first half of 2015; our plans to introduce wide-body service with initial flights planned between Alberta and Hawaii in late 2015 and beginning in 2016 our plans to expand our network into additional overseas markets; the continued growth of WestJet Encore, including into the United States; our expectations that the first checked bag fee will generate approximately \$100 million in incremental revenue; and our expectations that half of our fleet will be equipped with the new inflight entertainment system by year-end 2015, and the entire fleet of Boeing aircraft within two years contain certain forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond WestJet's control. These forward-looking statements are based on our existing strategies, our long-term strategic plan, our fleet plan and our current forecast, 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 statements as actual results may vary materially from the forward-looking statements. WestJet does not undertake to update, correct or revise any forward-looking statements as a result of any new information, future events or otherwise, except as may be required by applicable law.

Non-GAAP measures

This president's message to shareholders contains disclosure respecting non-GAAP measures including, without limitation, adjusted net earnings; adjusted diluted earnings per share; and return on invested capital. Non-GAAP measures are included to enhance the overall understanding of WestJet's financial performance and to provide an alternative method for assessing WestJet's operating results in a manner that is focused on the performance of WestJet's ongoing operations, and to provide a more consistent basis for comparison between reporting periods. These measures are not calculated in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures provided by other entities. Readers are urged to review the section entitled "Reconciliation of non-GAAP and additional GAAP measures" in WestJet's management's discussion and analysis of financial results for the year ended December 31, 2014.



Management's Discussion and Analysis of Financial Results 2014

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ADVISORIES

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 2, 2015, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as the audited consolidated financial statements and notes thereto, for the years ended December 31, 2014 and 2013. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "WestJet," "the Corporation," "the Company," "we," "us" or "our" mean WestJet Airlines Ltd., its subsidiaries and consolidated 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," "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 the pricing environment), labour matters, government regulations, stock market volatility, the ability to access sufficient capital from internal and external sources, and additional risk factors discussed in other documents we file from time to time with securities regulatory authorities, which are available on SEDAR at sedar.com or, upon request, without charge from us.

The disclosure found under the heading "Outlook" in this MD&A, including the guidance summary for the three months ended March 31, 2015 and the year ended December 31, 2015 may contain forward-looking information that constitutes a financial outlook. The forward-looking information, including any financial outlook, contained in this MD&A, is provided to assist investors in understanding our assessment of WestJet's future plans, operations and expected results. The forward-looking information, including without limitation, the disclosure found under the heading "Outlook", contained in this MD&A may not be appropriate for other purposes and is expressly qualified by this cautionary statement. Please refer to page 45 of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development. Our assumptions and estimates relating to the forward-looking information referred to above are updated in conjunction with filing our quarterly and annual MD&A and, except as required by law, we do not undertake to update any other forward-looking information.

Non-GAAP and additional GAAP measures

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

Please refer to page 48 of this MD&A for a reconciliation of non-GAAP measures, including cost per available seat mile (CASM), excluding fuel and employee profit share; return on invested capital (ROIC); free cash flow; diluted free cash flow per share; 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 (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, recorded in the third quarter of 2014, 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. This has resulted in the presentation of new non-GAAP measures or a change in composition of certain non-GAAP measures when compared to previously disclosed 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 48 under the title "Definition of Key Operating Indicators".

ANNUAL OVERVIEW

We are very pleased with the overall results we achieved in 2014. Our record annual net earnings of \$284.0 million and diluted earnings per share of \$2.20 marked the tenth consecutive year of annual profitability and is the eighteenth time we have reported an annual profit in our 19-years of reporting. Included in net earnings for the year ended December 31, 2014, is an after-tax \$33.2 million non-cash loss associated with 10 aircraft being classified to assets held for sale in our consolidated statement of financial position (the non-cash loss). Of these 10 aircraft sold to Southwest Airlines (Southwest) five were physically delivered in the fourth quarter of 2014. Excluding this non-cash loss, for the year ended December 31, 2014, our adjusted net earnings are \$317.2 million, an increase of 18.0 per cent from the same period in 2013, and our adjusted diluted earnings per share are \$2.46. During 2014, revenue increased by 8.6 per cent to end the year at \$4.0 billion driven mainly by an increase in traffic of 6.3 per cent and improvements in yield, year over year.

In 2014, we completed our first transatlantic flights, we continued to expand our overall network and we grew our airline partnerships. We also introduced various service enhancements in order to improve our guests' overall experience. We launched a new WestJet Rewards tiers program and we introduced a price-drop guarantee on flights and vacation packages. We also introduced a fee for the first checked bag on Econo fares, we were successful at expanding our sources of financing through a new credit facility and our inaugural bond offering, we achieved our previously disclosed goal of \$100 million of future annual cost savings in 2014, and, we continued to remain focused on reducing future costs under our business transformation initiative. Finally, in December 2014 we reached a new agreement with our pilots.

We distributed approximately \$100.7 million to our shareholders through our dividend and share buy-back programs in 2014. Since these programs began in 2010, we have returned over five hundred million dollars to our shareholders. Our 12-month ROIC of 14.3 per cent at 2014 year-end, which excludes the non-cash loss associated with the sale of 10 aircraft to Southwest, continues to surpass our goal of a sustainable 12 per cent ROIC and represents a slight improvement of 0.4 percentage points as compared to our 2013 year-end ROIC of 13.9 per cent.

2014 Summary

- Recognized total revenue of \$3,976.6 million, an increase of 8.6 per cent from \$3,662.2 million in 2013.
- Increased capacity, measured in ASMs, by 6.7 per cent over 2013.
- Increased traffic, measured in revenue passenger miles (RPMs), by 6.3 per cent over 2013.
- Increased yield by 2.1 per cent over 2013.
- Realized revenue per available seat mile (RASM) of 15.54 cents, up 1.7 per cent from 15.28 cents in 2013.
- Realized cost per available seat mile (CASM) of 13.68 cents, up 0.5 per cent from 13.61 cents in 2013.
- Realized CASM, excluding fuel and employee profit share, of 9.15 cents, up 1.0 per cent from 9.06 cents in 2013.
- Recorded an operating margin of 12.0 per cent, up 1.1 percentage points from 10.9 per cent in 2013.
- Recorded an EBT margin of 9.8 per cent, down 0.4 percentage points from 10.2 per cent in 2013. Adjusted for the pre-tax non-cash loss, EBT margin was 11.0 per cent, up 0.8 percentage points from 2013.
- Reported net earnings of \$284.0 million, an increase of 5.7 per cent from \$268.7 million in 2013. Adjusted for the non-cash loss, net earnings is \$317.2 million, an increase of 18.0 per cent from 2013.
- Reported diluted earnings per share of \$2.20, an increase of 8.4 per cent from \$2.03 per share in 2013. Adjusted for the non-cash loss, diluted earnings per share is \$2.46, an increase of 21.2 per cent from 2013.

(Please refer to page 48 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures)



WestJetters

WestJetters are at the core of our business. It is with their continued dedication and hard work that we are able to create a positive, safe and caring experience for our guests and ensure the success of our airline. In 2014, we welcomed on board approximately 19.7 million guests, an increase of 6.3 per cent over 2013. During 2014, we were honoured to receive a number and variety of awards and recognitions, which would not otherwise have been possible without the commitment and care delivered by more than 10,000 WestJetters.

- In March 2014, we were ranked 74th among the top 100 Canadian Brands by the London, England based brand valuation consultancy, Brand Finance.
- In April 2014, both WestJet and WestJet Vacations received top marks in brand recognition from the 2013 Harris Poll Canada EquiTrend[®] Study.
- In May 2014, our Chairman of the Board of Directors, Clive Beddoe, was inducted to Canada's Aviation Hall of Fame.
- In June 2014, we were named one of Canada's most valued brands by Interbrand Canada's 2014 Best Canadian Brands report.
- Also in June 2014, we were awarded two Bronze Lions from the 2014 Cannes Lions International Festival of Creativity for the WestJet Christmas Miracle: Real Time Giving video released in December 2013.
- In October 2014, we were honoured to be named one of the Brands of the Year by Strategy Magazine.
- In November 2014, we earned a place on the list of Canada's Top 50 Employers based on Aon Hewitt's 16th annual Best Employers in Canada study for 2015.

In December 2014, we announced that our pilots voted in favour of a new agreement, which will expire on April 30, 2019. We were able to reach this new agreement as a result of the dedication and hard work of the WestJet Pilots Association and we look forward to the continued stability this new agreement will provide to us.

In 2014, we also announced a three-year enhanced partnership with the Canadian charity Live Different and its Hero Holiday program. WestJet has been supporting Live Different since 2012, and our renewed partnership with the organization is a testament to WestJet's continued goal to extend in meaningful ways the WestJet culture of care into the communities we serve.

Network expansion

With the support of our WestJet Pilot Association, in 2014 we announced our plan to take the next steps to begin operating four wide-body aircraft. We initially expect to deploy the Boeing 767-300ERW series aircraft on routes between Alberta and Hawaii, replacing the service currently operated by Thomas Cook.

During 2014, we achieved a major milestone and began our first transatlantic flights to Dublin, Ireland and we announced our second transatlantic destination, Glasgow, United Kingdom. We will begin daily non-stop flights from Halifax, Nova Scotia to Glasgow, on May 29, 2015, with direct (same-aircraft) service from Toronto, to be operated with our Boeing 737 NG 700 series aircraft. The expansion of our transatlantic flights provides a great opportunity for us to bring our brand and guest experience to new routes and new markets.

We also launched service in 2014 to a new Canadian destination, Penticton, British Columbia, operated by WestJet Encore. In addition, WestJet Encore further expanded east and began servicing its first two central Canada destinations offering service between Winnipeg, Manitoba and Thunder Bay, Ontario and between Thunder Bay, Ontario and Toronto, Ontario, along with an announcement in July 2014 of its first Maritime destination, Fredericton, New Brunswick, with service from Toronto, Ontario beginning on April 15, 2015. WestJet Encore achieved an important milestone in July 2014, welcoming its one-millionth guest on board. We are pleased with WestJet Encore's first full year of successful operations, providing service to new communities.

As at December 31, 2014 we have a registered fleet of 122 aircraft. As of the date of this MD&A, WestJet, including WestJet Encore, offers scheduled service to 93 destinations in North America, Central America, the Caribbean and Europe. Subsequent to December 31, 2014, we announced two new destinations: Houston, Texas, and Gander, Newfoundland.



Over the course of 2014 we entered into several additional interline relationships and initiated two new code-share agreements: Qantas Airways and China Airlines. This brings our total airline partnerships to 46 as of the date of this MD&A. Establishing strong airline partnerships is one of our key strategies and these partnerships enable our guests to access over 150 destinations through WestJet.

Guest experience

In 2014, we continued to introduce and implement changes to some of our services to continue to enhance our guests' overall experience. Early on in the year, we announced a multi-year agreement with Panasonic Avionics Corporation to provide us with a new inflight entertainment system that features wireless satellite internet connectivity, live streaming television, on-demand movies, magazines and more, throughout North America, the Caribbean, Central America, and Europe. Guests will be able to use their own personal electronic devices to receive live and stored content streamed wirelessly from a server on board each Boeing 737 NG aircraft. Airtime packages will also be available to provide guests with the ability to surf the internet, access email or plan a vacation on westjet.com. For those guests not travelling with a device, we plan to make tablets or other similar electronic devices available for rent on board the aircraft. In conjunction with the new inflight entertainment system, we will also have USB/110 volt power outlets, allowing our guests to charge their devices, and we will have new, slimmer seats on our Boeing 737 NG aircraft, all of which we began installing in the fourth quarter of 2014 and anticipate being complete in 2016. Furthermore, following receipt of a Transport Canada exemption in 2014, guests on our Boeing NG 737 aircraft now have full access to their personal electronic devices during all phases of flight.

We launched a WestJet iPhone app available for free download from the Apple App Store in May 2014. This app, in addition to the mobile app we released to the Google store at the end of 2013, enhances overall guest experience by delivering functionality and features relevant to every traveller, including the ability to book new flights, modify existing reservations, check in for upcoming flights and get flight status information.

We also introduced our new WestJet Rewards tiers program featuring three levels – Teal, Silver, and Gold, each with varying features, and we introduced a price-drop guarantee on WestJet flights and WestJet Vacations packages. Guests who see that the price of their flight or their vacation package has dropped since their original purchase can receive the difference in WestJet dollars.

In the fourth quarter of 2014 we introduced a fee for the first checked bag on Econo fares for travel within Canada and between Canada and the US. This change is anticipated to provide us with the ability to offer reduced base fares reinforcing WestJet's commitment to being Canada's low-fare leader. Amongst other awards and benefits, WestJet Silver Reward members are able to check one bag at no cost, WestJet Gold Reward members are able to check two free bags and those guests who hold our WestJet RBC[®] World Elite MasterCard[±] are also able to check one free bag.

Finally, in 2014 we were very pleased that the WestJet RBC[®] World Elite MasterCard[±] and the WestJet RBC[®] MasterCard[±] continued to be recognized as top travel rewards cards in Canada. In September 2014, the WestJet RBC[®] World Elite MasterCard[±] was recognized as Canada's best travel rewards card according to MoneySense magazine and most recently in December 2014, WestJet RBC[®] World Elite MasterCard[±] and WestJet RBC[®] MasterCard[±] were once again voted as Canada's top travel rewards credit cards in the airline category, according to RewardsCanada.ca.

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±MasterCard and World MasterCard are registered trademarks of MasterCard International Incorporated.

Select annual information

(\$ in thousands, except per unit data)	2014	2013	2012	2011	2010
Financial summary					
Revenue	3,976,552	3,662,197	3,427,409	3,071,540	2,607,294
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Net earnings	283,957	268,722	242,392	148,702	90,197
Adjusted net earnings ^(iv)	317,188 ⁽ⁱ⁾	–	–	–	92,269 ⁽ⁱⁱ⁾
Basic earnings per share	2.22	2.05	1.79	1.06	0.62
Diluted earnings per share	2.20 ⁽ⁱ⁾	2.03	1.78	1.06	0.62
Adjusted diluted earnings per share ^(iv)	2.46	–	–	–	0.66 ⁽ⁱⁱ⁾
Cash and cash equivalents	1,358,071	1,256,005	1,408,199	1,243,605	1,159,316
Total assets	4,646,433	4,143,463	3,746,615	3,473,678	3,383,980
Total long-term liabilities	1,530,630	1,147,163	1,086,457	1,161,604	1,240,285
Cash dividends declared per share	0.48	0.40	0.28	0.20	0.05
Operational summary					
ASMs	25,584,033,077	23,970,921,260	22,063,583,754	21,186,304,409	19,535,291,313
RPMs	20,828,992,613	19,591,173,039	18,262,554,881	16,890,941,121	15,613,121,610
Load factor	81.4%	81.7%	82.8%	79.7%	79.9%
Yield (cents) ⁽ⁱⁱⁱ⁾	19.09	18.69	18.77	18.18	16.70
RASM (cents) ⁽ⁱⁱⁱ⁾	15.54	15.28	15.53	14.50	13.35
CASM (cents) ⁽ⁱⁱⁱ⁾	13.68	13.61	13.83	13.29	12.37
CASM, excluding fuel and employee profit share (cents) ^(iv)	9.15	9.06	9.12	8.85	8.80
Fuel consumption (litres)	1,214,001,002	1,144,937,872	1,079,108,614	1,027,821,192	950,341,292
Fuel costs per litre (cents)	90	91	92	89	71
Segment guests	19,651,977	18,485,144	17,423,352	16,040,682	15,173,581
Average stage length (miles)	936	976	978	984	968
Utilization (hours)	11.8	12.0	11.9	11.8	11.6
Number of full-time equivalent employees at period end	8,698	8,000	7,742	7,141	6,877
Fleet size at period end	122	113	100	97	91

(i) In 2014, net earnings and diluted earnings per share are adjusted for the after-tax non-cash loss associated with the sale of aircraft to Southwest.

(ii) In 2010, net earnings and diluted earnings per share are adjusted for a salary expense related to the departure of a previous Chief Executive Officer and incremental costs from the implementation of a reservation system at that time.

(iii) Please refer to page 48 of this MD&A for a definition of key operating indicators.

(iv) Please refer to page 48 of this MD&A for a reconciliation of non-GAAP measures.

2014 RESULTS OF OPERATIONS

Revenue

(\$ in thousands)	2014	2013	Change
Guest	3,599,157	3,337,569	7.8%
Other	377,395	324,628	16.3%
	3,976,552	3,662,197	8.6%
RASM (cents)	15.54	15.28	1.7%

During 2014, total revenue increased by 8.6 per cent to \$3,976.6 million compared to \$3,662.2 million in 2013, largely attributable to growth in guest revenue associated with our increase in traffic and in yield and in other revenue due to increased ancillary revenue. One of our key revenue measurements is RASM, which takes into consideration both load factor and yield. On an ASM basis, revenue increased by 1.7 per cent to 15.54 cents from 15.28 cents in 2013. The overall increase in RASM was driven by the 2.1 per cent year-over-year increase in yield, which was a result of a strong demand environment, successful ancillary revenue growth initiatives, offset by a slight decline in load factor.

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

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

	2014		2013		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	13,883,212,833	54.3%	13,157,007,097	54.9%	5.5%
Transborder and international	11,700,820,244	45.7%	10,813,914,163	45.1%	8.2%
Total	25,584,033,077	100.0%	23,970,921,260	100.0%	6.7%

For the year ended December 31, 2014, our overall capacity increased by 6.7 per cent compared to 2013. This increase was a result of taking delivery of seven Boeing 737 NG 800 series aircraft while selling five Boeing 737 NG 700 series aircraft to Southwest and taking delivery of seven Bombardier Q400 aircraft. In 2014, 45.7 per cent of ASMs were allocated to the transborder and international markets, as compared to the 45.1 per cent allocated to those markets in 2013.

During 2014, our domestic traffic, measured in RPMs, increased by 4.8 per cent year over year, as compared to the 5.5 per cent increase in capacity from 2013. With regards to our transborder and international markets, RPMs increased by 8.1 per cent over 2013 while capacity increased by 8.2 per cent.

Other revenue

Included in other revenue are amounts related to ancillary revenue, WestJet Vacations' non-air revenue and our charter and cargo operations. For 2014, other revenue increased by 16.3 per cent to \$377.4 million from \$324.6 million in 2013. This improvement was driven mainly by increases in ancillary revenue.

Ancillary revenue, which includes service fees, onboard sales and our WestJet RBC[®] MasterCard[±] program revenue, provides an opportunity to maximize our profits through the sale of higher-margin goods and services, while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. For the year ended December 31, 2014, ancillary revenue was \$216.5 million, an increase of 31.2 per cent from \$165.0 million in 2013. This increase was mainly due to increases in the number of guest bookings, pre-reserved seating and Plus seating upgrade sales, the continued penetration of our WestJet RBC MasterCard program as well as the introduction of a first bag fee on certain flights in the latter half of the year. On a per guest basis, ancillary fees for the year increased by \$2.11 or 23.6 per cent to \$11.05 per guest, from \$8.94 per guest for 2013. These increases are mainly attributable to the introduction of the first bag fee as well as a continued favourable impact of our fare bundles and an increased awareness of the Plus product since its introduction in 2013.

WestJet Vacations continues to be successful in generating additional revenue and supporting WestJet's overall network. The land component, which mainly includes hotels, attractions and car rentals, is reported on the consolidated statement of earnings at the net amount received. For the year ended December 31, 2014, WestJet Vacations' net non-air revenue grew, however this growth was largely offset by the weaker Canadian dollar as the majority of the land components are paid in US dollars which is netted against the gross revenue collected in Canadian dollars.

