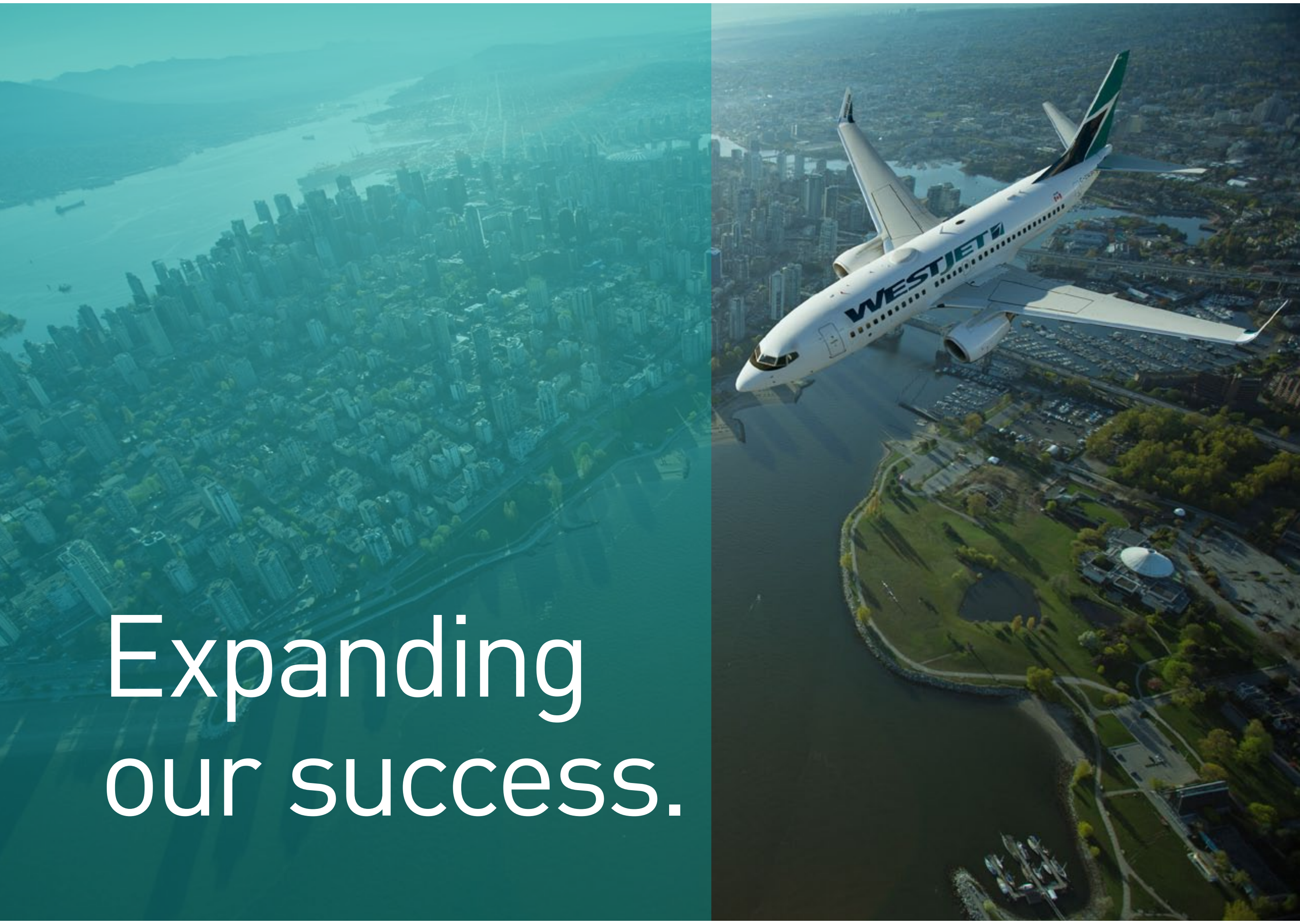
WestJet Annual Report 2013



Expanding our success.

Expanding our success

We simplified the paper version of our 2013 Annual Report to keep our costs low and remain environmentally friendly. We encourage you to view the online version of our 2013 Annual Report at westjet.com/expanding-our-success to learn more.