Operating expenses

	Expense (thousands)			CASM (cents)		
	2014	2013	Change	2014	2013	Change
Aircraft fuel	1,090,330	1,039,448	4.9%	4.26	4.34	(1.8%)
Airport operations	507,743	460,566	10.2%	1.98	1.92	3.1%
Flight operations and navigational charges	458,146	408,951	12.0%	1.79	1.71	4.7%
Sales and distribution	376,676	356,988	5.5%	1.48	1.49	(0.7%)
Marketing, general and administration	224,783	222,567	1.0%	0.87	0.92	(5.4%)
Depreciation and amortization	226,740	200,840	12.9%	0.89	0.84	6.0%
Aircraft leasing	182,450	175,646	3.9%	0.71	0.73	(2.7%)
Inflight	171,741	176,907	(2.9%)	0.67	0.74	(9.5%)
Maintenance	193,685	169,197	14.5%	0.76	0.71	7.0%
Employee profit share	68,787	51,577	33.4%	0.27	0.21	28.6%
Total operating expenses	3,501,081	3,262,687	7.3%	13.68	13.61	0.5%
Total, excluding fuel and profit share	2,341,964	2,171,662	7.8%	9.15	9.06	1.0%

During 2014, operating expenses increased by 7.3 per cent to \$3,501.1 million as compared to \$3,262.7 million in 2013, primarily driven by a 6.7 per cent year-over-year increase in capacity, the devaluation of the Canadian dollar year-over-year as well as an increase in maintenance expense. These increases were partially offset by a fuel value added tax (VAT) recovery and a decrease in inflight expense. On an ASM basis, operating expenses increased by 0.5 per cent to 13.68 cents from 13.61 cents in 2013 driven largely by higher employee profit share expense and higher maintenance expense partially offset by lower fuel expense and lower inflight expense. Excluding fuel and employee profit share, CASM increased by 1.0 per cent to 9.15 cents as compared to 9.06 cents in 2013. This is in line with our guidance provided in the third quarter for full-year 2014 CASM, excluding fuel and employee profit share of up 1.0 per cent to 1.5 per cent year over year.

Included in operating expenses for the year ended December 31, 2014, is a fuel VAT recovery from a foreign jurisdiction related to the years 2009 through to the end of 2013 of \$20.1 million (\$17.6 million in aircraft fuel expense and \$2.5 million in airport operations expense). This recovery was recorded in the first three months of 2014 as a change in estimate and was based on the positive outcome of previously filed claims with the foreign jurisdiction tax authorities. Excluding the VAT recovery, total CASM and CASM, excluding fuel and profit share would have both increased by 1.1 per cent over the same period in 2013.

Aircraft fuel

Fuel remains our most significant cost, representing 31.1 per cent of total operating expenses in 2014 and 31.9 per cent in 2013. For the year ended December 31, 2014, aircraft fuel expense increased by 4.9 per cent to \$1,090.3 million from \$1,039.4 million in 2013, primarily due to the 6.0 per cent year-over-year increase in our overall fuel consumption. Fuel costs per ASM for 2014, were 4.26 cents, compared to 4.34 cents in 2013, a decrease of 1.8 per cent year over year. However, fuel cost per ASM, excluding the VAT recovery, was 4.33 cents, compared to 4.34 cents in 2013 representing a decrease of 0.2 per cent.

Our fuel costs per litre decreased by 1.1 per cent to 90 cents per litre during the year ended December 31, 2014 from 91 cents per litre in 2013. On average, the market price for jet fuel was US \$117 per barrel in 2014 versus US \$124 per barrel in 2013, a decrease of 5.6 per cent. The average market price for jet fuel in Canadian dollars remained unchanged at \$129 per barrel compared to 2013 as the 5.6 per cent decrease in the average US dollar market price for jet fuel was offset by the weaker year-over-year Canadian dollar.

As at December 31, 2014, we have no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

For 2015, we estimate our sensitivity of fuel costs in US dollars to changes in crude oil prices to be approximately \$8.0 million annually for every one US-dollar change per barrel in the price of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity of fuel costs in Canadian dollars to changes in fuel pricing to be approximately \$13.0 million for every one-cent change per litre in the price of jet 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 \$5.9 million on fuel costs.

Inflight

Inflight expense is comprised mainly of salaries and benefits, travel costs and training for our flight attendants. For the year ended December 31, 2014 inflight expense was \$171.7 million, a \$5.2 million or a 2.9 per cent decrease from \$176.9 million in 2013. Our inflight cost per ASM was 0.67 cents in 2014, representing a decrease of 9.5 per cent from 0.74 cents in the prior year. These decreases are primarily attributable to operating at a ratio of one flight attendant for every 50 seats onboard an aircraft on a full year basis. We worked in cooperation with our flight attendants to implement this change on October 1, 2013, and this has resulted in cost savings through a reduction in overall salaries and benefits and other travel costs when compared to the prior year.

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 (thousands)			CASM (cents)		
	2014	2013	Change	2014	2013	Change
Technical maintenance	155,252	137,114	13.2%	0.61	0.58	5.2%
Maintenance provision	38,433	32,083	19.8%	0.15	0.13	15.4%
Total maintenance	193,685	169,197	14.5%	0.76	0.71	7.0%

Maintenance expense for the year ended December 31, 2014, was \$193.7 million, which represents a \$24.5 million or 14.5 per cent increase from \$169.2 million in 2013. Our maintenance cost per ASM was 0.76 cents in 2014, representing an increase of 7.0 per cent from 0.71 cents in the prior year.

Technical maintenance expense for the year ended December 31, 2014, was \$155.3 million, which represents a \$18.1 million or 13.2 per cent increase from \$137.1 million in 2013. Our technical maintenance cost per ASM was 0.61 cents in 2014, representing an increase of 5.2 per cent from 0.58 cents in the prior year. These year-over-year increases were mainly attributable to an increase in the number of maintenance events. As our fleet continues to grow and mature, we perform more maintenance on our aircraft.

Maintenance provision expense for the year ended December 31, 2014, was \$38.4 million, which represents a \$6.4 million or 19.8 per cent increase from \$32.1 million in 2013. Our maintenance provision cost per ASM was 0.15 cents in 2014, representing an increase of 15.4 per cent from 0.13 cents in the prior year. The year-over-year increases in our maintenance provision for leased aircraft was mainly driven by changes to the projected timing and scope of maintenance activities for certain leased engines primarily driven by the extension of twelve aircraft leases, a lower discount rate experienced during 2014 as compared to 2013, and, as the majority of our maintenance provision is denominated in US dollars, an unfavorable year-over-year foreign exchange impact. These increases are partially offset by a recovery for \$3.9 million in maintenance reserves paid to aircraft lessors, which were previously deemed unrecoverable, but are now considered recoverable due to the extension of four of the aircraft lease extensions. Our provision is calculated based on the best information available to us and includes estimates on the cost and timing of future maintenance activities on leased aircraft, as well as discount rates.

Compensation

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

(\$ in thousands)	2014	2013	Change
Salaries and benefits	626,373	582,225	7.6%
Employee share purchase plan	79,942	73,010	9.5%
Employee profit share	68,787	51,577	33.4%
Share-based payment plans	18,626	14,533	28.2%
	793,728	721,345	10.0%
Presentation on the Consolidated Statement of Earnings:			
Airport operations	109,754	97,986	12.0%
Flight operations and navigational charges	254,018	218,483	16.3%
Sales and distribution	70,992	65,452	8.5%
Marketing, general and administration	95,301	95,156	0.2%
Inflight	133,183	137,990	(3.5%)
Maintenance	61,693	54,701	12.8%
Employee profit share	68,787	51,577	33.4%
	793,728	721,345	10.0%

Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2014, salaries and benefits increased by 7.6 per cent to \$626.4 million from \$582.2 million in 2013. This increase was primarily due to an increase in our total number of full-time-equivalent (FTE) employees and our annual market and merit increases. Our total number of full-time equivalent employees increased 8.7 per cent to 8,698 at December 31, 2014 from 8,000 at the end of 2013 as a result of our growth. Salaries and benefits expense for each department is included in the respective department's operating expense line item, as presented in the table above.

Included in salaries and benefits is the expense associated with the Owners' Performance Award which was originally introduced in 2011. The Owners' Performance Award is designed to recognize WestJetters for their efforts in four key areas: safety, on-time performance, guest experience and cost. Approximately \$4.7 million was recognized for this award in 2014 compared to \$12.6 million in 2013 for this award, a decrease of 62.7 per cent. This decrease is mainly due to a maximum payout in 2013 for the 2013 cost metric. Targets for each key area are set on an annual basis. The expense is recorded in marketing, general and administration expense.

Employee share purchase plan (ESPP)

The ESPP encourages employees to become owners of WestJet shares and provides employees with the opportunity to significantly enhance their earnings. Under the terms of the ESPP, WestJetters may, dependent on their employment agreement, contribute up to a maximum of 10 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, 2014, 83.2 per cent of our eligible active employees participated in the ESPP, contributing an average of 15.1 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 2014, our matching expense was \$79.9 million, a 9.5 per cent increase from \$73.0 million in 2013, driven largely by the increased number of eligible employees compared to the prior year.

Employee profit share

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost, employees receive larger awards when we are more profitable. Conversely, the amount distributed to employees is reduced and adjusted in less profitable periods. Our profit share expense for the year ended December 31, 2014, was \$68.8 million, a 33.4 per cent increase from \$51.6 million in 2013, bringing our total profit share expense since 1996 to approximately \$391 million. This year-over-year increase was directly attributable to higher earnings eligible for profit share versus the prior year.

Share-based payment plans

We have three equity-settled share-based payment plans whereby either stock options, restricted share units (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, 2014, share-based payment expense totaled \$18.6 million, representing an increase of 28.2 per cent over the \$14.5 million recognized in 2013. This increase related primarily to a revision made to the number of PSUs expected to vest in early 2015 due to the achievement of certain performance criteria, as well as a revision to the number of pilots electing to receive stock options than originally expected. Share-based payment expense related to pilots' awards is included in flight operations and navigational charges, while the expense related to senior executives' and certain non-executive employees' awards is included in marketing, general and administration expense.

Foreign exchange

The gain or loss on foreign exchange included in our consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary assets. These net monetary assets consist mainly of monetary assets of US-dollar cash and cash equivalents, security deposits on various leased aircraft, and maintenance reserves paid to lessors, offset by monetary liabilities of US-dollar accounts payable and accrued liabilities and maintenance provisions. At December 31, 2014, US-dollar-denominated net monetary assets totaled US \$6.1 million compared to US \$0.3 million in net monetary liabilities at December 31, 2013. The increase in net monetary assets compared to the year ended December 31, 2013 is largely due to the increase in US-dollar cash and accounts receivable balances. We reported a foreign exchange loss of \$2.1 million in 2014 on the revaluation of our US-dollar denominated net monetary assets and liabilities and a foreign exchange gain of \$1.1 million in 2013. While at December 31, 2014 we were in a US-dollar net monetary asset position, throughout the year we had a greater exposure on US-dollar-denominated monetary liabilities that, with a weakening Canadian dollar throughout the year, resulted in the foreign exchange loss.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At December 31, 2014, to fix the exchange rate on a portion of our US-dollar-denominated aircraft lease payments, we entered into foreign exchange forward contracts for an average of US \$11.7 million per month for the period of January to December 2015 for a total of US \$140.3 million at a weighted average contract price of 1.1187 Canadian dollars to one US dollar. Upon proper qualification, we designated the forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in hedge reserves. Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves are recorded in net earnings as a component of aircraft leasing expense. At December 31, 2014, no portion of the forward contracts was considered ineffective.

The following table presents the financial impact and statement presentation of our foreign exchange derivatives on the consolidated statement of financial position as at December 31, 2014 and 2013 and on the consolidated statement of earnings for the years ended December 31, 2014 and 2013.

(\$ in thousands)	Statement presentation	2014	2013
Consolidated Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	6,409	4,187
Fair value	Accounts payable and accrued liabilities	(49)	(29)
Unrealized gain	Hedge reserves (before tax)	6,360	4,158
Consolidated Statement of Earnings:			
Realized gain	Aircraft leasing	9,498	4,752

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.

For 2015, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$8.5 million on our annual unhedged operating costs, (approximately \$5.9 million for fuel and \$2.6 million related to other US-dollar denominated operating expenses).



Income taxes

Our effective consolidated income tax rate for both the three and twelve months ended December 31, 2014 was 27 per cent, as compared to 28 per cent for the same periods in 2013. While there were no significant corporate income tax rate changes in 2014 as compared to 2013, the year-over-year decrease in our effective rate for both the three and twelve months ended December 31, 2014, was due to an adjustment made in 2013 to account for a change in estimate related to changing tax rates, whereas there was no such change in our tax rate in 2014. The provincial governments of British Columbia and New Brunswick increased their general corporate income tax rates to 11 per cent and 12 percent, respectively, in the third quarter of 2013.

For 2015, we anticipate that our annual effective tax rate will remain in the range of approximately 27 to 28 per cent.

2014 FOURTH QUARTER RESULTS OF OPERATIONS

Our 2014 fourth quarter financial results represent our 39th consecutive quarter of reported profitability with net earnings of \$90.7 million and diluted earnings per share of \$0.70, representing year-over-year improvements of 33.8 per cent and 34.6 per cent, respectively. During the quarter, we increased our revenue by 7.3 per cent as compared to the fourth quarter of 2013 while RASM was flat year over year.

Fourth quarter overview

- Recognized total revenue of \$994.4 million, an increase of 7.3 per cent from \$926.4 million in the fourth quarter of 2013.
- Increased capacity, measured in ASMs, by 7.3 per cent over the fourth quarter of 2013.
- Increased traffic, measured in RPMs, by 6.6 per cent over the fourth quarter of 2013.
- Increased yield by 0.7 per cent over the fourth quarter of 2013.
- Realized RASM of 15.59 cents, which represents no change from the fourth quarter of 2013.
- Realized CASM of 13.40 cents, down 3.5 per cent from 13.88 cents in the fourth quarter of 2013.
- Realized CASM, excluding fuel and employee profit share, of 9.21 cents, down 0.9 per cent from 9.29 cents in the fourth quarter of 2013.
- Recorded an operating margin of 14.0 per cent, up 3.0 percentage points from 11.0 per cent in the fourth quarter of 2013.
- Recorded an EBT margin of 12.6 per cent, up 2.4 percentage points from 10.2 per cent in the fourth quarter of 2013.
- Realized net earnings of \$90.7 million, an increase of 33.8 per cent from \$67.8 million in the fourth quarter of 2013.
- Reported diluted earnings per share of \$0.70, up 34.6 per cent from \$0.52 in the fourth quarter of 2013.

(\$in thousands, except per unit data)	Three months ended December 31		
	2014	2013	Change
Financial summary			
Revenue	994,394	926,417	7.3%
Earnings before income taxes	124,816	94,173	32.5%
Net earnings	90,713	67,807	33.8%
Basic earnings per share	0.71	0.52	36.5%
Diluted earnings per share	0.70	0.52	34.6%
Cash dividends declared per share	0.12	0.10	20.0%
Operational summary			
ASMs	6,378,247,018	5,942,032,692	7.3%
RPMs	5,081,440,294	4,768,595,990	6.6%
Load factor	79.7%	80.3%	(0.6pts.)
Yield (cents)	19.57	19.43	0.7%
RASM (cents)	15.59	15.59	0.0%
CASM (cents)	13.40	13.88	(3.5%)
CASM, excluding fuel and employee profit share (cents)	9.21	9.29	(0.9%)
Fuel consumption (litres)	300,254,948	284,337,058	5.6%
Fuel costs per litre (cents)	81	92	(12.0%)
Segment guests	4,826,149	4,557,606	5.9%
Average stage length (miles)	925	944	(2.0%)
Utilization (hours)	11.6	11.8	(1.7%)
Number of full-time equivalent employees at period end	8,698	8,000	8.7%

(Please refer to page 48 of this MD&A for definitions of key operating indicators and a reconciliation of the non-GAAP measures and additional GAAP measures.)

Revenue

(\$ in thousands)	Three months ended December 31		
	2014	2013	Change
Guest	884,771	836,399	5.8%
Other	109,623	90,018	21.8%
	994,394	926,417	7.3%
RASM (cents)	15.59	15.59	-

For the fourth quarter of 2014, revenue increased by 7.3 per cent to \$994.4 million from \$926.4 million in the fourth quarter of 2013. This year-over-year increase was driven by both the 6.6 per cent increase in traffic and 0.7 per cent year-over-year improvement in yield. Fourth quarter RASM remained flat from the fourth quarter of 2013 primarily driven by an improvement in yield offset by additional seat capacity.

	Three months ended December 31				
	2014		2013		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	3,141,759,184	49.3%	2,974,310,927	50.1%	5.6%
Transborder and international	3,236,487,834	50.7%	2,967,721,765	49.9%	9.1%
Total	6,378,247,018	100.0%	5,942,032,692	100.0%	7.3%

During the three months ended December 31, 2014, our domestic traffic, measured in RPMs, increased by 4.8 per cent year-over-year as compared to the 5.6 per cent increase in domestic capacity. Our scheduled transborder and international traffic increased 8.3 per cent, as compared to the 9.1 per cent increase in capacity to these areas.

Other revenue

Other revenue increased by 21.8 per cent to \$109.6 million for the fourth quarter of 2014, from \$90.0 million in the comparable quarter of 2013. These improvements were driven mainly by improvements in our ancillary revenue.

For the three months ended December 31, 2014 ancillary revenue was \$67.0 million, an increase of 46.0 per cent from \$45.9 million in the same quarter 2013. On a per guest basis, ancillary fees for the quarter increased by \$3.80 or 37.7 per cent to \$13.89 per guest, from \$10.09 per guest during the fourth quarter of 2013. Quarter over quarter we experienced improvements in ancillary revenue primarily associated with the introduction of the first bag fee in October 2014, a continued favourable impact of our fare bundles, and an increased awareness of the Plus product since its introduction in 2013.

Operating expenses

	Three months ended December 31					
	Expense (thousands)			CASM (cents)		
	2014	2013	Change	2014	2013	Change
Aircraft fuel	243,816	260,528	(6.4%)	3.82	4.38	(12.8%)
Airport operations	130,565	116,251	12.3%	2.05	1.95	5.1%
Flight operations and navigational charges	118,530	100,252	18.2%	1.86	1.69	10.1%
Sales and distribution	94,078	94,267	(0.2%)	1.47	1.59	(7.5%)
Marketing, general and administration	60,753	64,562	(5.9%)	0.95	1.09	(12.8%)
Depreciation and amortization	54,696	52,168	4.8%	0.86	0.88	(2.3%)
Aircraft leasing	45,546	42,462	7.3%	0.71	0.71	0.0%
Inflight	41,331	36,790	12.3%	0.65	0.62	4.8%
Maintenance	42,073	44,999	(6.5%)	0.66	0.76	(13.2%)
Employee profit share	23,399	12,463	87.7%	0.37	0.21	76.2%
Total operating expenses	854,787	824,742	3.6%	13.40	13.88	(3.5%)
Total, excluding fuel and profit share	587,572	551,751	6.5%	9.21	9.29	(0.9%)

During the fourth quarter of 2014, operating expenses increased by 3.6 per cent to \$854.8 million as compared to \$824.7 million in 2013. This increase was driven by the 7.3 per cent year-over-year increase in capacity as well as an increase of approximately \$27.2 million due to the impact of a devalued Canadian dollar year over year offset by the decrease in fuel costs per litre. On an ASM basis, operating expenses decreased by 3.5 per cent to 13.40 cents from 13.88 cents in 2013. Excluding fuel and employee profit share, CASM decreased by 0.9 per cent in 2014 to 9.21 cents as compared to 9.29 cents in 2013.

Aircraft fuel

In the fourth quarter of 2014, aircraft fuel expense decreased by 6.4 per cent to \$243.8 million from \$260.5 million. Fuel costs per ASM for the fourth quarter of 2014, was 3.82 cents, compared to 4.38 cents in the fourth quarter of 2013, a decrease of 12.8 per cent year over year. These decreases were mainly driven by the decrease in our fuel costs per litre.

Our fuel costs per litre decreased by 12.0 per cent to 81 cents per litre during the quarter ended December 31, 2014 from 92 cents per litre in the same period of 2013. On average, the market price for jet fuel was US \$101 per barrel in the fourth quarter of 2014 versus US \$124 per barrel in the fourth quarter of 2013, a decrease of 18.5 per cent. Despite a weaker Canadian dollar versus the US dollar on a year-over-year basis, the average market price for jet fuel in Canadian dollars decreased to \$114 per barrel during the three months ended December 31, 2014 as compared to \$130 per barrel in the comparable period of 2013. This decrease was due to the significant decline in the US dollar market price for jet fuel, which was partially offset by the weaker Canadian dollar.

Airport operations

Airport operations expense consists primarily of airport landing and terminal fees, ground handling, salaries and benefits and de-icing costs. For the three months ended December 31, 2014, our airport operations expense was \$130.6 million, a \$14.3 million or 12.3 per cent increase from \$116.3 million for the same period in 2013. Airport operations expense per ASM was 2.05 cents for 2014, an increase of 5.1 per cent from 1.95 cents in the same period in 2013. Compared to the fourth quarter of 2013, we experienced increased terminal and landing fees in the fourth quarter of 2014 due to the increased volume of service out of many of our airport bases and the overall expansion of our network. This increase is also driven by the impact of the devaluation of the Canadian dollar as certain airport rates and fees are denominated in US dollars.

Flight operations and navigational charges

Flight operations and navigational charges are comprised mainly of salaries and benefits, costs related to flight delays and cancellations and related accommodations for displaced guests. For the three months ended December 31, 2014, flight operations and navigational charges were \$118.5 million, an \$18.3 million or 18.2 per cent increase from \$100.3 million during the same period in 2013. The increase was primarily attributable to a \$9.8 million lump-sum payment associated with the new pilot agreement reached in December 2014. Flight operations and navigational charges per ASM were 1.86 cents in 2014, an increase of 10.1 per cent from 1.69 cents in the same period in 2013. Excluding the \$9.8 million lump-sum payment incurred in the fourth quarter of 2014, on an ASM basis, flight operations and navigational charges would have been 1.71 cents in 2014, representing an increase of only 1.2 per cent from the same period in 2013.

Maintenance

Maintenance expense for the three months ended December 31, 2014, was \$42.1 million, which represents a \$2.9 million or 6.5 per cent decrease from \$45.0 million in 2013. Our maintenance cost per ASM was 0.66 cents for the three months ended December 31, 2014, representing a decrease of 13.2 per cent from 0.76 cents in the fourth quarter of the prior year. These year-over-year decreases were mainly attributable to vendor credits recorded in the fourth quarter of 2014 for 2014 maintenance activities and a recovery for \$1.6 million in maintenance reserves paid to aircraft lessors, which were previously deemed unrecoverable, but are now considered recoverable due to the extension of two of the aircraft leases during the fourth quarter.

SUMMARY OF QUARTERLY RESULTS

(\$ in thousands, except per share data)	Three months ended			
	Dec. 31 2014	Sept. 30 2014	Jun. 30 2014	Mar. 31 2014
Total revenue	994,394	1,009,728	930,340	1,042,090
Net earnings	90,713	52,191	51,762	89,291
Basic earnings per share	0.71	0.41	0.41	0.70
Diluted earnings per share	0.70	0.40	0.40	0.69

(\$ in thousands, except per share data)	Three months ended			
	Dec. 31 2013	Sept. 30 2013	Jun. 30 2013	Mar. 31 2013
Total revenue	926,417	924,844	843,694	967,242
Net earnings	67,807	65,107	44,735	91,073
Basic earnings per share	0.52	0.50	0.34	0.69
Diluted earnings per share	0.52	0.50	0.34	0.68

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

GUEST EXPERIENCE

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

Key performance indicators

On-time performance and completion rates are calculated based on the U.S. Department of Transportation's standards of measurement for the North American airline industry. On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring our guest experience. The completion rate indicator represents the percentage of flights completed from flights originally scheduled. Our bag ratio represents the number of delayed, lost, and beginning in the second quarter of 2014, damaged or pilfered baggage claims made per 1,000 guests.

	Three months ended December 31			Twelve months ended December 31		
	2014	2013	Change	2014	2013	Change
On-time performance	80.6%	69.3%	11.3 pts.	78.9%	73.9%	5.0 pts.
Completion rate	98.7%	98.6%	0.1 pts.	98.6%	98.6%	0.0 pts.
Bag ratio	4.03	5.23	22.9%	4.66	4.78	2.5%

During the fourth quarter of 2014, our on-time performance increased by 11.3 percentage points. On an annual basis our on-time performance increased by 5.0 percentage points. These increases are primarily a result of our significant operational focus on improving on-time performance in addition to improved weather conditions experienced across our network compared to 2013, and in particular in the fourth quarter of 2014 compared to the same quarter of the prior year. In the fourth quarter of the prior year we experienced severe winter weather events at Calgary International Airport and Toronto Pearson International Airport, which we did not experience in the fourth quarter of the current year. This impacted both the annual and quarterly on-time performance ratio compared to the prior year.

For the three and twelve months ended December 31, 2014, our bag ratio improved by 22.9 per cent and 2.5 per cent, respectively, on a year-over-year basis, partially due to improved on-time performance discussed above. These improvements were also partially a result of significantly fewer weather related events experienced in the fourth quarter of 2014 compared to the prior year, despite a high volume of displaced baggage at the beginning of 2014 as a result of harsh winter conditions experienced at Toronto Pearson International Airport. We continue to place our internal focus and efforts on safely performing on time and ensuring our guests are connected with their bags as soon as possible upon arrival at their destination.

Our year-over-year completion rate remained strong for both the three and twelve months ended December 31, 2014, which highlights our ability to complete our originally scheduled flights and ensure our guests reach their final destinations as soon as possible.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As the airline industry has relatively high fixed costs, and as such is highly sensitive to unpredictable circumstances, maintaining a strong financial position is imperative to an airline's success. Our consistently strong financial results enable us to maintain a healthy balance sheet. We completed 2014 with a cash and cash equivalents balance of \$1,358.1 million, compared to \$1,256.0 million at December 31, 2013. The increase in our cash position was a result of cash flow from operations of \$571.6 million driven by strong earnings, and cash flow from financing activities of \$175.0 million mainly driven by our \$400.0 million 3.287 per cent Senior Unsecured Notes issued in July 2014 partially offset by debt repayments, described further under the *Financing* heading below. These inflows were partially offset by capital expenditures for aircraft and other equipment of \$665.1 million and a combined total of \$100.7 million spent on our dividend and share buy-back programs.

Part of our cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2014, was \$575.8 million, an increase of 4.5 per cent from \$551.0 million at December 31, 2013. We have cash and cash equivalents on hand to have sufficient liquidity to meet these liabilities, under both normal and stressed conditions. At December 31, 2014, we had cash on hand of 2.36 (2013 – 2.28) times our advance ticket sales balance.

We monitor capital on a number of measures, including cash to trailing 12 months (TTM) revenue ratio, adjusted debt-to-equity ratio and adjusted net debt to EBITDAR ratio. As of December 31, 2014, our cash to TTM revenue ratio was 34.2 per cent, compared to 34.3 per cent at December 31, 2013, relatively unchanged. This is in-line with our expectations and is the result of an increase in cash and cash equivalents from strong earnings, an increase in our revenues and the issuance of our Senior Unsecured Notes in July 2014. In addition to our cash and cash equivalents, as of December 31, 2014, we have available the undrawn portion of our revolving credit facility which is \$250.0 million and expires in June 2017. Our adjusted debt-to-equity ratio of 1.44, and our adjusted net debt to EBITDAR ratio of 1.43 at December 31, 2014, have both increased from 1.38 and 1.22, respectively, at December 31, 2013. Excluding the pre-tax \$45.5 million non-cash loss, our adjusted net debt to adjusted EBITDAR ratio is 1.36 at December 31, 2014. These increases are in line with our expectations and are due to increased debt levels associated with the issuance of our Senior Unsecured Notes in July 2014.

Our current ratio, defined as current assets over current liabilities, was 1.29 at December 31, 2014 as compared to 1.09 at December 31, 2013, an increase of 18.3 per cent due in large part to the cash received from the issuance of our Senior Unsecured Notes in July 2014 and five aircraft classified as assets held for sale being included in current assets.

Select cash flow information

(\$ in thousands)	2014	2013	Change
Cash provided by operating activities	571,618	608,147	(36,529)
Less:			
Cash used by investing activities	(665,131)	(715,172)	50,041
Cash from (used by) financing activities	175,023	(61,547)	236,570
Cash flow from operating, investing and financing activities	81,510	(168,572)	250,082
Effect of foreign exchange on cash and cash equivalents	20,556	16,378	4,178
Net change in cash and cash equivalents	102,066	(152,194)	254,260
Cash and cash equivalents, beginning of year	1,256,005	1,408,199	(152,194)
Cash and cash equivalents, end of year	1,358,071	1,256,005	102,066

Operating cash flows

For the year ended December 31, 2014, our cash flow from operations decreased 6.0 per cent to \$571.6 million compared to \$608.1 million in the prior year. This year-over-year decrease was mainly the result of a decrease in non-cash working capital, predominantly from an increase in cash taxes paid, partially offset by stronger earnings.

Similarly, on a per share basis, for the year ended December 31, 2014, our cash flow from operations decreased 3.7 per cent to \$4.43 per share compared to \$4.60 per share in the prior year (please refer to page 48 of this MD&A for a reconciliation of non-GAAP and additional measures). Partially offsetting this year-over-year decrease in operating cash flow, was the favourable impact of a reduced number of shares outstanding as a result of repurchase under our February 2013 and May 2014 normal course issuer bids.



At December 31, 2014, restricted cash consisted of \$47.8 million (2013 – \$48.5 million) for cash held in trust by WestJet Vacations; \$9.5 million (2013 – \$8.3 million) for security on letters of guarantee; and, in accordance with U.S. regulatory requirements, \$0.8 million (2013 – \$1.3 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

For the year ended December 31, 2014, cash used for investing activities totaled \$665.1 million as compared to \$715.2 million in the prior year. The majority of our investing activities during 2014 related to the delivery of seven Boeing 737 NG 800 aircraft and seven Bombardier Q400s, scheduled future aircraft deposits and costs incurred for owned aircraft engine overhauls. These investing cash outflows were offset by the proceeds received from the physical delivery of five of the 10 aircraft sold to Southwest.

Financing cash flows

For the year ended December 31, 2014, our financing cash inflow of \$175.0 million was mainly the result of our \$400.0 million 3.287 per cent Senior Unsecured Notes, as well as additional borrowing from our existing Export Development Canada (EDC) facility for the financing of seven Bombardier Q400 aircraft. Partially offsetting these inflows were financing outflows of \$303.6 million for repayments of long-term debt, \$39.5 million in cash interest paid, \$61.3 million in dividends paid and \$39.4 million for shares repurchased under our February 2013 and May 2014 normal course issuer bids.

Free cash flow

Free cash flow is a measure that represents the cash that a company is able to generate after meeting its requirements to maintain or expand its asset base. It is a calculation of operating cash flow, less the amount of cash used in investing activities related to property and equipment. Our free cash flow for the year ended December 31, 2014, was a negative \$93.6 million, as compared to a negative \$107.0 million in the prior year. On a per share basis, for the year ended December 31, 2014, this equated to negative \$0.72 per share compared to negative \$0.81 per share in 2013. This improvement in free cash flow and free cash flow per share is due to continued strong earnings and cash inflows from the proceeds received from the delivery of five aircraft to Southwest. In the short-term, when capital and investing activities are expected to be high due to aircraft and aircraft related expenditures, we expect to experience negative free cash flow, which we anticipate to manage through our cash and cash equivalents balances and future debt financing. However, over a longer period of time, we expect our operating cash flows to sufficiently fund all our capital and investing activities.

Please refer to page 48 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

Financing

We have grown through acquisitions of Boeing 737 NG and Bombardier Q400 aircraft. Our seven Bombardier Q400 aircraft deliveries during 2014 were financed by secured term loans with EDC for approximately 80 per cent of the purchase price of the aircraft. We also took delivery of seven Boeing 737 NG 800 series aircraft during 2014, which were funded with cash on hand from the issuance of our Senior Unsecured Notes. Our aircraft related debt is in Canadian dollars, eliminating the foreign exchange exposure on any US-dollar denominated debt. At December 31, 2014, we had 49 Boeing 737 NG aircraft and 15 Q400 aircraft financed with a remaining debt balance of \$790.8 million, net of transaction costs. There are no financial covenant requirements associated with our debt.

To mitigate the earnings impact of changing interest rates on our variable rate loans, we have entered into interest rate swap agreements to fix the interest rates over the term of the loans. Upon proper qualification, we designated the interest rate swap contracts as effective cash flow hedges for accounting purposes. At December 31, 2014, no portion of the interest rate swap agreements was considered ineffective.

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, 2014 and 2013 and on the consolidated statement of earnings for the years ended December 31, 2014 and 2013.

(\$ in thousands)	Statement presentation	2014	2013
Consolidated Statement of Financial Position:			
Fair value	Accounts payable and accrued liabilities	(2,809)	(3,220)
Fair value	Other liabilities	(4,845)	–
Fair value	Other long-term assets	–	4,103
Unrealized gain (loss)	Hedge reserves (before tax)	(7,654)	883
Consolidated Statement of Earnings:			
Realized loss	Finance costs	(3,225)	(1,058)

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.

During the first quarter of 2014, Standard & Poor's Rating Services (S&P) assigned WestJet an issuers 'BBB-' long-term corporate credit rating with a stable outlook. S&P's issuer credit ratings range from a high of AAA to a low of D and are an opinion about an obligor's overall creditworthiness but do not apply to any specific financial obligation. Our credit rating is 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 rating will remain in effect for any given period of time or that our rating will not be revised or withdrawn entirely by S&P in the future if, in its judgment, circumstances so warrant. We paid a customary fee to S&P for credit rating services.

In July 2014, we successfully completed a private placement offering of \$400.0 million 3.287 per cent Senior Unsecured Notes. The notes bear interest of 3.287 per cent per year with semi-annual interest payments on January 23 and July 23 of each year commencing on January 23, 2015 and will mature on July 23, 2019. These unsecured notes rank equally in right of payment with all our other existing and future unsubordinated debt, but are effectively subordinate to all of our existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenant requirements associated with the Senior Unsecured Notes. The unsecured bond market represents a significant new source of financing for WestJet, which adds considerable flexibility in the funding of our fleet plan going forward. A portion of the net proceeds from the sale of these notes was used to repay indebtedness under our revolving credit facility, with the balance to be used for general corporate purposes, including the funding of future aircraft acquisitions.

We have a credit agreement with a syndicate of banks whereby we have access to an unsecured revolving \$250.0 million credit facility. The credit facility is available for general corporate purposes, including funding of future aircraft acquisitions, and matures in September 2017 with an option to extend the three-year term on an annual basis. Funds from the credit facility can be drawn in Canadian or US dollars through various debt instruments. Interest is calculated by reference to the applicable base rate for the chosen instrument plus an applicable pricing margin based on our debt rating. At December 31, 2014, we have not drawn on the revolving credit facility and therefore the undisbursed portion of the credit facility was \$250.0 million. We pay a standby fee for the undisbursed portion of the credit facility. Our revolving 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, 2014, the Corporation was in compliance with both ratios.

We also have an \$820.0 million guaranteed loan agreement with EDC pursuant to which EDC will make available to WestJet Encore financing support for the purchase of Bombardier Q400s. We are charged a non-refundable commitment fee of 0.2 per cent per annum on the undisbursed portion of the commitment. Availability of any undrawn amount will expire at the end of 2018. The expected amount available for each aircraft is up to 80 per cent of the net price with a term to maturity of up to 12 years, payable in quarterly instalments. At December 31, 2014, we have \$575.1 million undrawn under the loan agreement.

We continuously 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.

Contractual obligations and commitments

At December 31, 2014, our contractual obligations and commitments are indicated in the following table. In the table, all US-dollar amounts have been converted at the year-end foreign exchange rate and presented in Canadian dollars.

(\$ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 Years	Over 5 years
Long-term debt repayments	1,188,663	159,843	237,778	538,341	252,701
Leases and commitments ⁽ⁱ⁾	1,118,673	287,447	431,880	233,264	166,082
Purchase commitments ⁽ⁱⁱ⁾	4,722,540	573,294	878,247	952,857	2,318,142
Total contractual obligations	7,029,876	1,020,584	1,547,905	1,724,462	2,736,925

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

(ii) Relates to obligations for our confirmed purchased aircraft deliveries for Boeing 737 NGs, Boeing 737 MAXs, Bombardier Q400s and spare engines.

Our future US-dollar-denominated purchase commitments, including certain aircraft, are exposed to foreign exchange risk (please refer to the section called *Foreign exchange* as found on page 16 of this MD&A). We plan to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing. We continuously monitor the capital markets and assess financing alternatives available to us for our future aircraft deliveries. At this time, we are not aware of, nor do we reasonably expect, adverse changes to our future ability to access similar or different 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 2014, we took delivery of seven Boeing 737 NG 800 series aircraft and seven Bombardier Q400 aircraft to end the year with a registered fleet of 122 aircraft with an average age of 6.8 years.

In 2014, based on management's judgments and estimates, we recognized the 10 Boeing 737 NG 700 series aircraft sold to Southwest, five of which were delivered in the fourth quarter of 2014 and the remainder of which will be delivered in the first half of 2015, as assets held for sale in the consolidated statement of financial position. As of December 31, 2014, we have recognized a loss of \$48.0 million in non-operating expenses, in accordance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*. Included in this loss is an additional fourth quarter loss of \$2.5 million associated with maintenance services performed on a future aircraft delivery partially offset by foreign exchange gains on the valuation of the assets held for sale. The \$48.0 million loss was lower than our guidance provided in the third quarter of 2014 of \$50.5 million due to the weakening Canadian dollar to US dollar foreign exchange rate. As previously disclosed, a significant portion of the overall loss was driven by the stronger Canadian dollar since the aircraft were originally purchased in 2002 and 2003.

We extended a total of 12 Boeing 737 NG 700 series aircraft leases in 2014. This includes three previously scheduled to expire in 2014, seven previously scheduled to expire in 2015 and two previously scheduled to expire in 2016. Also in 2014, we converted 10 of our purchase options with Bombardier to firm orders for Q400 aircraft.

Looking forward, we have firm commitments to take delivery of an additional 18 Boeing 737 NG aircraft, 65 Boeing MAX aircraft and an additional 15 Bombardier Q400 aircraft. In addition, in the fourth quarter of 2014, we agreed with Boeing to lease four 767-300ERW series aircraft with an option to purchase prior to lease commencement, with the first scheduled deliveries expected to occur in 2015. The combination of our firm commitments, the lease renewal options, and the sale of aircraft to Southwest, 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 171 and 219 aircraft, depending on future decisions to exercise options to purchase and lease renewals.

The following table illustrates our Boeing 737, Boeing 767 and Bombardier Q400 fleet as at December 31, 2014 and 2013 as well as our firm commitments to 2027:

	Dec. 31, 2013	Dec. 31, 2014	Future Deliveries						Total	2027
			2015	2016	2017	2018- 20	2021- 23	2024- 27		
Boeing										
737-600 NG	13	13	—	—	—	—	—	—	—	13
737-700 NG ⁽ⁱ⁾	69	64	—	—	—	—	—	—	—	64
737-800 NG ⁽ⁱⁱ⁾	23	30	12	5 ⁽ⁱⁱⁱ⁾	1 ⁽ⁱⁱⁱ⁾	—	—	—	18	48
737 MAX 7 ^{(iv)(v)}	—	—	—	—	—	6	4	15	25	25
737 MAX 8 ^{(iv)(v)}	—	—	—	—	4	19	11	6	40	40
767-300 ERW ^(vi)	—	—	2	2	—	—	—	—	4	4
	105	107	14	7	5	25	15	21	87	194
Disposals	—	—	(5)	—	—	—	—	—	(5)	(5)
Total Boeing aircraft	105	107	9	7	5	25	15	21	82	189
Lease expiries	—	—	(5)	(6)	(6)	(21)	(10)	—	(48)	(48)
Total Boeing aircraft after lease expiries	105	107	4	1	(1)	4	5	21	34	141
Bombardier										
Q400 NextGen ^(vii)	8	15	10	5	—	—	—	—	15	30
Total Fleet	113	122	19	12	5	25	15	21	97	219
Total Fleet after lease expiries	113	122	14	6	(1)	4	5	21	49	171

- (i) At December 31, 2014, of the 64 Boeing 737 NG 700 aircraft in our fleet, 30 are leased (Dec. 31, 2013 – 30) and 34 are owned (Dec. 31, 2013 – 39).
- (ii) At December 31, 2014, of the 30 Boeing 737 NG 800 aircraft in our fleet, 14 are leased (Dec. 31, 2013 – 14) and 16 are owned (Dec. 31, 2013 – 9).
- (iii) We have an option to convert five of these Boeing 737 NG 800 future deliveries to Boeing 737 NG 700 aircraft (four in 2016 and one in 2017).
- (iv) We have options to purchase an additional 10 Boeing 737 MAX aircraft between the years 2020 and 2021.
- (v) WestJet's Boeing 737 MAX 7 and MAX 8 aircraft orders can each be substituted for the other model of aircraft, or for Boeing 737 MAX 9 aircraft.
- (vi) We have an option to purchase the Boeing 767 300 ERW series aircraft prior to delivery.
- (vii) We have options to purchase an additional 15 Bombardier Q400 aircraft between the years 2015 and 2018.