Table of contents

Introduction 3

President's message 4

Financial results
- Expanding our success 7
- Financial highlights 8

Expanding our success
- Expanding our success 9
- WestJet Encore 10
- Fare bundles and Plus product 11
- Business transformation initiative 12
- Fleet modernization 13
- Airline partnerships and new destinations 14
- Technology updates 15
- Community investment 16

Meet our team
- WestJetters and our culture 17

Corporate information
- Board of Directors 18
- Executive team 18

Management's discussion & analysis of financial results 2013 19

Consolidated financial statements and notes 62
- Management's report to shareholders 63
- Independent auditor's report 64
- Notes to consolidated financial statements 70

Caution regarding forward-looking statements

Certain statements set forth in this annual report, including without limitation information respecting our expansion of WestJet Encore across Canada and into the U.S.; our expectations that the incremental revenue opportunities on an annualized basis associated with Fare bundles will be at the high end of the previously estimated $50 million to $80 million range; our business transformation initiative and our belief that we will achieve our goal of reducing our annual costs by $100 million by the end of 2014; the commencement of WestJet's service to Dublin, Ireland in June 2014; our focus on maturing our existing airline partnership relationships and adding a number of new partnerships in 2014; and the anticipated timing of the 737 MAX deliveries and the associated benefits of this type of aircraft 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.

2013 Annual Report

WestJet had a record year in 2013, marked by many successes. Key achievements included the launch and ongoing growth of our regional airline WestJet Encore, the introduction of fare bundles and the Plus product, reaching the $100-million cost-saving target as part of our business transformation initiative, and the continued expansion of our network.

More guests in more destinations than ever before enjoyed WestJet's brand of caring service in 2013, while we saw record net earnings of almost $270 million, thanks to the dedication of nearly 10,000 WestJetters.

We are very excited about expanding this success through 2014 and beyond, as we deliver on several key initiatives while continuing to provide low fares and the service that comes from our caring culture.

President's message

Enriching the lives of everyone in WestJet's world.

I am proud to work with a highly committed team dedicated to providing the best possible experience for our guests. WestJetters' passion comes through in everything we do, and this teamwork is the basis for our ongoing success and growth. We undertook many new initiatives in 2013 that laid the groundwork for our continued success as we grow to meet the needs of our guests and an ever-changing competitive environment.

This year, the theme and title of our annual report is *Expanding our success*, and this report will illustrate the accomplishments we had in 2013 and our vision to grow this success in 2014 and beyond. I encourage you to view the online version of this report at westjet.com/expanding-our-success, where you will learn more about how we plan to continue growing and creating value.

President's message

We have continued our long trend of successful operational and financial performance. We completed 2013 by marking our ninth consecutive year of profitability and reaching a return on invested capital of 13.9 per cent, the sixth consecutive quarter in which we have surpassed our 12 per cent sustainable target. In 2013, we achieved record net earnings of $268.7 million, a 10.9 per cent increase over 2012, and record earnings per diluted share of $2.03, a 14 per cent year-over-year increase. We reported 6.9 per cent higher revenue of nearly $3.7 billion, and recorded an earnings before tax margin of 10.2 per cent, up 0.3 percentage points from 2012.

In 2013, we were proud to successfully launch WestJet Encore, our new short-haul regional airline, bringing WestJet's caring service and low fares to more communities in Western Canada. WestJet Encore has also enabled us to create new connections between existing WestJet markets, build additional feed into our current network, and increase our schedule efficiency. We're excited about expanding WestJet Encore across Canada and into the U.S.

In 2013, we also successfully launched our fare bundles product, which offers our guests additional flexibility, comfort and convenience. Specifically, our new Plus product includes extra legroom, complimentary change and cancel options, advance boarding, priority security screening at available airports, and complimentary food and beverages. Fare bundles have also created incremental revenue opportunities, which we expect to be at the high end of the $50-million to $80-million range on an annualized basis, as we've forecasted.

The year 2013 also saw our airline expand as we took delivery of five Boeing 737 Next-Generation (NG) aircraft to end the year with a total of 105 Boeing 737 NGs in our fleet. As well, WestJet Encore took delivery of its first eight Bombardier Q400 NextGen aircraft. We flew nearly 18.5 million guests in the year, a 6.1 per cent increase over 2012.