OFF BALANCE SHEET ARRANGEMENTS

Aircraft operating leases

We currently have 44 Boeing 737 aircraft under operating leases. Future cash flow commitments in connection with these aircraft totaled US \$542.7 million at December 31, 2014 (2013 – US \$590.6 million) which we expect to fund through cash from operations. Although the current obligations related to our aircraft operating lease agreements are not recognized on our consolidated statement of financial position, we include 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 (please refer to the capital management note in our consolidated financial statements for the years ended December 31, 2014 and 2013 for additional details).

Fuel facility corporations

We are a contracted party to 11 fuel facility arrangements and one de-icing facility arrangement whereby we participate under contract in fuel facility corporations and a de-icing corporation, along with other airlines, to obtain fuel services and de-icing services at major Canadian and U.S. airports. The fuel facility and de-icing facility corporations operate on a cost-recovery basis. The purpose of these corporations is to own and finance the systems that distribute fuel and de-icing fluid, respectively, to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including the debt service requirements, of the fuel and de-icing facility corporations are shared pro rata among the contracting airlines. The 11 fuel facility corporations and the one de-icing facility are not consolidated within our accounts. In the remote event that all other contracting airlines withdraw from the arrangements and we remained as sole member, we would be responsible for the costs of the fuel facility corporations and de-icing facility corporation, including debt service requirements. At November 30, 2014, the fuel facility and de-icing corporations have combined total assets of approximately \$492.7 million and liabilities of approximately \$454.6 million.

RELATED-PARTY TRANSACTIONS

At December 31, 2014, 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:

(number of shares)	January 31, 2015	December 31, 2014
Issued and outstanding:		
Common voting shares	107,465,625	107,998,929
Variable voting shares	20,239,238	19,691,939
Total voting shares issued and outstanding	127,704,863	127,690,868
Voting shares potentially issuable:		
Stock options	3,694,334	3,738,714
RSUs – Key employee plan	391,030	391,030
RSUs – Executive share unit plan	179,890	179,890
PSUs	321,620	321,620
Total voting shares potentially issuable	4,586,874	4,631,255
Total outstanding and potentially issuable voting shares	132,292,346	132,322,123

Quarterly dividend policy

Our dividend is reviewed against the Corporation's dividend policy on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On February 2, 2015, the Board of Directors declared our 2015 first quarter dividend of \$0.14 per common voting share and variable voting share payable on March 31, 2015 to shareholders of record on March 18, 2015. This represents an increase of 16.7 per cent from our previous quarterly amount of \$0.12 per share declared and paid during the fourth quarter of 2014. 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

Our previous normal course issuer bid expired on February 18, 2014 (February 2013 bid) and on May 5, 2014 the Toronto Stock Exchange (TSX) accepted our notice to make another normal course issuer bid to purchase outstanding shares on the open market (May 2014 bid). Under this bid we are authorized to purchase up to 2,000,000 Common Voting Shares and Variable Voting Shares (representing approximately 1.6 per cent of our issued and outstanding shares at the time of the bid) during the period of May 8, 2014 to May 7, 2015 or until such time as the bid is completed or terminated at our option. Any shares purchased under the bid are purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid will be cancelled.

During the three months ended December 31, 2014, we repurchased and cancelled 288,186 shares under the May 2014 bid. For the year ended December 31, 2014, we repurchased and cancelled 1,435,150 shares which included 954,840 shares repurchased and cancelled under the February 2013 bid, and 480,310 shares under the May 2014 bid equal to 24.0 per cent of the maximum number of shares we are authorized to repurchase under the May 2014 bid, for total consideration of \$14.7 million. As of the date of this MD&A, there are 1,519,690 shares remaining for purchase under the May 2014 bid.

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

OUTLOOK

We continued to execute on our strategies in 2014, achieving record full-year adjusted net earnings of \$317.2 million, or \$2.46 adjusted diluted earnings per share, which represented year-over-year increases of 18.0 per cent and 21.2 per cent, respectively. The fourth quarter saw our operating margin expand by 3.0 percentage points, contributing to a year over year increase of 1.1 percentage points for the full-year 2014. The fourth quarter of 2014 also marked the 10th consecutive quarter in which we exceeded our ROIC target of 12.0 per cent by achieving 14.3 per cent. During 2014, we increased our traffic by 6.3 per cent and our system-wide capacity by 6.7 per cent year over year, resulting in a load factor for the year of 81.4 per cent, representing our third highest annual load factor.

We have built flexibility into our fleet plan through lease renewal options and our ability to deploy a mix of Boeing 737 NG and Bombardier Q400 aircraft, allowing us to align our growth with market conditions. In 2014, we took delivery of seven new Boeing 737 NG 800 series aircraft and seven new Bombardier Q400 aircraft while disposing of five of our oldest Boeing 737 NG 700 series aircraft, ending the year with a total fleet of 113 aircraft. In 2015, we expect to take delivery of twelve new Boeing 737 NG 800 series aircraft, two Boeing 767-300 ERW aircraft, and ten new Bombardier Q400 aircraft. In the first half of 2015, we will dispose of a further five of our oldest Boeing 737 NG 700 series aircraft.

For the first quarter of 2015, we expect system-wide capacity to grow between 4.0 and 4.5 per cent year over year, and domestic capacity to grow between 3.5 and 4.0 per cent year over year. In terms of the full-year 2015, we continue to anticipate system-wide and domestic capacity growth between 4.0 and 5.0 per cent year over year. We expect traffic and revenue growth to continue into the first quarter of 2015, and anticipate RASM to be flat to slightly negative year over year.

We expect CASM, excluding fuel and employee profit share for the first quarter of 2015 to be up 1.0 to 1.5 per cent year over year. For the full-year 2015, we now expect CASM, excluding fuel and employee profit share, to be up 2.5 to 3.5 per cent year over year. This compares with our previous full-year 2015 guidance of up 2.0 to 3.0 per cent year over year, with the difference primarily driven by the continued weakening of the Canadian dollar to US dollar exchange rate.

For the first quarter of 2015, we expect fuel costs to range between 63 and 65 cents per litre, which represents a year-over-year decrease of 27.8 to 30.0 per cent. The first quarter 2015 expected fuel costs are based on current forecasted jet fuel prices of US \$67 per barrel and an average foreign exchange rate of approximately 1.23 Canadian dollars to one US dollar.

For the full-year 2015, we are now forecasting capital expenditures, net of the proceeds from the sale of the last five aircraft pursuant to the Southwest transaction, of approximately \$920 million and \$940 million, with spending related primarily to aircraft deliveries, deposits on future aircraft and overhauls on owned engines. This compares with our previous full-year 2015 guidance of approximately \$820 million to \$840 million, with the difference driven primarily by the continued weakening of the Canadian dollar to US dollar exchange rate and changes to our aircraft delivery schedule. For the first quarter of 2015, we expect our net capital expenditures to be between \$160 million and \$170 million.

The first quarter and full-year 2015 expected CASM, excluding fuel and employee profit share and capital expenditures are based on an average forecasted foreign exchange rate of approximately 1.23 Canadian dollars to one US dollar.

	Three months ended March 31, 2015	Year ended December 31, 2015
RASM	RASM to be flat to slightly negative year over year	
Fuel cost per litre	63 to 65 cents	
CASM, excluding fuel and profit share	Up 1.0% to 1.5%	Up 2.5% to 3.5%
System capacity	Up 4.0% to 4.5%	Up 4.0% to 5.0%
Domestic capacity	Up 3.5% to 4.0%	Up 4.0% to 5.0%
Effective tax rate		27% to 28%
Capital expenditures	\$160 to \$170 million	\$920 to \$940 million

See *Advisories – Cautionary statement regarding forward-looking information* and *Forward-Looking Information* on page 45, respectively, of this MD&A.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Our financial assets and liabilities consist primarily of cash and cash equivalents, 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, 2014, aircraft fuel expense represented approximately 31.1 per cent (2013 – 31.9 per cent) of our total operating expenses.

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. 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. As at and for the year ended December 31, 2014, we are not party to any fuel hedging contracts.

Foreign exchange risk

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 and our 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. To manage our exposure, 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 *2014 Results of operations – Foreign exchange* on page 16 of this MD&A.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on short-term investments included in our cash and cash equivalents balance. A change of 50 basis points in the market interest rate would have had an approximate impact on net earnings of \$4.7 million for the year ended December 31, 2014 (2013 – \$4.6 million) as a result of our short-term investment activities. We are also exposed to interest rate fluctuations on our deposits that relate to certain purchased aircraft and airport operations which, at December 31, 2014, totaled \$25.2 million (2013 – \$32.0 million). A change of 50 basis points in market interest rates at December 31, 2014, would not have significantly impacted our net earnings due to the small size of these deposits.

The fixed-rate nature of the majority of our long-term debt mitigates the impact of interest rate fluctuations over the term of the outstanding debt. We account for our long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates at December 31, 2014, would not impact net earnings.

We are exposed to interest rate fluctuations on our variable-rate long-term debt, which, at December 31, 2014 totaled \$218.4 million or 18.4 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 *Liquidity and Capital Resources – Financing* on page 22 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, 2014, our credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, identified interest-bearing 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)	2014	2013
Cash and cash equivalents ⁽ⁱ⁾	1,358,071	1,256,005
Restricted cash ⁽ⁱ⁾	58,149	58,106
Accounts receivable ⁽ⁱⁱ⁾	54,950	42,164
Deposits ⁽ⁱⁱⁱ⁾	25,204	32,021
Derivative financial assets ^(iv)	6,409	11,568

(i) Consist of bank balances and short-term investments with terms of up to 91 days. Credit risk associated with cash and cash equivalents 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 policies. The Corporation does not hold any collateral as security, however, in some cases the Corporation requires guaranteed letters of credit with certain of its counterparties. Trade receivables are generally settled within 30 to 60 days. Industry receivables are generally settled in less than 30 days.

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

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

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, 2014. 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	3 - 5 years	Over 5 years
Accounts payable and accrued liabilities ⁽ⁱ⁾	412,704	412,704	–	–	–
Derivative financial liabilities ⁽ⁱⁱ⁾	7,703	2,858	4,845	–	–
Long-term debt	1,363,817	205,626	307,446	588,961	261,784
Total	1,784,224	621,188	312,291	588,961	261,784

(i) Excludes deferred WestJet Rewards liability of \$86,870, foreign exchange derivative liabilities of \$49 and interest rate derivative liabilities of \$2,809.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$49 and interest rate derivative contracts of \$7,654. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2014, net long-term interest rate derivative liabilities were \$4,845.

Fair value of financial instruments

Fair value represents a point-in-time estimate. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities included in the statement of financial position approximate their fair values because of the short-term nature of the instruments. At December 31, 2014, the fair value of our long-term debt was approximately \$1,225.9 million (2013 – \$924.6 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, 2014, rates used in determining the fair value ranged from 1.30 per cent to 3.44 per cent (2013 – 1.28 per cent to 4.10 per cent). The increase in the fair value of our long-term debt is due to the additional aircraft term loans, the issuance of our Senior Unsecured Notes during the year, and a decrease to our overall rates 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 *2014 Results of Operations – Foreign exchange and Liquidity and Capital Resources – Financing* on page 16 and page 17, 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, 2014.

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

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 U.S.-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 18 Boeing 737 NG aircraft purchase commitments and 65 Boeing MAX aircraft purchase commitments. The purchase of our Boeing aircraft are financed by funds drawn in Canadian dollars while the aircraft are paid for in U.S. funds at the date of each aircraft deposit. As a result, we are exposed to foreign currency fluctuations prior to each deposit 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 program will be effective in mitigating these increases.

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, as our fuel costs constitute our largest single expense category, representing 31.1 and 31.9 per cent of operating costs in 2014 and 2013, 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.

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 discontinued our fuel hedging program in 2012 but may re-visit the program 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.

The ability to protect and grow our earnings in a volatile and rising fuel price environment is also affected by our ability to manage fuel costs through revenue management and pricing initiatives. The effectiveness of these initiatives are limited by factors outside our control including the ability of the market to absorb price increases, the competitive pricing actions of our competitors, and the general macroeconomic conditions affecting discretionary consumer spending as it relates to both leisure and business travelers.

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 airline industry is labour intensive and subject to increasing labour costs and 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 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.

We have a non-union workforce that we believe gives us a competitive advantage and helps foster our unique corporate culture. 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. While no application for certification has been filed with the Canada Industrial Relations Board, the Canada Labour Code provides that a union can be automatically certified where more than 50 per cent of a group of employees sign membership cards. In the event an employee group were to unionize, we would be 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. 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.

We believe our employee association has played 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. In December 2014, we announced that our pilots voted in favour of a new agreement that will expire on April 20, 2019. We are currently in the process of negotiations with our flight attendant employee group working towards a mutually-beneficially agreement that will best serve the interests of the business and WestJetters alike. Should these negotiations not result in a definitive agreement, we may be subject to further unionization drives, operational disruptions and negative impacts to our corporate culture and reputation, which in turn, could negatively impact our earnings.

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 maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2014, was 6.8 years. Our maintenance costs will increase as our fleet ages and our aircraft warranties expire. Since we began acquiring our Boeing 737 NG and Bombardier Q400 NextGen aircraft, 86 aircraft have come off warranty, with an additional 6 coming off warranty in 2015. 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.

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 cost-conscious leisure traveler 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.

Our operations are becoming increasingly complex as we continue to add different aircraft to our fleet mix and expand into new markets. The complexities of a mixed fleet and new markets 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.

We plan to continue adding new markets and additional frequencies to our existing markets through the growth of our regional Bombardier Q400 fleet, our narrow body Boeing 737 NG fleet and, for the first time in 2015, the addition of wide body Boeing 767-300 ERW aircraft.

The continued expansion of our fleet through smaller regional Bombardier Q400 turboprop aircraft and larger wide body Boeing 767-300 ERW jet aircraft create additional operational complexity, new costs and stronger competition not previously encountered with our single fleet of Boeing 737 NG aircraft. Since we are a relatively new operator in the regional space and have yet to operate any wide body aircraft, we may encounter 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.

Our network and operations are increasingly dependent on a few key markets and airports including YYZ, YYC and YVR.

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 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.

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 interline and code sharing arrangements.

We continue to expand our network through interline and codeshare partnerships 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.

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 on our partners.

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

We depend on automated systems to operate our business and support our initiatives, including our flight control systems, computerized airline reservation systems, telecommunication systems, aircraft maintenance systems, airport kiosk terminals and website. Our website and reservation systems must be able to accommodate a high volume of traffic and deliver important and accurate flight information. Any disruption 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.

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. In the ordinary course of business, our systems will require modifications and refinements to address our growth and business requirements. We could be adversely affected if we are unable to modify our systems as necessary.

Integration of complex systems and technology presents significant challenges in terms of costs, human resources and development of effective internal controls. Integration also presents the risk of operational or security inadequacy or interruption, which could materially affect the ability to effectively operate our business.

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

We may occasionally experience system interruptions and delays that make our website and services unavailable or slow to respond, which could prevent us from efficiently processing guest transactions or providing services. This, in turn, could reduce our operating revenues and the attractiveness of our services. Our computer and communications systems and operations could be damaged or interrupted by catastrophic events such as fires, floods, tornadoes, power loss, computer and telecommunications failures, acts of war or terrorism, computer viruses, security breaches, and similar events or disruptions. Any of these events could cause system interruptions, delays, and loss of critical data, and could prevent us from processing guest transactions or providing services, which could make our business and services less attractive and subject us to liability. Any of these events could damage our reputation and be expensive to remedy.

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, often through online operations that depend upon the secure communication of information over public networks and in reliance on third party service providers. 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.



We are dependent on single aircraft and engine suppliers for our Boeing 737 NG aircraft and separate single aircraft and engine suppliers for our Bombardier Q400 aircraft. 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 aircraft, we are dependent on Bombardier as supplier for our Bombardier Q400 aircraft and we will be dependent on Boeing as supplier for our Boeing 767 aircraft. If we were unable to acquire additional aircraft 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 either of the suppliers 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.

We are also dependent on General Electric as supplier of aircraft engines on our Boeing 737 NG 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 will also impact our low cost operating structure and the loss of any such suppliers or service providers may negatively impact our business.

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

We depend on third parties to supply us with certain components of the travel packages sold through WestJet Vacations. We are dependent, for example, on a large number of hotels in our 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 travelers of such a decline, could adversely affect our reputation or the demand for the products and services of WestJet Vacations.

A significant change in our unique corporate culture, guest experience or brand could have adverse operational and 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 strong brand, our operating results and our 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, 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.

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 U.S., 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.

Risks relating to the airline industry

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

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

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

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 travelers 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.

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

The airline industry is highly competitive and particularly susceptible to price discounting, since airlines incur only nominal costs to provide services to guests occupying otherwise unsold seats. We primarily compete with a small number of Canadian airlines in our domestic market and the same Canadian airlines and numerous U.S. and international carriers in the transborder and international markets. The emergence and growth of new low cost and ultra low cost carriers in the Canadian domestic market may result in additional competition and pricing pressures. 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 U.S. 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 U.S. has redirected appreciable guest traffic away from Canadian airports. Low-cost and ultra-low cost carriers based in the U.S. have and may continue to increase their capacity at these airports to attract Canadian-originating, price-sensitive, leisure guests.

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

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

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

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

Many aspects of airlines' operations are subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition of additional regulation particularly with respect to greenhouse gas emissions. Numerous jurisdictions around the world have implemented or announced measures to penalize for greenhouse gas emissions as a means to deal with climate change. Certain of these measures cover the airline industry or may do so in the future. The impact to us and our industry from such actions is likely to be adverse and could be significant, particularly if regulators were to conclude that emissions from commercial aircraft cause significant harm to the upper atmosphere or have a greater impact on climate change than other industries. We may be directly exposed to such measures, which could result in additional costs that could adversely affect our business. We may not be able to recover the cost of compliance with new or more stringent environmental laws and regulations from our guests, which could adversely affect our business.



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 combined increased fees, and increases in rents under various lease agreements between airport authorities and the Government of Canada, which in many instances are passed through to air carriers and air travelers, may negatively impact travel, in particular, discretionary travel.

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.

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 and guest experience.

Work stoppages or strikes by airport workers, baggage handlers, air traffic controllers 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. The following judgments and estimates are those deemed by management to be material to the preparation of the financial statements.

Judgments**(i) Componentization**

The componentization of the 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.

(ii) Depreciation and amortization

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

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (CGU) is impaired. The determination of CGUs 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 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, 2014.

(iv) Lease classification

Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in IAS 17 – Leases. The most prevalent leases are those for aircraft. Management has determined that all of our leased aircraft are operating leases, as at December 31, 2014.

(v) Unconsolidated structured entities

The classification of our participation in one Canadian De-Icing Facility Corporation (DFC), nine Canadian Fuel Facility Corporations (FFCs) and two U.S. 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.

(vi) Assets held for sale

The classification of 10 Boeing 737-700 series aircraft as assets held for sale is based on judgements applied by management in determining the probability of the sale, the timing of when the asset is available for sale and whether the asset comprises a separate operating component of the entity. Among other items, management considered the condition of the asset subject to sale, the presence of a buyer and whether the asset is considered a separate line of business, geographic segment or subsidiary. Based on these considerations, the Corporation has recognized five Boeing 737-700 series aircraft as held for sale at December 31, 2014, with five 737-700 series aircraft having already been delivered to the buyer. A key judgement, amongst other factors, that resulted in the timing of aircraft being classified as held for sale on the consolidated statement of financial position and presented in continuing operations on the consolidated statement of earnings was the identification of



the major aircraft components to be delivered with each aircraft and the aircraft not being managed as a separate component from the fleet as a whole.

(vii) Operating and reportable segments

The assessment of the Corporation as one operating and reportable segment is based on management's judgement that resource allocation decisions and performance assessments are done at a consolidated company and fleet level with a view that the Corporation manages an integrated network of markets with a consolidated fleet of different sized aircraft.

Estimates

(i) Depreciation and amortization

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

Our aircraft are depreciated over a term of 15 to 20 years, with residual values ranging between \$2.5 million and \$6.0 million per aircraft. The cost to overhaul our engines, airframes and landing gear on owned aircraft is depreciated over a term of five to 15 years. Spare engines are depreciated over a term of 15 to 20 years, with a residual value equal to approximately 10 per cent of the original purchase price. Buildings are depreciated over a term of 40 years and ground property and equipment is depreciated over three to 25 years.

Included in intangible assets are costs related to software, trademarks and landing rights. Intangible assets with definite lives are carried at cost less accumulated amortization and are amortized on a straight-line basis over their respective useful life of five and 20 years. Expected useful lives and amortization methods are reviewed annually. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Expense is recorded on the consolidated statement of earnings as depreciation and amortization.

(ii) Maintenance provisions

We have legal obligations to adhere to certain maintenance conditions set out in our aircraft operating lease agreements relating to the condition of the aircraft when it is returned to the lessor. To fulfill these obligations, a provision is made during the lease term. Estimates related to the maintenance provision include the likely utilization of the aircraft, the expected future cost of the maintenance, the point in time at which maintenance is expected to occur, the discount rate used to present value the future cash flows and the lifespan of life-limited parts. These estimates are based on data and information obtained from various sources including the lessor, current maintenance schedules and fleet plans, contracted costs with maintenance service providers, other vendors and company-specific history 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, 2014, our maintenance provision is discounted using a weighted average risk-free rate of approximately 0.91 per cent (2013 – 0.99 per cent) which is equal to the weighted average remaining term of approximately 30 months until cash outflow (2013 – 27 months).

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

Current and deferred tax benefit or expense is recognized in the same period as the related transaction or event is recognized in net earnings.

(iv) Fair value of equity-settled share-based payments

Grants under our equity-settled share-based compensation plans are measured at the fair value of the equity instrument granted. We use an option pricing model to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. We consider historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Separate from the fair value calculation, we are required to estimate the expected forfeiture rate of equity-settled share-based payments. We have assessed forfeitures to be insignificant based on the underlying terms of our compensation plans.

The cost of our equity-settled share-based payments is recognized as compensation expense within the respective department's operating expense line item with a corresponding increase to equity reserves over the related service period.

(v) Fair value of derivative instruments

We use various financial derivative instruments such as forwards and swaps to manage fluctuations in foreign exchange rates and interest rates.

The fair value of derivative instruments is estimated using inputs, including forward prices, foreign exchange rates, interest rates and historical volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of our derivative instruments are subject to regular changes in fair value each reporting period. Please refer to *2014 Results of Operations – Foreign exchange* and *Liquidity and Capital Resources – Financing* on page 16 and page 23, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of our derivatives designated in an effective hedging relationship at December 31, 2014.

Future accounting pronouncements

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing our audited consolidated financial statements and notes thereto, for the years ended December 31, 2014 and 2013 as their effective dates falls within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date
IFRS 15 – Revenue from Contracts with Customers	A new standard on revenue recognition that contains a single model that applies to contracts with customers and two approaches to recognizing revenue; at a point in time or over time.	IAS 11 - Construction contracts; IAS 18 – Revenue; IFRIC 13 - Customer Loyalty Programmes; IFRIC 15 - Agreements for the Construction of Real Estate; IFRIC 18 - Transfers of Assets from Customers; SIC-31 - Revenue - Barter Transactions Involving Advertising Services	Effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IFRS 9 – Financial Instruments	A single financial instrument accounting standard addressing: classification and measurement (Phase 1), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – Financial Instruments: Recognition and Measurement; Presentation; Disclosures	Effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Management has not yet evaluated the impact of these new standards on our financial statement measurements and disclosures. We do not anticipate early adopting these standards.

CONTROLS AND PROCEDURES

Disclosure controls and procedures (DC&P)

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

An evaluation of our DC&P was conducted, as at December 31, 2014, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2014, our DC&P, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), was effective.

Internal control over financial reporting (ICFR)

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

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

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

Management, under the supervision of the CEO and the CFO, has evaluated our ICFR using the framework and criteria established in the 2013 Internal Controls – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2014, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2014 that have materially affected, or are reasonably likely to affect, our ICFR.

In May 2013, COSO release an updated version of the 1992 internal control integrated framework, effective December 15, 2014. Management has assessed the impacts of the new COSO framework on its ICFR and has certified on its ICFR using the COSO 2013 framework.

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: our expectation that the new pilot agreement will provide us with stability, referred to under the heading *WestJetters* on page 9; our plan to begin operating four Boeing 767 300ERW series aircraft initially expected to be deployed on routes between Alberta and Hawaii in order to replace the service currently operated by Thomas Cook, referred to under the heading *Network expansion* on page 9; our plan to begin daily non-stop flights from Halifax, Nova Scotia to Glasgow, United Kingdom on May 29, 2015, referred to under the heading *Network expansion* on page 9; our expectation that our transatlantic expansion will provide us with growth opportunities, referred to under the heading *Network expansion* on page 9; our expectation that WestJet Encore will commence service from its first Maritime destination beginning on April 15, 2015, referred to under the heading *Network expansion* on page 9; that our guests will be able to use their own personal electronic device to receive live and stored content streamed wirelessly from a server on board each Boeing 737 NG aircraft, that we will install USB/110 volt power outlets in new, slimmer seats on our Boeing 737 NG aircraft to enable guests to charge their devices while using the entertainment system and that we expect such installations to be complete in 2016, all referred to under the heading *Guest experience* on page 10; our expectation that our charge for a first checked bag on Econo fares for travel within Canada and between Canada and the US will provide us with the ability to offer reduced fares and reinforce WestJet's commitment to being Canada's low-fare leader, referred to under the heading *Guest experience* on page 10; that 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, referred to under the headings *Aircraft fuel* on page 13 and *Fuel risk* on page 30; our estimate of our sensitivity of fuel costs in US dollars to changes in crude oil of approximately \$8.0 million annually for every one US-dollar change per barrel of WTI crude oil, our estimate of our sensitivity of fuel costs in Canadian dollars to changes in fuel pricing of approximately \$13.0 million for every one-cent change per litre of jet fuel and our estimate of our sensitivity to fluctuations in foreign exchange rates to be approximately \$5.9 million for every one-cent change in the value of the Canadian dollar versus the US dollar, all referred to under the headings *Aircraft fuel* on page 13; our estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$8.5 million on our annual unhedged operating costs, (approximately \$5.9 million for fuel and \$2.6 million related to other US-dollar-denominated operating expenses), referred to under the heading *Foreign exchange* on page 16; that we anticipate our annual effective tax rate will remain in the range of 27 per cent to 28 per cent for 2015, referred to under the heading *Income Taxes* on page 17; that we expect capital and investing activities to be high in the short term and that during this period we will experience negative free cash flow which we anticipate managing through our cash and cash equivalents balances and future debt financing, referred to under the heading *Free cash flow* on page 23; that, over a longer period of time, we expect our operating cash flows to sufficiently fund all our capital and investing activities, referred to under the heading *Free cash flow* on page 23; our expectation that our credit rating will provide WestJet with a range of public and private debt financing options in the future, referred to under the heading *Financing* on page 23; that the unsecured bond market represents a significant new source of financing for WestJet which will add considerable flexibility in the funding of our fleet plan going forward, referred to under the heading *Financing* on page 23; that we expect to receive financing from EDC for up to 80 per cent of the net price for each Bombardier Q400 aircraft, referred to under the heading *Financing* on page 23; our plan to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing, referred to under the heading *Contractual obligations and commitments* on page 25; our expectation that there will not be adverse changes to our future ability to access similar or different sources of liquidity than we historically have, for the purposes of meeting our contractual obligations and commitments, referred to under the heading *Contractual obligations and commitments* on page 25; that the future outcome of our current legal proceedings and claims will not have a material effect upon our financial position, results of operations or cash flows, referred to under the heading *Contingencies* on page 25; our expectation that we will deliver the remaining five aircraft to Southwest in the first half of 2015, referred to under the heading *Fleet* on page 25; that we expect the first scheduled deliveries of the four 767-300ERW series aircraft to occur in 2015, referred to under the heading *Fleet* on page 25; that we expect to fund our future operating aircraft lease commitments through cash from operations, referred to under the heading *Off Balance Sheet Arrangements* on page 27; our confidence in delivering continued profitable results, as referred to under section *Quarterly dividend policy* on page 28; that all Shares acquired under our normal course issuer bid will be cancelled, referred to under the heading *Normal course issuer bid* on page 28; that we anticipate revenue and traffic growth to continue in the first quarter of 2015 and RASM to be flat to slightly negative year over year, referred to under the heading *Outlook* on page 29;

our expectation that we will take delivery of twelve more Boeing 737 NG aircraft, two Boeing 767 300 ERW aircraft, and ten Bombardier Q400 aircraft and will dispose of the further five of our oldest Boeing 737 NG aircraft, all in 2015, referred to under the heading *Outlook* on page 29; our expectation that system-wide capacity growth will increase between 4.0 and 4.5 per cent for the first quarter of 2015, and between 4.0 and 5.0 per cent for the full-year 2015, referred to under the heading *Outlook* on page 29; that we anticipate our domestic capacity to grow between 3.5 and 4.0 per cent for the first quarter of 2015 and between 4.0 to 5.0 per cent year-over-year growth for the full-year 2015, referred to under the heading *Outlook* on page 29; that we expect full-year 2015 CASM, excluding fuel and employee profit share, to be up 2.5 to 3.5 per cent, and first-quarter 2015 CASM, excluding fuel and employee profit share, to be up 1.0 to 1.5 per cent year over year, referred to under the heading *Outlook* on page 29; that we expect fuel costs to range between 63 and 65 cents per litre for the first quarter of 2015, representing a 27.8 to 30.0 per cent year-over-year increase, referred to under the heading *Outlook* on page 29; that for the full-year 2015, we are forecasting capital expenditures between \$920 million and \$940 million, with spending related primarily to direct owned aircraft deliveries, deposits on future aircraft, overhauls on owned engines, referred to under the heading *Outlook* on page 29; that for the first quarter of 2015, we are forecasting capital expenditures to range between \$160 million and \$170 million, as referred to under the heading *Outlook* on page 29; that we plan to continue adding new markets and additional frequencies to our existing markets through the growth of our regional Bombardier Q400 fleet, our narrow body Boeing 737 fleet and, for the first time in 2015, the addition of wide body Boeing 767-300 ERW aircraft, referred to under the heading *Risks relating to the business* on page 32; that we do not anticipate early adopting the new revenue from contracts with customers and financial instrument standards, referred to under the heading *Future accounting pronouncements* on page 43.

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

- Our plan to begin operating four wide-body aircraft on routes between Alberta and Hawaii is based on the assumption that we will be able to deliver on our fleet plan and on the agreement with Boeing;
- Our expectation that we will begin daily non-stop flights from Halifax, Nova Scotia to Glasgow, United Kingdom on May 29, 2015 and that WestJet Encore will commence service from its first Maritime destination beginning on April 15, 2015 is based on the assumption that we will successfully carry-out our current network plan;
- Our expectation that installations of our new IFE system, power outlets and slim seats will be complete in 2016 is based on the assumption that the current installation schedule will be successfully executed;
- Our estimated sensitivity to fuel costs and changes in fuel prices is based on our fuel consumption for our existing schedule and historical fuel burn and the assumption that we will burn fuel in a manner consistent therewith, as well as an assumption that the Canadian-US dollar exchange rate will be similar to the current rate;
- Our estimated sensitivity to the change in value of the Canadian dollar versus the US dollar is based on forecasted operating expenses denominated in US dollars, excluding a portion of aircraft leasing expenses hedged under foreign exchange forward contracts, as well as an assumption that the exchange rate for the Canadian dollar will be similar to the current market rate;
- Our expected annual effective tax rate for 2015 is based on the assumption that current legislation will continue to apply, and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- Our expectation that we anticipate managing through our cash and cash equivalents balances and future debt financing is based on the assumption that we will effectively implement and adapt our capital management strategy in light of our growth plans and changing market conditions;
- Our expectation that, over a longer period of time, our operating cash flows will sufficiently fund all our capital and investing activities is based on the assumption that our earnings will continue for a sufficient period of time in the future to finance our capital requirements;
- Our expectation that the unsecured bond market represents a significant new source of financing for WestJet is based on the assumption that we maintain a strong credit rating and that credit markets remain relatively strong and liquid in the foreseeable future;

- Our belief that we will receive financing from EDC for up to 80 per cent of the net price for each Bombardier Q400 aircraft is based on the assumption that our agreement with EDC will remain active and that EDC will be able to provide that financing;
- Our expectation that we will meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing is based on the assumption that we will successfully execute on our current strategic plan and operate our business in a manner consistent with our budget and forecast;
- Our expectation that there will not be adverse changes to our future ability to access similar or different sources of liquidity than we historically have, for the purposes of meeting our contractual obligations and commitments is based on our assessment of our current financial position, the assumption that our aircraft delivery schedule will proceed as expected and that our strategic plan will be implemented in accordance with its terms;
- That the future outcome of our current legal proceedings and claims will not have a material effect upon our financial position, results of operations or cash flows is based on a review of current legal proceedings by management and legal counsel and our assumption that such proceedings and claims will be resolved in a manner consistent with such assessment;
- Our expectation that we will deliver the remaining five aircraft to Southwest in the first half of 2015 is based on the assumption that these five aircraft will meet the delivery requirements as outlined in the purchase and sale agreement with Southwest;
- Our expectation of the delivery schedule of the Boeing 767-300ERW series aircraft is based on the executed agreement;
- Our expectation that we will fund our future operating aircraft lease commitments through cash from operations is based on our the assumption that we will successfully execute on our current strategic plan and operate our business in a manner consistent with our budget and forecast;
- Our confidence in delivering continued profitable results is based on our the assumption that we will successfully execute on our current strategic plan and operate our business in a manner consistent with our budget and forecast;
- Our plan to cancel all Shares acquired under the normal course issuer bid is based on our intention to conduct our bid in accordance with the rules of the Toronto Stock Exchange;
- Our expectations regarding revenue growth and strong traffic to continue into the first quarter of 2015 and that our first quarter RASM to be flat to slightly negative is based on our current demand forecast;
- Our expectation that system-wide capacity will increase between 4.0 and 4.5 per cent for the first quarter of 2015, and increase between 4.0 and 5.0 per cent for the full-year 2015, that domestic capacity will increase between 3.5 and 4.0 per cent for the first quarter of 2015, and between 4.0 to 5.0 per cent year-over-year for the full-year 2015, is based on our current network plans and aircraft deliveries;
- Our anticipation that our 2015 full-year CASM, excluding fuel and employee profit share, will be up 2.5 to 3.5 per cent, and first-quarter 2015 CASM, excluding fuel and employee profit share, will be up 1.0 to 1.5 per cent compared to the first quarter of 2014 and the factors contributing thereto is based on our current operating forecast;
- Our projection of fuel costs to range between 63 and 65 cents per litre for the first quarter of 2015 is based on current forecasted jet fuel prices of US \$67 per barrel and an average foreign exchange rate of approximately 1.23 Canadian dollars to one US dollar;
- Our expectation that full-year 2015 capital expenditures will be between \$920 and \$940 million and for first quarter of 2015, will range between \$160 to \$170 million is based on our 2014 capital forecast and contractual commitments;

DEFINITION OF KEY OPERATING INDICATORS

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

Flight leg: A segment of a flight involving a stopover, change of aircraft or change of airline from one landing site to another.

Segment guest: Any person who has been booked to occupy a seat on a flight leg and is not a member of the crew assigned to the flight.

Average stage length: The average distance of a non-stop flight leg between take-off and landing as defined by IATA guidelines.

Available seat miles (ASM): A measure of total guest capacity, calculated by multiplying the number of seats available for guest use in an aircraft by stage length.

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

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

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

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

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

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

Utilization: Operating hours per day per operating aircraft.

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

Adjusted net earnings: Net earnings adjusted for the after-tax non-cash loss recorded in the third quarter of 2014, associated with the classification of the 10 aircraft sold to Southwest as assets held for sale in 2014.

Adjusted earnings per share - diluted: We excluded the effect of the after-tax non-cash loss recorded in the third quarter of 2014, related to the 10 aircraft sold to Southwest being classified as held for sale in 2014 from net earnings to calculate an adjusted diluted earnings per share.

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

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

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

Adjusted EBITDAR: Adjusted EBITDAR excludes the effect of the pre-tax non-cash loss recorded in the third quarter of 2014, related to the 10 aircraft sold to Southwest.

Adjusted EBT Margin: The adjusted EBT margin excludes the effect of the pre-tax non-cash loss recorded in the third quarter of 2014, related to the 10 aircraft sold to Southwest.

Cash to trailing 12 months of revenue: Cash as a percentage of trailing twelve months of revenue is a measure commonly used in the airline industry to compare liquidity positions.

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

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

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

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

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

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		
	2014	2013	Change	2014	2013	Change
Operating expenses	854,787	824,742	30,045	3,501,081	3,262,687	238,394
Aircraft fuel expense	(243,816)	(260,528)	16,712	(1,090,330)	(1,039,448)	(50,882)
Employee profit share expense	(23,399)	(12,463)	(10,936)	(68,787)	(51,577)	(17,210)
Operating expenses, adjusted	587,572	551,751	35,821	2,341,964	2,171,662	170,302
ASMs	6,378,247,018	5,942,032,692	7.3%	25,584,033,077	23,970,921,260	6.7%
CASM, excluding above items (cents)	9.21	9.29	(0.9%)	9.15	9.06	1.0%

Adjusted EBT Margin

(\$ in thousands)	2014	2013	Change
Revenue	3,976,552	3,662,197	314,355
EBT	390,307	372,085	18,222
Adjusted for:			
Special item ⁽ⁱ⁾	45,459	-	45,459
Adjusted EBT	435,766	372,085	63,681
Adjusted EBT margin	11.0%	10.2%	0.8 pts.

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

Cash to trailing 12 months revenue

(\$ in thousands)	2014	2013	Change
Cash and cash equivalents	1,358,071	1,256,005	102,066
Trailing 12 months revenue	3,976,552	3,662,197	314,355
Cash to trailing 12 months revenue ⁽ⁱ⁾	34.2%	34.3%	0.1 pts.

(i) At December 31, 2014 and December 31, 2013, the Corporation met its internal guideline of cash to trailing 12 months revenue of approximately 30 per cent.

Adjusted debt-to-equity

(\$ in thousands)	2014	2013	Change
Long-term debt ⁽ⁱ⁾	1,188,663	878,395	310,268
Off-balance-sheet aircraft leases ⁽ⁱⁱ⁾	1,368,375	1,317,345	51,030
Adjusted debt	2,557,038	2,195,740	361,298
Total shareholders' equity	1,777,502	1,589,840	187,662
Add: Hedge reserves	3,179	(105)	3,284
Adjusted equity	1,780,681	1,589,735	190,946
Adjusted debt-to-equity	1.44	1.38	4.3%

(i) At December 31, 2014, long-term debt includes the current portion of long-term debt of \$159,843 (2013 – \$189,191) and long-term debt of \$1,028,820 (2013 – \$689,204).

(ii) Off-balance-sheet aircraft 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 costs totaled \$182,450 (2013 – \$175,646).