At the beginning of 2013, we announced our business transformation initiative with the goal of reducing our annual costs by $100 million by the end of 2015. This is part of our long-term vision to ensure WestJet's unit costs are competitive with other low-cost North American airlines, allowing us to continue to offer low fares to our guests. I'm proud to say we have identified and put into action measures that we believe will enable us to achieve these savings by the end of 2014, a year ahead of our initial goal, and we will continue to identify and implement new cost-saving initiatives. Some of these measures include fleet optimization and seat reconfiguration initiatives; our transition to a 1:50 flight attendant staffing ratio, allowing us to compete on an equal basis with North American and international carriers; and moving to a multi-base model for our crews, reducing costs and improving operational reliability.

WestJet's network expansion continues, and we now serve 88 destinations in 20 countries in North America, Central America, the Caribbean and Europe. Combined with our airline partners, our network includes more than 140 destinations. In November 2013, we announced we are bringing WestJet's brand of caring service and low fares to Europe with service to our first transatlantic destination – Dublin, Ireland, beginning in June 2014. During 2013, we grew the total number of airline partnerships to 33, as we evolved our interline agreements with Air France and China Southern Airlines into code-sharing agreements. In 2014, our focus will be on maturing our existing relationships and adding a number of new partnerships.

In 2013, we announced two major initiatives as part of our long-term fleet strategy, starting with the sale of 10 of our oldest Boeing 737 Next-Generation (NG) 700 aircraft to Southwest Airlines and our concurrent agreement to purchase a total of 10 new Boeing 737 NG 800 aircraft in 2014 and 2015, effectively reducing the average age of WestJet's fleet by approximately one year. In September 2013, we entered into an agreement to purchase 65 Boeing 737 MAX aircraft, with deliveries scheduled between 2017 and 2027. We anticipate that the 737 MAX aircraft, with its fuel-efficient technology and enhanced amenities, will support our continued growth and low-cost operating model while providing our guests with an exceptional experience.

President's message

In February 2014, we announced that we had signed a contract with Panasonic Avionics Corporation to provide us with a new inflight entertainment system, including wireless satellite Internet connectivity, live streaming television, on-demand movies, magazines and more. Our guests will be able to use their own personal electronic devices to access live and stored content. I'm excited about this initiative to enhance our value proposition for business travellers and broaden the entertainment options available to all our guests.

We were extremely honoured to receive a number of awards in 2013 recognizing the tremendous impact WestJetters have on our continued success. In March, we were recognized as Canada's Most Attractive Employer by the national recruitment firm Randstad Canada, and in May, we received recognition as Canada's Most Preferred Airline by Leger Marketing. In June, we received a Stevie Award in the Transportation Company of the Year category for the seventh annual Stevie Awards for Sales and Customer Service. In addition, WestJet Vacations was recognized by U.S. Travel and Brand USA at the Premier Chairman's Circle Honors. In September, we were delighted that the WestJet RBC® World Elite MasterCard± received Canada's best travel rewards card rating for 2013 by *MoneySense* magazine, and in November, it was ranked number one among travel reward cards in Canada's Top Travel Rewards Credit Card category by Rewards Canada.

In January 2014, we were proud to be named the 2014 Value Airline of the Year as part of *Air Transport World* magazine's 40th Annual Airline Industry Achievement Awards. This award is a testament to the nearly 10,000 WestJetters who are committed to providing a safe and caring experience every day.

Our successes in 2013 allowed us to continue returning value to our shareholders. In February 2013, we announced our third quarterly dividend increase from \$0.08 to \$0.10, and in February 2014, we increased this dividend a further 20 per cent to \$0.12. As of the end of 2013, we have repurchased and cancelled 71 per cent of the maximum authorized number of shares under our third normal course issuer bid, which we initiated in February 2013. Since our quarterly dividend began in 2010, and including our three normal course issuer bids, we have returned more than \$400 million to our shareholders as of the end of 2013.