Adjusted net debt to EBITDAR/Adjusted net debt to adjusted EBITDAR

(\$ in thousands)	2014	2013	Change
Adjusted debt	2,557,038	2,195,740	361,298
Less: Cash and cash equivalents	(1,358,071)	(1,256,005)	(102,066)
Adjusted net debt	1,198,967	939,735	259,232
Net earnings	283,957	268,722	15,235
Add:			
Net finance costs ⁽ⁱ⁾	34,768	25,599	9,169
Taxes	106,350	103,363	2,987
Depreciation and amortization	226,740	200,840	25,900
Aircraft leasing	182,450	175,646	6,804
Other ⁽ⁱⁱ⁾	2,064	(1,136)	3,200
EBITDAR	836,329	773,034	63,295
Special item ⁽ⁱⁱⁱ⁾	45,459	—	45,459
Adjusted EBITDAR	881,788	773,034	108,754
Adjusted net debt to EBITDAR ^(iv)	1.43	1.22	17.2%
Adjusted net debt to adjusted EBITDAR ^(iv)	1.36	1.22	11.9%

(i) At December 31, 2014, net finance costs includes the trailing 12 months of finance income of \$17,070 (2013 – \$17,848) and the trailing 12 months of finance cost of \$51,838 (2013 – \$43,447).

(ii) At December 31, 2014, other includes the trailing 12 months foreign exchange loss of \$2,064 (2013 – gain of \$1,136).

(iii) Pre-tax non-cash loss recorded in the third quarter of 2014 associated with the sale of 10 aircraft to Southwest.

(iv) At December 31, 2014 and December 31, 2013, the Corporation met its internal guideline of an adjusted net debt to EBITDAR and an adjusted net debt to adjusted EBITDAR measure of less than 2.50.

Return on Invested capital

(\$ in thousands)	2014	2013	Change
Earnings before income taxes (trailing twelve months)	390,307	372,085	18,222
Special item ⁽ⁱ⁾	45,459	—	45,459
Adjusted earnings before income taxes (trailing twelve months)	435,766	372,085	63,681
Add:			
Finance costs	51,838	43,447	8,391
Implicit interest in operating leases ⁽ⁱⁱ⁾	95,786	92,214	3,572
Return	583,390	507,746	75,644
Invested capital:			
Average long-term debt ⁽ⁱⁱⁱ⁾	1,033,529	808,722	224,807
Average shareholders' equity	1,683,671	1,531,072	152,599
Off-balance-sheet aircraft leases ^(iv)	1,368,375	1,317,345	51,030
Invested capital	4,085,575	3,657,139	428,436
Return on invested capital	14.3%	13.9%	0.4 pts.

(i) Pre-tax non-cash loss 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 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 costs totaled \$182,450 (2013 – \$175,646).

Diluted operating cash flow per share

(\$ in thousands, except per share data)	2014	2013	Change
Cash flow from operating activities	571,618	608,147	(36,529)
Weighted average number of shares outstanding - diluted	129,142,940	132,074,002	(2,931,062)
Diluted operating cash flow per share	4.43	4.60	(3.7%)

Free cash flow/Diluted free cash flow per share

(\$ in thousands, except per share data)	2014	2013	Change
Cash flow from operating activities	571,618	608,147	(36,529)
Adjusted for:			
Net Aircraft additions	(618,545)	(639,592)	21,047
Other property and equipment and intangible additions	(46,586)	(75,580)	28,994
Free cash flow	(93,513)	(107,025)	13,512
Weighted average number of shares outstanding - diluted	129,142,940	132,074,002	(2,931,062)
Diluted free cash flow per share	(0.72)	(0.81)	(11.1%)

Adjusted net earnings/Adjusted diluted earnings per share

(\$ in thousands, except share and per share data)	2014	2013	Change
Net earnings	283,957	268,722	15,235
Adjusted for:			
Special item ⁽ⁱ⁾	33,231	-	33,231
Adjusted net earnings	317,188	268,722	48,466
Weighted average number of shares outstanding - diluted	129,142,940	132,074,002	(2,931,062)
Adjusted diluted earnings per share	2.46	2.03	21.2%

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



**Consolidated Financial Statements and Notes
For the years ended December 31, 2014 and 2013**



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 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 ensuring 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.

Gregg Saretsky
President and
Chief Executive Officer

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

February 2, 2015
Calgary, Canada



INDEPENDENT AUDITORS' REPORT

To the Shareholders of WestJet Airlines Ltd.

We have audited the accompanying consolidated financial statements of WestJet Airlines Ltd., which comprise the consolidated statements of financial position at December 31, 2014 and December 31, 2013, the consolidated statements of earnings, changes in equity, cash flows and comprehensive income for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of WestJet Airlines Ltd. at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

February 2, 2015
Calgary, Canada



Consolidated Statement of Earnings

For the years ended December 31

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

	Note	2014	2013
Revenue:			
Guest		3,599,157	3,337,569
Other		377,395	324,628
		3,976,552	3,662,197
Operating expenses:			
Aircraft fuel		1,090,330	1,039,448
Airport operations		507,743	460,566
Flight operations and navigational charges		458,146	408,951
Sales and distribution		376,676	356,988
Depreciation and amortization		226,740	200,840
Marketing, general and administration		224,783	222,567
Maintenance		193,685	169,197
Aircraft leasing expense		182,450	175,646
Inflight expense		171,741	176,907
Employee profit share		68,787	51,577
		3,501,081	3,262,687
Earnings from operations		475,471	399,510
Non-operating income (expense):			
Finance income		17,070	17,848
Finance cost		(51,838)	(43,447)
Gain (loss) on foreign exchange		(2,064)	1,136
Loss on disposal of property and equipment	7	(48,332)	(2,962)
		(85,164)	(27,425)
Earnings before income tax		390,307	372,085
Income tax expense (recovery):			
Current		114,521	154,964
Deferred		(8,171)	(51,601)
	11	106,350	103,363
Net earnings		283,957	268,722
Earnings per share:			
Basic		2.22	2.05
Diluted		2.20	2.03

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



Consolidated Statement of Financial Position

At December 31

(Stated in thousands of Canadian dollars)

	Note	2014	2013
Assets			
Current assets:			
Cash and cash equivalents	5	1,358,071	1,256,005
Restricted cash	6	58,149	58,106
Accounts receivable	18	54,950	42,164
Prepaid expenses, deposits and other	18	144,192	133,263
Inventory	18	36,658	36,722
Assets held for sale	7	78,306	–
		1,730,326	1,526,260
Non-current assets:			
Property and equipment	7	2,793,194	2,487,734
Intangible assets	8	60,623	58,691
Other assets	18	62,290	70,778
Total assets		4,646,433	4,143,463
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	18	502,432	543,167
Advance ticket sales	18	575,781	551,022
Non-refundable guest credits	18	45,434	46,975
Current portion of maintenance provisions	9	54,811	76,105
Current portion of long-term debt	10	159,843	189,191
		1,338,301	1,406,460
Non-current liabilities:			
Maintenance provisions	9	191,768	142,411
Long-term debt	10	1,028,820	689,204
Other liabilities	18	13,150	8,834
Deferred income tax	11	296,892	306,714
Total liabilities		2,868,931	2,553,623
Shareholders' equity:			
Share capital	12	603,287	603,861
Equity reserves		75,094	69,079
Hedge reserves		(3,179)	105
Retained earnings		1,102,300	916,795
Total shareholders' equity		1,777,502	1,589,840
Commitments	16		
Total liabilities and shareholders' equity		4,646,433	4,143,463

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

On behalf of the Board:

Gregg Saretsky, Director

Hugh Bolton, Director



Consolidated Statement of Cash Flows

For the years ended December 31

(Stated in thousands of Canadian dollars)

	Note	2014	2013
Operating activities:			
Net earnings		283,957	268,722
Items not involving cash:			
Depreciation and amortization		226,740	200,840
Change in maintenance provisions		8,413	26,610
Change in other liabilities		(529)	1,782
Amortization of hedge settlements		1,400	1,400
Loss on disposal of property and equipment		48,332	2,962
Share-based payment expense	12	18,626	14,533
Deferred income tax recovery		(8,171)	(51,601)
Unrealized foreign exchange gain		(10,634)	(12,020)
Change in non-cash working capital		208,595	298,697
Change in restricted cash		(43)	(6,484)
Change in other assets		(6,833)	(1,374)
Cash interest received		17,243	19,079
Cash taxes paid		(204,489)	(147,868)
Purchase of shares pursuant to compensation plans		(10,989)	(7,131)
		571,618	608,147
Investing activities:			
Aircraft additions		(694,200)	(639,734)
Aircraft disposals		75,655	142
Other property and equipment and intangible additions		(46,586)	(75,580)
		(665,131)	(715,172)
Financing activities:			
Increase in long-term debt		613,885	318,075
Repayment of long-term debt		(303,573)	(178,647)
Shares repurchased	12	(39,431)	(112,362)
Dividends paid	13	(61,313)	(52,188)
Issuance of shares pursuant to compensation plans		96	106
Cash interest paid		(39,507)	(36,677)
Change in non-cash working capital		4,866	146
		175,023	(61,547)
Cash flow from operating, investing and financing activities		81,510	(168,572)
Effect of foreign exchange on cash and cash equivalents		20,556	16,378
Net change in cash and cash equivalents		102,066	(152,194)
Cash and cash equivalents, beginning of year		1,256,005	1,408,199
Cash and cash equivalents, end of year	5	1,358,071	1,256,005

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



Consolidated Statement of Changes in Equity

For the years ended December 31

(Stated in thousands of Canadian dollars)

	Note	2014	2013
Share capital:			
Balance, beginning of year		603,861	614,899
Issuance of shares pursuant to compensation plans		6,177	11,027
Shares repurchased		(6,751)	(22,065)
	12	603,287	603,861
Equity reserves:			
Balance, beginning of year		69,079	69,856
Share-based payment expense	12	18,626	14,533
Issuance of shares pursuant to compensation plans		(12,611)	(15,310)
		75,094	69,079
Hedge reserves:			
Balance, beginning of year		105	(5,746)
Other comprehensive income		(3,284)	5,851
		(3,179)	105
Retained earnings:			
Balance, beginning of year		916,795	793,296
Dividends declared	13	(61,313)	(52,188)
Shares repurchased	12	(32,680)	(90,297)
Purchase of shares pursuant to compensation plans		(4,459)	(2,738)
Net earnings		283,957	268,722
		1,102,300	916,795
Total shareholders' equity		1,777,502	1,589,840

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



Consolidated Statement of Comprehensive Income

For the years ended December 31

(Stated in thousands of Canadian dollars)

	2014	2013
Net earnings	283,957	268,722
Items to be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Amortization of hedge settlements to aircraft leasing	1,400	1,400
Net unrealized loss on foreign exchange derivatives ⁽ⁱ⁾	8,652	6,660
Reclassification of net realized gain on foreign exchange derivatives ⁽ⁱⁱ⁾	(7,023)	(3,514)
Net unrealized gain (loss) on interest rate derivatives ⁽ⁱⁱⁱ⁾	(8,697)	522
Reclassification of net realized loss on interest rate derivatives ^(iv)	2,384	783
	(3,284)	5,851
Total comprehensive income	280,673	274,573

(i) Net of income taxes of \$(3,048) (2013 – \$(2,347)).

(ii) Net of income taxes of \$2,475 (2013 – \$1,238).

(iii) Net of income taxes of \$3,065 (2013 – \$(183)).

(iv) Net of income taxes of \$(841) (2013 – \$(275)).

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, 2014 and 2013

(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, 2014 and 2013, were authorized for issue by the Board of Directors on February 2, 2015. 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 symbols WJA and WJA.A. The principal business address is 22 Aerial Place N.E., Calgary, Alberta, T2E 3J1 and the registered office is Suite 2400, 525 - 8 Avenue SW, 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 17. 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

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

(ii) Other

Other revenue includes items such as net revenue from the sale of the land component of vacation packages, ancillary fees as well as cargo and charter revenue.

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

Ancillary revenue is recognized when the services and products are provided to the guest. Ancillary revenues include items such as fees associated with guest itinerary changes or cancellations, baggage fees, buy-on-board sales, pre-reserved seating fees and breakage from the WestJet Rewards Program.



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

(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)

(iii) WestJet Rewards Program

The Corporation has a rewards program that allows guests to accumulate credits based on their WestJet travel spend to be used towards future flights and vacation packages. Revenue received in relation to credits issued is deferred as a liability at fair value until the credit is utilized and air transportation is provided, at which time it is recognized in guest revenue. Revenue associated with credits expected to expire (breakage) is recognized in other revenue at the time the credit is issued.

The Corporation also has a co-branded MasterCard with the Royal Bank of Canada (RBC). RBC issues reward credits to cardholders as a percentage of their total retail spend. Revenue related to new credit cards issued is recognized in other revenue immediately upon activation.

(iv) Non-refundable guest credits

The Corporation issues future travel credits to guests for flight changes and cancellations. Where appropriate, travel credits are also issued for flight delays, missing baggage and other inconveniences. All credits are non-refundable and have expiry dates dependent upon the nature of the credit. The Corporation records a liability at face value for credits issued for flight changes and cancellations. Revenue related to flight changes and cancellations is recorded in guest revenue when air transportation is provided. No liability is recorded for travel credits related to flight delays, missing baggage or other inconveniences as these credits are issued as goodwill gestures by the Corporation and do not represent a performance obligation. Credits issued as a sign of goodwill are recorded as a reduction to guest revenue when the credit is utilized.

(e) Financial instruments

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

The following table lists the Corporation's financial instruments and the method of measurement subsequent to initial recognition:

Financial instrument	Category	Measurement method
Cash and cash equivalents	At fair value through profit or loss	Fair value
Restricted cash	At fair value through profit or loss	Fair value
Deposits	At fair value through profit or loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Derivative instruments	At fair value through profit or loss	Fair value

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition at fair value through profit or loss. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as effective hedging instruments. At December 31, 2014 and 2013, the Corporation did not hold any financial instruments classified as held-for-trading. Financial assets and liabilities designated upon initial recognition at fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recorded in net earnings. The Corporation uses trade-date accounting for initial recognition of financial instruments in this category.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method. Impairment, if any, is recorded in net earnings.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

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

1. Statement of significant accounting policies (continued)

(e) Financial instruments (continued)

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities other than derivatives, which are designated as cash flow hedges.

The Corporation may, from time to time, use various financial derivatives to reduce market risk exposure from changes in foreign exchange rates, interest rates and jet fuel prices. Derivatives are recorded at fair value on the consolidated statement of financial position with changes in fair value recorded in net earnings unless designated as effective hedging instruments. Similarly, embedded derivatives are recorded at fair value on the consolidated statement of financial position with the changes in fair value recorded in the consolidated statement of earnings unless exempted from derivative treatment as a normal purchase and sale or the host contract and derivative are deemed to be clearly and closely related. When financial assets and liabilities are designated as part of a hedging relationship and qualify for hedge accounting, they are subject to measurement and classification requirements as cash flow hedges. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

At each reporting period, the Corporation will assess whether there is any objective evidence that a financial asset, other than those classified at fair value through profit or loss, is impaired.

The Corporation offsets qualifying transaction costs incurred in relation to the acquisition of financial assets and liabilities not measured at fair value through profit or loss against those same financial assets and liabilities.

(f) Cash flow hedges

The Corporation uses various financial derivative instruments such as forwards and swaps to manage fluctuations in foreign exchange rates and interest rates.

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

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

The Corporation excludes time value from the measurement of effectiveness; accordingly, changes in time value are recognized in non-operating income (expense) during the period the change occurs.

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

(g) Foreign currency

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at the rate of exchange in effect at the consolidated statement of financial position date, with any resulting gain or loss recognized in net earnings. Non-monetary assets, non-monetary liabilities, 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 91 days.



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

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

1. Statement of significant accounting policies (continued)

(i) Inventory

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

(j) Property and equipment

Property and equipment is stated at cost and depreciated to its estimated residual value. 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	5 to 15 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 \$6,000 per aircraft. Spare engines have an estimated 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 rotatable parts is recognized in maintenance expense as incurred.

(k) Assets held for sale

The Corporation classifies a non-current asset as held for sale if the carrying amount of the asset will be recovered principally through a sale transaction instead of through continuing use. The Corporation measures any asset held for sale at the lower of: (i) its carrying amount, or (ii) fair value less costs to sell. Assets held for sale are not depreciated or amortized and are classified as a current asset on the consolidated statement of financial position until the sale is complete. If the asset is considered a separate component of the Corporation, then the operating results of this component will be classified as discontinued operations on the consolidated statement of earnings. If the asset is not considered a separate component, then the operating results continue to be included in earnings from continuing operations until the time of sale. Any subsequent changes to the fair value less costs to sell after classification as held for sale are recognized in profit or loss, not to exceed the original carrying amount of the assets held for sale.

At December 31, 2014, the Corporation has recognized five aircraft as held for sale. These aircraft form part of a transaction for the sale of 10 Boeing 737-700 series aircraft. The Boeing 737-700 series aircraft were not assessed to be a separate component of the entity as they are not managed separately from the entire fleet and therefore, the operating results of these aircraft continue to be included in earnings from continuing operations on the consolidated statement of earnings until such time that they are delivered. The five undelivered 737-700 series aircraft are classified as current assets on the consolidated statement of financial position at the contracted purchase price with the buyer less costs to sell. The difference between the carrying amounts and contracted purchase price was recorded as a loss on disposal of property and equipment. The Corporation has recorded the aircraft at the contracted Canadian dollar equivalent proceeds using the period end US-dollar foreign exchange rate.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

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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 Government of Canada 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 ongoing 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 payment is incurred.



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

(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 leases including, but not limited to, those for aircraft, land, hangar space and airport operations.

(p) Borrowing costs

Interest and other borrowing costs are capitalized to a qualifying asset provided they are directly attributable to the acquisition, construction or production of the qualifying asset. For specific borrowings, any investment income on the temporary investment of borrowed funds is offset against the capitalized borrowing costs. The Corporation capitalizes interest related to the acquisition of aircraft.

(q) Income taxes

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

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

Current and deferred tax benefit or expense is recognized in the same period as the related transaction or event is recognized in net earnings. Current and deferred tax benefit or expense related to transactions or events in 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.

(r) 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 cost of the equity-settled share-based payments is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Corporation. The service period may commence prior to the grant date with compensation expense recognition being subject to specific vesting conditions and the best estimate of equity instruments expected to vest. Estimates related to vesting conditions are reviewed regularly with any adjustments recorded to compensation expense. On the vesting date, the Corporation revises, if necessary, the estimate to equal the number of equity instruments ultimately vested and adjusts the corresponding compensation expense and equity reserves accordingly.

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

Upon exercise or settlement of equity-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, 2014 and 2013

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

1. Statement of significant accounting policies (continued)

(s) 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 potential dilutive voting shares. Potential dilutive voting shares are only those shares that would result in a decrease to earnings per share or increase to loss per share. The calculation of potential dilutive voting shares assumes the exercise of all dilutive instruments at the average market price during the period with the proceeds received from exercise assumed to reduce the number of dilutive voting shares otherwise issued.

(t) 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) 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.

(ii) 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.

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or CGU is impaired. The determination of 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 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 to conclude that there is no impairment at December 31, 2014.

(iv) Lease classification

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

(v) Unconsolidated structured entities

The classification of the Corporation's participation in nine Canadian Fuel Facility Corporations (FFCs), two US FFCs and one Canadian De-Icing Facility Corporation (DFC) 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 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 17 for additional disclosures of the Corporation's interest in unconsolidated structured entities.

(vi) Operating and reportable segments

The assessment of the Corporation as one operating and reportable segment is based on management's judgement that resource allocation decisions and performance assessments are done at a consolidated company and fleet level with a view that the Corporation manages an integrated network of markets with a consolidated fleet of different sized aircraft.



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1. Statement of significant accounting policies (continued)

(t) Critical accounting judgments and estimates (continued)

Judgments (continued)

(vii) Assets held for sale

The classification of five Boeing 737-700 series aircraft as held for sale is based on judgements applied by management in determining the probability of the sale, the timing of when the asset is available for sale and whether the asset comprises a separate operating component of the entity. Among other items, management considered the condition of the asset subject to sale, the presence of a buyer and whether the asset is considered a separate line of business, geographic segment or subsidiary. Based on these considerations, the Corporation has recognized five Boeing 737-700 series aircraft as held for sale at December 31, 2014. A key judgement, amongst other factors, that resulted in the aircraft being classified as held for sale on the consolidated statement of financial position and presented in continuing operations on the consolidated statement of earnings was the identification of the major aircraft components to be delivered with each aircraft and the aircraft not being managed as a separate component from the fleet as a whole.

Estimates

(viii) 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 estimates and assumptions.

(ix) Maintenance provisions

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

(x) 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.

(xi) Fair value of equity-settled share-based payments

The Corporation uses an option pricing model to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates relating to volatility, interest rates, dividend yields and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Corporation considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Separate from the fair value calculation, the Corporation is required to estimate the expected forfeiture rate of equity-settled share-based payments. The Corporation has assessed forfeitures to be insignificant based on the underlying terms of its payment plans.

(xii) Fair value of derivative instruments

The fair value of derivative instruments is estimated using inputs, including forward prices, foreign exchange rates, interest rates and historical volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of the Corporation's derivative instruments are subject to regular changes in fair value each reporting period.



Notes to Consolidated Financial Statements

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

2. New accounting standards and interpretations

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standards	Description	Previous standard	Effective date ⁽ⁱ⁾
IFRS 15 – Revenue from Contracts with Customers	Provides a single revenue recognition model which will improve comparability over a range of industries, companies and geographical boundaries	IAS 11 - Construction contracts; IAS 18 – Revenue; IFRIC 13 - Customer Loyalty Programmes; IFRIC 15 - Agreements for the Construction of Real Estate; IFRIC 18 - Transfers of Assets from Customers; SIC-31 - Revenue - Barter Transactions Involving Advertising Services	January 1, 2017
IFRS 9 – Financial Instruments	A single financial instrument accounting standard addressing: classification and measurement (Phase 1), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – Financial Instruments: Recognition and Measurement; Presentation; Disclosures	January 1, 2018

(i) Effective for annual periods beginning on or after the stated date.

Management has not yet evaluated the impact of these new standards on the Corporation's financial statement measurements and disclosures. The Corporation does not anticipate early adopting these standards.

Notes to Consolidated Financial Statements

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3. Capital management

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

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

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

The Corporation monitors its capital structure on a number of bases, including 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 and cash equivalents. The Corporation defines equity as total shareholders' equity, excluding hedge reserves.

	2014	2013	Change
Cash to trailing 12 months revenue			
Cash and cash equivalents	1,358,071	1,256,005	102,066
Trailing 12 months revenue	3,976,552	3,662,197	314,355
Cash to trailing 12 months revenue ^(v)	34.2%	34.3%	(0.1pts)
Adjusted debt-to-equity			
Long-term debt ⁽ⁱ⁾	1,188,663	878,395	310,268
Off-balance-sheet aircraft leases ⁽ⁱⁱ⁾	1,368,375	1,317,345	51,030
Adjusted debt	2,557,038	2,195,740	361,298
Total shareholders' equity	1,777,502	1,589,840	187,662
Add: Hedge reserves	3,179	(105)	3,284
Adjusted equity	1,780,681	1,589,735	190,946
Adjusted debt-to-equity ^(v)	1.44	1.38	4.3%
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	2,557,038	2,195,740	361,298
Less: Cash and cash equivalents	(1,358,071)	(1,256,005)	(102,066)
Adjusted net debt	1,198,967	939,735	259,232
Net earnings	283,957	268,722	15,235
Add:			
Net finance cost ⁽ⁱⁱⁱ⁾	34,768	25,599	9,169
Taxes	106,350	103,363	2,987
Depreciation and amortization	226,740	200,840	25,900
Aircraft leasing	182,450	175,646	6,804
Other ^(iv)	2,064	(1,136)	3,200
EBITDAR	836,329	773,034	63,295
Adjusted net debt to EBITDAR ^(v)	1.43	1.22	17.2%

(i) At December 31, 2014, long-term debt includes the current portion of long-term debt of \$159,843 (December 31, 2013 – \$189,191) and long-term debt of \$1,028,820 (December 31, 2013 – \$689,204).

(ii) Off-balance-sheet aircraft leases is 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 costs totaled \$182,450 (December 31, 2013 – \$175,646).

(iii) At December 31, 2014, net finance cost includes the trailing 12 months of finance income of \$17,070 (December 31, 2013 – \$17,848) and the trailing 12 months of finance cost of \$51,838 (December 31, 2013 – \$43,447).

(iv) At December 31, 2014, other includes the trailing 12 months foreign exchange loss of \$2,064 (December 31, 2013 – gain of (\$1,136)).

(v) The Corporation has internal guidelines for a cash to trailing 12 months revenue of approximately 30 per cent, an adjusted debt-to-equity measure of less than 3.00 and an adjusted net debt to EBITDAR measure of less than 3.00. The Corporation's internal guidelines are not related to any covenants.



Notes to Consolidated Financial Statements

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4. Employee counts and compensation

The Corporation employed 8,698 full-time equivalent employees at December 31, 2014 (2013 – 8,000). The following table reconciles the Corporation's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

	Note	2014	2013
Salaries and benefits ⁽ⁱ⁾		626,373	582,225
Employee share purchase plan ⁽ⁱ⁾	12	79,942	73,010
Employee profit share		68,787	51,577
Share-based payment expense ⁽ⁱ⁾	12	18,626	14,533
		793,728	721,345
Airport operations		109,754	97,986
Flight operations and navigational charges		254,018	218,483
Sales and distribution		70,992	65,452
Marketing, general and administration		95,301	95,156
Inflight		133,183	137,990
Maintenance		61,693	54,701
Employee profit share		68,787	51,577
		793,728	721,345

(i) Classified in the consolidated statement of earnings based on the related nature of the service performed.

5. Cash and cash equivalents

	December 31, 2014	December 31, 2013
Bank balances ⁽ⁱ⁾	400,808	394,984
Short-term investments ⁽ⁱ⁾	957,263	861,021
	1,358,071	1,256,005

(i) Included in these balances, at December 31, 2014, the Corporation has US-dollar cash and cash equivalents totaling US \$124,394 (2013 – US \$106,749), GBP-dollar cash and cash equivalents totaling GBP 58 (2013 - GBP nil), and EUR-dollar cash and cash equivalents totaling EUR 309 (2013 – EUR nil).

6. Restricted cash

	December 31, 2014	December 31, 2013
Cash held in trust for WestJet Vacations Inc.	47,811	48,530
Security on facilities for letters of guarantee	9,515	8,322
Passenger facility charges	823	1,254
	58,149	58,106

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7. Property and equipment

	January 1 2014	Net additions	Depreciation	Transfers	December 31 2014
Aircraft ⁽ⁱ⁾	1,747,319	122,609 ⁽ⁱⁱ⁾	(184,123)	247,481	1,933,286
Ground property and equipment	62,547	10,817	(13,901)	689	60,152
Spare engines and rotables	130,202	13,449	(12,630)	13,014	144,035
Deposits on aircraft	418,348	329,358	-	(238,022)	509,684
Buildings	112,450	428	(3,444)	-	109,434
Leasehold improvements	11,371	488	(2,082)	683	10,460
Assets under development	5,497	44,491	-	(23,845)	26,143
	2,487,734	521,640	(216,180)	-	2,793,194

	January 1 2013	Net additions	Depreciation	Transfers	December 31 2013
Aircraft ⁽ⁱ⁾	1,477,388	304,479	(162,128)	127,580	1,747,319
Ground property and equipment	57,115	14,958	(14,088)	4,562	62,547
Spare engines and rotables	101,709	32,840	(10,391)	6,044	130,202
Deposits on aircraft	208,602	327,244	-	(117,498)	418,348
Buildings	115,899	(42)	(3,436)	29	112,450
Leasehold improvements	11,002	157	(1,751)	1,963	11,371
Assets under development	13,884	14,293	-	(22,680)	5,497
	1,985,599	693,929	(191,794)	-	2,487,734

(i) Aircraft includes (a) aircraft (b) engine, airframe and landing gear core components (c) engine, airframe and landing gear overhaul components, and (d) live satellite television equipment. For the year ended December 31, 2014, total aircraft depreciation expense was \$184,123 (December 31, 2013 – \$162,128). Included in total aircraft depreciation for the year ended December 31, 2014, was depreciation for overhaul components of \$63,892 (December 31, 2013 – \$56,523).

(ii) The Corporation has an agreement to sell 10 Boeing 737-700 aircraft with delivery dates scheduled to occur between October 2014 and May 2015. The Corporation has recorded the aircraft at the contracted Canadian dollar equivalent proceeds using the period end US-dollar foreign exchange rate. The difference between these proceeds and the carrying amount of the 10 aircraft resulted in a \$47,919 loss on disposal of property and equipment on the consolidated statement of earnings for the year ended December 31, 2014. At December 31, 2014, \$78,306 for the remaining five undelivered aircraft are recorded as assets held for sale on the consolidated statement of financial position.

December 31, 2014	Cost	Accumulated depreciation	Net book value
Aircraft	3,024,219	(1,090,933)	1,933,286
Ground property and equipment	158,078	(97,926)	60,152
Spare engines and rotables	216,051	(72,016)	144,035
Deposits on aircraft	509,684	-	509,684
Buildings	136,338	(26,904)	109,434
Leasehold improvements	19,768	(9,308)	10,460
Assets under development	26,143	-	26,143
	4,090,281	(1,297,087)	2,793,194

December 31, 2013	Cost	Accumulated depreciation	Net book value
Aircraft	2,985,722	(1,238,403)	1,747,319
Ground property and equipment	154,986	(92,439)	62,547
Spare engines and rotables	185,308	(55,106)	130,202
Deposits on aircraft	418,348	-	418,348
Buildings	135,910	(23,460)	112,450
Leasehold improvements	18,597	(7,226)	11,371
Assets under development	5,497	-	5,497
	3,904,368	(1,416,634)	2,487,734

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was \$1,522,978 at December 31, 2014 (2013 – \$1,640,952).



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8. Intangible assets

	January 1 2014	Net additions	Amortization	Transfers	December 31 2014
Software	25,833	2,892	(9,583)	7,853	26,995
Landing rights	16,372	-	(889)	-	15,483
Other	5,785	-	(88)	-	5,697
Assets under development	10,701	9,600	-	(7,853)	12,448
	58,691	12,492	(10,560)	-	60,623

	January 1 2013	Net additions	Amortization	Transfers	December 31 2013
Software	18,970	5,337	(8,102)	9,628	25,833
Landing rights	17,261	-	(889)	-	16,372
Other	4,956	880	(51)	-	5,785
Assets under development	9,621	10,708	-	(9,628)	10,701
	50,808	16,925	(9,042)	-	58,691

December 31, 2014	Cost	Accumulated amortization	Net book value
Software	73,598	(46,603)	26,995
Landing rights	17,781	(2,298)	15,483
Other	5,836	(139)	5,697
Assets under development	12,448	-	12,448
	109,663	(49,040)	60,623

December 31, 2013	Cost	Accumulated amortization	Net book value
Software	69,050	(43,217)	25,833
Landing rights	17,781	(1,409)	16,372
Other	5,836	(51)	5,785
Assets under development	10,701	-	10,701
	103,368	(44,677)	58,691

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9. Maintenance provisions and reserves

The Corporation's operating aircraft lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The maintenance provision liability represents the present value of the expected future cost. A maintenance expense is recognized over the term of the provision based on aircraft usage and the passage of time, while the unwinding of the present value discount is recognized as a finance cost. 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.

	2014	2013
Opening balance	218,516	179,791
Additions	34,863	32,740
Change in estimate ⁽ⁱ⁾	3,281	(1,055)
Foreign exchange	20,052	12,115
Accretion ⁽ⁱⁱ⁾	2,246	1,990
Settled	(32,379)	(7,065)
Ending balance	246,579	218,516
Current portion	(54,811)	(76,105)
Long-term portion	191,768	142,411

(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, 2014, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 0.91% (2013 – 0.99%) to reflect the weighted average remaining term of approximately 30 months (2013 – 27 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. Where applicable, all amounts have been converted to Canadian dollars at the period end foreign exchange rate.

At December 31, 2014, the current portion of maintenance reserves included in prepaid expenses, deposits and other is \$54,466 (2013 – \$49,810) and the long-term portion of maintenance reserves included in other assets is \$8,110 (2013 – \$11,851).

10. Long-term debt

	2014	2013
Term loans – purchased aircraft ⁽ⁱ⁾	343,056	510,764
Term loans – purchased aircraft ⁽ⁱⁱ⁾	218,425	238,964
Term loans – purchased aircraft ⁽ⁱⁱⁱ⁾	229,270	128,667
Senior unsecured notes ^(iv)	397,912	–
Ending balance	1,188,663	878,395
Current portion	(159,843)	(189,191)
Long term portion	1,028,820	689,204

(i) 42 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$31,737, at an effective weighted average fixed rate of 5.93%, maturing between 2015 and 2020. These facilities are guaranteed by Export-Import Bank of the United States (Ex-Im Bank) and secured by 42 Boeing 737 Next Generation aircraft. At December 31, 2013 – 52 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$40,676, at an effective weighted average fixed rate of 5.95%, maturing between 2014 and 2020 and secured by 52 737 Next Generation aircraft. There are no financial covenants related to these term loans.

(ii) Seven individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$5,576, in addition to a floating rate of interest at the three month Canadian Dealer Offered Rate plus a basis point spread, with an effective weighted average floating interest rate of 2.87% at December 31, 2014, maturing between 2024 and 2025. The Corporation has fixed the rate of interest on these seven term loans using interest rate swaps. These facilities are guaranteed by Ex-Im Bank and secured by seven Boeing 737 Next Generation aircraft. No changes from December 31, 2013, other than weighted average floating interest rate of 2.85%. There are no financial covenants related to these term loans.

(iii) 15 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$4,269, at an effective weighted average fixed rate of 3.87%, maturing in 2025 and 2026. These loans are secured by 15 Bombardier Q400 aircraft. At December 31, 2013 – eight individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$2,231, at an effective weighted average fixed rate of 4.02%, maturing in 2025. 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 3.30% at December 31, 2014, with principal due upon maturity in July 2019. The notes rank equally in right of payment with all other existing and future unsubordinated debt of the Corporation, but are effectively subordinate to all of the Corporation's existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenants related to these senior unsecured notes.



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10. Long-term debt (continued)

Future scheduled repayments of long-term debt at December 31, 2014 are as follows:

Within 1 year	159,843
1 – 3 years	237,778
3 – 5 years	538,341
Over 5 years	252,701
	1,188,663

In June 2014, the Corporation entered into a credit agreement with a syndicate of banks whereby the Corporation has access to an unsecured, revolving \$250,000 syndicated credit facility maturing in June 2017. The credit facility is available for general corporate purposes, including the funding of future aircraft acquisitions, and matures in June 2017 with an option to extend the three year term on an annual basis. Funds from the revolving credit facility can be drawn by way of: (i) Canadian dollar prime loans, (ii) US dollar base rate loans, (iii) US dollar LIBOR loans, (iv) Canadian dollar bankers' acceptances, and (v) Canadian or US dollar fronted letters of credit. 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, 2014, the Corporation has \$nil (December 31, 2013 – not applicable) 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, 2014, the Corporation has met both covenants.

On July 23, 2014, the Corporation successfully completed a private placement offering for \$400,000 3.287% Senior Unsecured Notes. The Corporation used a portion of the net proceeds from the sale of these notes to repay the amounts drawn under its revolving credit facility during the year with the balance to be used for general corporate purposes, including the funding of future aircraft acquisitions.

The Corporation has an \$820,000 loan agreement with Export Development Canada for the future purchase of Bombardier Q400 NextGen aircraft. The Corporation is charged a non-refundable commitment fee of 0.2 per cent per annum on the undisbursed portion of the loan. The undisbursed portion of the loan at December 31, 2014, is \$575,088 (December 31, 2013 – \$688,973). Availability of any undrawn amount expires on December 31, 2018. The expected amount available for each aircraft is up to 80 per cent of the net price with a term to maturity of up to 12 years, repayable in quarterly instalments, including interest at a floating or fixed rate, determined at the inception of the loan.

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:

	2014	2013
Earnings before income tax	390,307	372,085
Combined Canadian federal and provincial income tax rate	25.96%	26.02%
Expected income tax provision	101,324	96,817
Add (deduct):		
Non-deductible expenses	3,931	3,694
Non-deductible share-based payment expense	1,985	1,920
Effect of tax rate changes	-	1,829
Other	(890)	(897)
Actual income tax provision	106,350	103,363
Effective tax rate	27.25%	27.78%



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11. Income taxes (continued)

(b) Deferred tax

Components of the net deferred tax liability are as follows:

	2014	2013
Deferred tax liability:		
Property and equipment	(251,444)	(255,969)
Deferred partnership income	(45,785)	(49,464)
Net unrealized gain on derivatives designated in a hedging relationship	–	(1,314)
Deferred tax asset:		
Net unrealized loss on derivatives designated in a hedging relationship	337	–
Non-capital losses	–	33
	(296,892)	(306,714)

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.



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12. Share capital (continued)

(a) Authorized (continued)

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.

(b) Issued and outstanding

	2014		2013	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	128,625,420	603,861	132,256,794	614,899
Issuance of shares pursuant to compensation plans	500,598	6,177	1,086,336	11,027
Shares repurchased	(1,435,150)	(6,751)	(4,717,710)	(22,065)
Balance, end of year	127,690,868	603,287	128,625,420	603,861

At December 31, 2014, the number of common voting shares outstanding was 107,998,929 (December 31, 2013 – 107,062,008) and the number of variable voting shares was 19,691,939 (December 31, 2013 – 21,563,412).

On May 5, 2014, the Corporation filed a notice with the TSX to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation is authorized to purchase up to 2,000,000 common voting shares and variable voting shares (representing approximately 1.6 per cent of the Corporation's issued and outstanding shares at the time of the bid) during the period May 8, 2014 to May 7, 2015, or until such time as the bid is completed or terminated at the Corporation's option. Any shares purchased under this bid are purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid are cancelled.

On February 14, 2013, 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 6,616,543 common voting shares and variable voting shares (representing approximately five per cent of the Corporation's issued and outstanding shares at the time of the bid) during the period February 19, 2013, to February 18, 2014, 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 February 18, 2014, with the Corporation purchasing and cancelling a total of 5,672,550 shares out of a possible 6,616,543 shares.

During the year ended December 31, 2014, the Corporation purchased and cancelled 480,310 shares under the May 2014 bid and 954,840 shares under February 2013 bid for a total of 1,435,150 shares (December 31, 2013 – 4,717,710) for total consideration of \$39,431 (December 31, 2013 – \$112,362). The average book value of the shares repurchased was \$4.70 per share (December 31, 2013 – \$4.68) and was charged to share capital. The excess of the market price over the average book value, including transaction costs, was \$32,680 (December 31, 2013 – \$90,297) and was charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2014, 9,248,957 (2013 – 9,749,555) voting shares were reserved for issuance to officers and employees of the Corporation, subject to the following limitations:

- the number of common voting shares reserved for issuance to any one optionee will not exceed 5% of the issued and outstanding voting shares at any time;
- the number of common voting shares reserved for issuance to insiders shall not exceed 10% of the issued and outstanding voting shares; and
- the number of common 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.

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12. Share capital (continued)

(c) Stock option plan (continued)

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

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

	2014	2013
Weighted average fair value per option	4.55	4.54
Weighted average risk-free interest rate	1.5%	1.3%
Weighted average expected volatility	27%	29%
Expected life of options (years)	3.8	3.9
Weighted average dividend yield	1.6%	1.6%

Changes in the number of options and their weighted average exercise price:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	2,834,639	19.20	3,850,898	14.45
Granted	2,353,474	23.94	1,722,013	21.92
Exercised	(1,447,250)	18.82	(2,668,440)	14.24
Forfeited	(2,149)	22.90	(67,796)	14.05
Expired	-	-	(2,036)	13.55
Stock options outstanding, end of year	3,738,714	22.33	2,834,639	19.20
Exercisable, end of year	912,772	19.38	637,292	14.57

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, 2014, option holders exercised 1,442,006 options (2013 – 2,660,717 options) on a cashless settlement basis and received 495,354 shares (2013 – 1,064,373 shares). For the year ended December 31, 2014, 5,244 options were exercised on a cash basis and option holders received 5,244 shares (2013 – 7,723 options and 7,723 shares, respectively).

Options outstanding and exercisable at December 31, 2014:

Range of exercise prices	Outstanding options			Exercisable options	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
13.85-20.00	502,547	2.99	14.94	330,361	14.89
20.01-23.00	883,768	3.66	21.92	582,411	21.92
23.01-26.00	2,312,389	4.12	23.87	-	-
26.01-30.97	40,010	6.50	28.01	-	-
	3,738,714	3.89	22.33	912,772	19.38

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12. Share capital (continued)

(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, 2014, 944,738 (2013 – 944,738) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2014, the Corporation settled nil RSUs with shares issued from treasury and 217,623 RSUs through the open market (December 31, 2013 – 2,660 and 156,610, respectively).

	2014		2013	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	476,103	17.39	465,417	14.52
Granted	126,759	23.93	168,571	21.92
Units, in lieu of dividends	7,207	27.38	7,612	24.75
Settled	(217,623)	15.05	(159,270)	14.27
Forfeited	(1,416)	19.34	(6,227)	14.49
Units outstanding, end of year	391,030	20.99	476,103	17.39

(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, 2014, 1,011,927 (2013 – 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.

	2014				2013			
	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	192,084	17.35	243,567	17.18	214,168	14.54	254,515	14.41
Granted	60,338	24.34	144,559	24.33	68,205	21.82	82,635	21.89
Units, in lieu of dividends	1,689	28.17	3,207	28.54	713	25.24	959	24.97
Settled	(74,221)	17.22	(69,713)	15.44	(71,765)	14.00	(68,893)	13.64
Forfeited	-	-	-	-	(19,237)	14.70	(25,649)	14.70
Units outstanding, end of year	179,890	19.85	321,620	20.88	192,084	17.35	243,567	17.18



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12. Share capital (continued)

(f) Share-based payment expense

Share-based payment expense for the Corporation's equity-based plans:

	2014	2013
Stock option plan	11,449	7,706
Key employee plan	3,039	3,602
Executive share unit plan	4,138	3,225
Total share-based payment expense	18,626	14,533
Flight operations and navigational charges	9,781	7,580
Marketing, general and administration	8,845	6,953
Total share-based payment expense	18,626	14,533

(g) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for independent members of the Corporation's Board of Directors. Each DSU entitles a participant to receive cash equal to the market value of the equivalent number of shares of the Corporation. The number of DSUs granted is determined based on the closing price of the Corporation's common shares on the trading day immediately prior to the date of grant. Total compensation expense is recognized at the time of grant. Fluctuations in the market value are recognized to compensation expense in the period in which the fluctuations occur. For the year ended December 31, 2014, 18,913 (2013 – 23,887) DSUs were granted, with \$1,782 (2013 – \$1,848) of expense included in marketing, general and administration expense. During the years ended December 31, 2014 and 2013, the Corporation did not settle any DSUs. The carrying amount of the liability, included in trade and other payables, relating to the cash-settled DSUs at December 31, 2014 is \$4,874 (2013 – \$3,542). At December 31, 2014, 146,096 (2013 – 127,183) 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% 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 2014 amounted to \$79,942 (2013 – \$73,010) and is recorded as compensation expense within the related business unit (refer to note 4).

13. Dividends

During the year ended December 31, 2014, the Corporation declared quarterly cash dividends of \$0.12 per share on its common voting shares and variable voting shares. For the year ended December 31, 2014, the Corporation paid dividends totaling \$61,313 (2013 – \$52,188).

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

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

14. Earnings per share

Share data used in the computation of basic and diluted earnings per share:

	2014	2013
Weighted average number of shares outstanding – basic	127,858,259	130,974,532
Effect of dilution:		
Employee stock options	680,507	454,574
Key employee – RSUs	320,162	380,470
Executive – RSUs	118,449	129,077
Executive – PSUs	165,563	135,349
Weighted average number of shares outstanding – diluted	129,142,940	132,074,002

For the year ended December 31, 2014, 36,499 employee stock options (2013 – 372,349) and 849 (2013 – nil) restricted share units were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

15. Financial instruments and risk management

(a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives designated in an effective hedging relationship, interest bearing deposits, 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, 2014 and 2013:

December 31, 2014	Fair value		Amortized cost		Total	
	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents ⁽ⁱ⁾	1,416,220	–	–	–	1,416,220	1,416,220
Accounts receivable	–	–	54,950	–	54,950	54,950
Foreign exchange derivatives ⁽ⁱⁱ⁾	–	6,360	–	–	6,360	6,360
Interest rate derivatives ⁽ⁱⁱⁱ⁾	–	(7,654)	–	–	(7,654)	(7,654)
Deposits ^(iv)	25,204	–	–	–	25,204	25,204
Accounts payable and accrued liabilities ^(v)	–	–	–	(412,704)	(412,704)	(412,704)
Long-term debt ^(vi)	–	–	–	(1,188,663)	(1,188,663)	(1,225,907)
	1,441,424	(1,294)	54,950	(1,601,367)	(106,287)	(143,531)

December 31, 2013	Fair value		Amortized cost		Total	
	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents ⁽ⁱ⁾	1,314,111	–	–	–	1,314,111	1,314,111
Accounts receivable	–	–	42,164	–	42,164	42,164
Foreign exchange derivatives ⁽ⁱⁱ⁾	–	4,158	–	–	4,158	4,158
Interest rate derivatives ⁽ⁱⁱⁱ⁾	–	883	–	–	883	883
Deposits ^(iv)	32,021	–	–	–	32,021	32,021
Accounts payable and accrued liabilities ^(v)	–	–	–	(480,836)	(480,836)	(480,836)
Long-term debt ^(vi)	–	–	–	(878,395)	(878,395)	(924,570)
	1,346,132	5,041	42,164	(1,359,231)	34,106	(12,069)

(i) Includes restricted cash of \$58,149 (2013 – \$58,106).

(ii) Includes \$6,409 (2013 – \$4,187) classified in prepaid expenses, deposits and other, and \$49 (2013 – \$29) classified in accounts payable and accrued liabilities.

(iii) Includes \$2,809 (2013 – \$3,220) classified in accounts payable and accrued liabilities and \$4,845 classified in other long-term liabilities (2013 – \$4,103 in long-term assets).

(iv) Includes \$17,585 (2013 – \$19,355) classified in prepaid expenses, deposits and other, and \$7,619 (2013 – \$12,666) classified in other long-term assets.

(v) Excludes deferred WestJet Rewards program revenue of \$86,870 (2013 – \$59,082), foreign exchange derivative liabilities of \$49 (2013 – \$29), and interest rate derivative liabilities of \$2,809 (2013 – \$3,220).

(vi) Includes current portion of long-term debt of \$159,843 (2013 – \$189,191) and long-term debt of \$1,028,820 (2013 – \$689,204).

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

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

15. 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, 2014 and 2013, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The fair value of the financial assets and liabilities at December 31, 2014, using level 3 inputs, was \$nil (2013 – \$nil).

December 31, 2014	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents ⁽ⁱ⁾	1,416,220	–	1,416,220
Foreign exchange derivatives	–	6,360	6,360
Interest rate derivatives	–	(7,654)	(7,654)
Deposits	25,204	–	25,204
	1,441,424	(1,294)	1,440,130

December 31, 2013	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents ⁽ⁱ⁾	1,314,111	–	1,314,111
Foreign exchange derivatives	–	4,158	4,158
Interest rate derivatives	–	883	883
Deposits	32,021	–	32,021
	1,346,132	5,041	1,351,173

(i) Includes restricted cash of \$58,149 (2013 – \$58,106).

During the years ended December 31, 2014 and 2013, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

Cash and cash equivalents: Consist of bank balances and short-term investments, primarily highly liquid instruments, with terms up to 91 days. Classified in level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets. Interest income is recorded in the consolidated statement of earnings as finance income. Due to their short-term nature, the carrying value of cash and cash equivalents approximates their fair value.

Foreign exchange derivatives: 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 obtained from the counterparty. Classified in level 2 as the significant measurement inputs used in the valuation models are observable in active markets. At December 31, 2014, the weighted average contracted rate on the forward contracts was 1.1187 (2013 – 1.0425) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.1640 (December 31, 2013 – 1.0683) Canadian dollars to one US dollar.

Interest rate derivatives: 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 obtained from the counterparty. Classified in level 2, as the significant measurement inputs used in the valuation models are observable in active markets. At December 31, 2014, the Corporation's swap contracts have a weighted average fixed interest rate of 2.60% (2013 – 2.59%). The December 31, 2013, weighted average forward interest rate curve for the three month Canadian Dealer Offered Rate over the term of the debt was 1.96% (2013 – 2.76%).

Deposits: Relate to purchased aircraft and airport operations and earn a floating market rate of interest. Classified in level 1 as the measurement inputs are unadjusted, observable inputs in active markets.

Accounts receivable and accounts payable and accrued liabilities: The Corporation designates accounts receivable and accounts payable and accrued liabilities as loans and receivables and other financial liabilities, respectively. These items are initially recorded at fair value and subsequently measured at amortized cost. Due to their short-term nature, the carrying value of accounts receivable and accounts payable and accrued liabilities approximate their fair value.

Long-term debt: The fair value of the Corporation's fixed-rate long-term debt is determined by discounting the future contractual cash flows under the current financing arrangements at discount rates presently available to the Corporation for loans with similar terms and remaining maturities. At December 31, 2014, the rates used in determining the fair value ranged from 1.30% to 3.44% (2013 – 1.28% to 4.10%). The fair value of the Corporation's floating-rate debt approximates its carrying value.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2014 and 2013

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

15. Financial instruments and risk management (continued)

(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. For the year ended December 31, 2014, aircraft fuel expense represented approximately 31% (2013 – 32%) 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 and certain maintenance and airport operations 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 effect of the changes in the value of the Corporation's US-dollar-denominated monetary assets and liabilities. At December 31, 2014, US-dollar-denominated net monetary assets totaled approximately US \$6,073 (2013 – US \$256 net liabilities).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar at December 31, 2014, would have increased or decreased net earnings for the year ended December 31, 2014, by \$44 (2013 – \$2), as a result of the Corporation's US-dollar-denominated net monetary asset balance.

US dollar aircraft leasing costs

At December 31, 2014, the Corporation has entered into foreign exchange forward contracts for an average of US \$11,689 (2013 – US \$13,439) per month for the period of January to December 2014 for a total of US \$140,273 (2013 – US \$161,273) at a weighted average contract price of 1.1187 (2013 – 1.0425) Canadian dollars to one US dollar to offset a portion of its US-dollar-denominated aircraft lease payments. At December 31, 2014, no portion of the forward contracts was considered ineffective.

Upon proper qualification, the Corporation accounts for its foreign exchange derivatives as cash flow hedges.

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

	Statement presentation	2014	2013
Fair value	Prepaid expenses, deposits and other	6,409	4,187
Fair value	Accounts payable and accrued liabilities	(49)	(29)
Unrealized gain	Hedge reserves (before tax)	6,360	4,158

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	2014	2013
Realized gain	Aircraft leasing	9,498	4,752

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2014, would impact OCI, net of taxes, by \$1,037 (2013 – \$1,192) as a result of the Corporation's foreign exchange derivatives.



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15. Financial instruments and risk management (continued)

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

Market risk (continued)

(iii) Interest rate risk

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

Cash and cash equivalents

The Corporation is exposed to interest rate fluctuations on its short-term investments, included in cash and cash equivalents. A change of 50 basis points in the market interest rate would have an approximate impact on net earnings of \$4,673 (2013 – \$4,639) as a result of the Corporation's short-term investment activities.

Deposits

The Corporation is exposed to interest rate fluctuations on its deposits that relate to certain purchased aircraft and airport operations, which, at December 31, 2014, totaled \$25,204 (2013 – \$32,021). A reasonable change in market interest rates at December 31, 2014, would not have significantly impacted the Corporation's net earnings due to the small size of these deposits.

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 nature of the majority of the Corporation's long-term debt mitigates the impact of interest rate fluctuations over the term of the outstanding debt. The Corporation accounts for its long-term fixed-rate debt at amortized cost, and therefore, a change in interest rates at December 31, 2014, would not impact net earnings.

At December 31, 2014, the Corporation had seven interest rate swap contracts outstanding with a 12-year term to fix the interest rate on seven variable interest rate term loans at a weighted average contracted rate of 2.60%, inclusive of a basis point spread. The term loans were used to finance the purchase of aircraft.

Upon proper qualification, the Corporation accounts for its interest rate swap derivatives as cash flow hedges.

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	2014	2013
Fair value	Accounts payable and accrued liabilities	(2,809)	(3,220)
Fair value	Other assets	–	4,103
Fair value	Other liabilities	(4,845)	–
Unrealized gain (loss)	Hedge reserves (before tax)	(7,654)	883

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	2014	2013
Realized loss	Finance cost	(3,225)	(1,058)

A change of 50 basis points in market interest rates at December 31, 2014, would impact OCI, net of taxes, by \$4,214 (2013 – \$4,926) as a result of the Corporation's interest rate derivatives.

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15. Financial instruments and risk management (continued)

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2014, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, deposits and the fair value of derivative financial assets.

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

	2014	2013
Cash and cash equivalents ⁽ⁱ⁾	1,358,071	1,256,005
Restricted cash ⁽ⁱ⁾	58,149	58,106
Accounts receivable ⁽ⁱⁱ⁾	54,950	42,164
Deposits ⁽ⁱⁱⁱ⁾	25,204	32,021
Derivative financial assets ^(iv)	6,409	11,568

(i) Consist of bank balances and short-term investments with terms of up to 91 days. Credit risk associated with cash and cash equivalents 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 policies. The Corporation does not hold any collateral as security, however, in some cases the Corporation requires guaranteed letters of credit with certain of its counterparties. Trade receivables are generally settled within 30 to 60 days. Industry receivables are generally settled in less than 30 days.

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

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

There were no new bad debts recorded for the year ended December 31, 2014 (2013 - \$69). For the year ended December 31, 2014, the Corporation revised its estimate for its allowance for doubtful accounts relating to value-added tax (VAT) in a foreign jurisdiction. The effect of recording this change in estimate for the year ended December 31, 2014, is a reduction to *Aircraft fuel* and *Airport operations* expense on the consolidated statement of earnings by \$20,234 and \$2,869, respectively. The Corporation's change in estimate is based on the successful outcome of filed VAT returns. The Corporation has no remaining VAT amounts recorded in its allowance for doubtful accounts.

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, 2014. 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	3-5 years	Over 5 years
Accounts payable and accrued liabilities ⁽ⁱ⁾	412,704	412,704	-	-	-
Derivative financial liabilities ⁽ⁱⁱ⁾	7,703	2,858	4,845	-	-
Long-term debt	1,363,817	205,626	307,446	588,961	261,784
	1,784,224	621,188	312,291	588,961	261,784

(i) Excludes deferred WestJet Rewards liability of \$86,870, foreign exchange derivative liabilities of \$49 and interest rate derivative liabilities of \$2,809.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$49 and interest rate derivative contracts of \$7,654. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2014, net long-term interest rate derivative liabilities were \$4,845.

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, 2014, was \$575,781 (2013 - \$551,022). The Corporation has cash and cash equivalents on hand to have sufficient liquidity to meet its liabilities, when due, under both normal and stressed conditions. At December 31, 2014, the Corporation had cash and cash equivalents on hand of 2.36 times (2013 - 2.28) the advance ticket sales balance.

The Corporation aims to maintain a current ratio, defined as current assets over current liabilities, of at least 1.00. At December 31, 2014, the Corporation's current ratio was 1.29 (2013 - 1.09). At December 31, 2014, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.



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16. Commitments

(a) Purchased aircraft and spare engines

At December 31, 2014, the Corporation is committed to purchase 18 737 Next Generation aircraft for delivery between 2015 and 2017 as well as 65 737 MAX aircraft for delivery between 2017 and 2027. The Corporation is also committed to purchase 15 Q400 NextGen aircraft for delivery between 2015 and 2016 and a total of 10 spare engines for our Boeing and Bombardier aircraft for delivery between 2015 and 2026.

The remaining estimated amounts to be paid in deposits and purchase prices for the 98 aircraft and 10 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	573,294
1 – 3 years	878,247
3 – 5 years	952,857
Over 5 years	2,318,142
	<u>4,722,540</u>

(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, 2014, 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	287,447
1 – 3 years	431,880
3 – 5 years	233,264
Over 5 years	166,082
	<u>1,118,673</u>

(c) Letters of guarantee

At December 31, 2014, the Corporation has a revolving letter of credit facility with a Canadian Chartered Bank totaling \$30,000 (2013 – \$30,000). 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, 2014, \$9,515 (2013 – \$8,322) letters of guarantee were issued under the facility by assigning restricted cash of \$9,515 (2013 – \$8,322).



Notes to Consolidated Financial Statements

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17. 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 four 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)
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 six structured 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 11 FFCs and one DFC 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 airport operations, respectively, on the consolidated statement of earnings. At December 31, 2014, the Corporation has \$1,812 in operating deposits with the FFCs and DFC 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 DFC. 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 DFC as other financial liabilities and these obligations are included in accounts payable and accrued liabilities on the consolidated statement of financial position. At November 30, 2014, the 11 FFCs and one DFC have combined total assets of approximately \$492,726 and liabilities of \$454,556. In the event any or all contracting airlines default and withdraw from the FFCs and DFC 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 DFC. These obligations represent the Corporation's maximum exposure to loss from the FFCs and DFC.

(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, 2014 and 2013.

	2014	2013
Salaries, benefits and other compensation ⁽ⁱ⁾	5,845	5,428
Share-based payment expense ⁽ⁱⁱ⁾	6,835	5,657
	12,680	11,085

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

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



Notes to Consolidated Financial Statements

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18. Additional financial information

(a) Assets

	Note	2014	2013
Accounts receivable:			
Trade and industry ⁽ⁱ⁾		43,454	43,198
Other		13,864	1,403
Allowance		(2,368)	(2,437)
		54,950	42,164
Prepaid expenses, deposits and other:			
Prepaid expenses ⁽ⁱⁱ⁾		48,533	43,628
Short-term deposits ⁽ⁱⁱⁱ⁾		34,472	35,438
Maintenance reserves – current portion	9	54,466	49,810
Derivatives	15	6,409	4,187
Other		312	200
		144,192	133,263
Inventory:			
Fuel		21,309	24,365
Aircraft expendables		12,539	9,749
De-icing fluid		454	900
Other		2,356	1,708
		36,658	36,722
Other Assets:			
Aircraft deposits ^(iv)		45,740	47,615
Maintenance reserves – long term	9	8,110	11,851
Derivatives	15	-	4,103
Other ^(v)		8,440	7,209
		62,290	70,778

(i) 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. All 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.

(ii) Includes prepaid expenses for insurance, vacation package vendors and other operating costs.

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

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

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

(b) Liabilities

	Note	2014	2013
Accounts payable and accrued liabilities:			
Trade and industry		337,458	330,836
Taxes payable		20,431	109,674
WestJet Rewards		86,870	59,082
Derivatives	15	2,858	3,249
Other		54,815	40,326
		502,432	543,167
Other current liabilities:			
Advance ticket sales		575,781	551,022
Non-refundable guest credits		45,434	46,975
Other liabilities:			
Deferred contract incentives ⁽ⁱ⁾		8,305	8,834
Derivatives	15	4,845	-
		13,150	8,834

(i) 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 amortized over the terms of the related contracts.

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Corporate information

Board of Directors

Clive Beddoe,
Chair of the Board

Hugh Bolton,
Director

Ron Brenneman,
Director

Antonio Faiola,
PACT Chair

Brett Godfrey,
Director

Allan Jackson,
Director

S. Barry Jackson,
Director

Wilmot Matthews,
Director

L. Jacques Ménard,
Director

Larry Pollock,
Director

Janice Rennie,
Director

Gregg Saretsky,
President and Chief Executive Officer

Executive team

Gregg Saretsky,
President and Chief Executive Officer

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

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

Brigid Pelino,
Executive Vice-President, People and Culture

Ferio Pugliese,
Executive Vice-President and President, WestJet Encore

Rocky Wiggins,
Executive Vice-President and Chief Information Officer

Stock exchange listing

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

Investor relations contact information

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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 general meeting (AGM)

WestJet Airlines Ltd.'s AGM will be held at 10 a.m. (MDT) on
Tuesday, May 5, 2015, at WestJet's Campus, 22 Aerial Place
NE, Calgary, Alta. T2E 3J1

Auditors

KPMG LLP, Calgary, Alberta

Transfer agent and registrar

CST Trust Company

Toll-free in North America: 1-800-387-0825

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