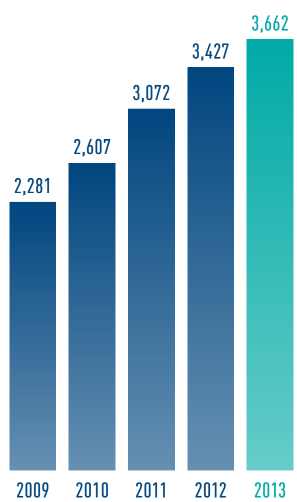
I'm proud of what we've accomplished so far, and excited about WestJet's future as we grow to meet the changing needs of our guests today and in the future, enriching the lives of everyone in WestJet's world along the way. We had a successful year, and I anticipate many more successes in 2014 and the years ahead, while we stay true to the core values that make us a great airline.

Gregg Saretsky
President and Chief Executive Officer
March 19, 2014

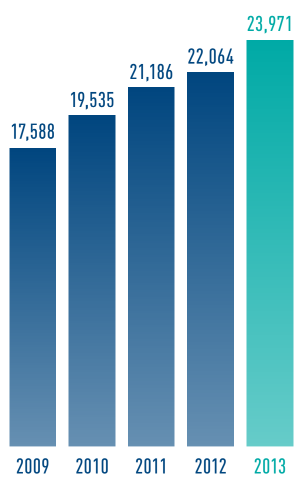
Non-GAAP measures
This president's message to shareholders contains disclosure respecting non-GAAP measures including, without limitation, return on invested capital. Non-GAAP measures are included to enhance the overall understanding of WestJet's financial performance and to provide an alternative method 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, 2013.

Our profitable growth continues.

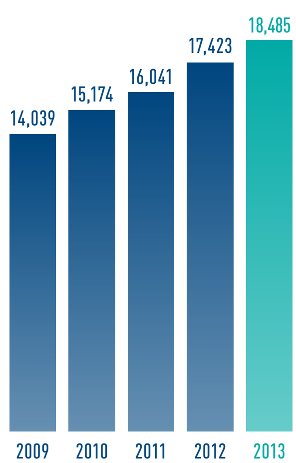
WestJet's positive revenue and earnings momentum continued in 2013.



Revenue*
(millions of dollars)



Available seat miles
(millions)



Segment guests
(thousands)

*The results for 2010 to 2013 are presented in accordance with the International Financial Reporting Standards (IFRS) and the 2009 results are reported under Canadian Generally Accepted Accounting Principles (GAAP).

Financial highlights

Our profitable growth continues.

($ in thousands, except per share data)	2013	2012	2011	2010	2009
Consolidated financial information*					
Revenue	$ 3,662,197	$ 3,427,409	$ 3,071,540	$ 2,607,294	$ 2,281,120
Earnings before income taxes	$ 372,085	$ 340,229	$ 208,006	$ 133,465	$ 136,796
Net earnings	$ 268,722	$ 242,392	$ 148,702	$ 90,197	$ 98,178
Cash and cash equivalents	$ 1,256,005	$ 1,408,199	$ 1,243,605	$ 1,159,316	$ 994,989
Earnings per share					
Basic	$ 2.05	$ 1.79	$ 1.06	$ 0.62	$ 0.74
Diluted	$ 2.03	$ 1.78	$ 1.06	$ 0.62	$ 0.74
Operational highlights*					
Available seat miles (ASM)	23,970,921,260	22,063,583,754	21,186,304,409	19,535,291,313	17,587,640,902
Revenue passenger miles (RPM)	19,591,173,039	18,262,554,881	16,890,941,121	15,613,121,610	13,834,761,211
Load factor	81.7%	82.8%	79.7%	79.9%	78.7%
Yield (cents)	18.69	18.77	18.18	16.70	16.49
Revenue per ASM (cents)	15.28	15.53	14.50	13.35	12.97
Cost per ASM (cents)	13.61	13.83	13.29	12.37	11.77
Cost per ASM, excluding fuel and employee profit share (cents)	9.06	9.12	8.85	8.80	8.45

*The results for 2010 to 2013 are presented in accordance with the International Financial Reporting Standards (IFRS) and the 2009 results are reported under Canadian Generally Accepted Accounting Principles (GAAP).

Expanding our success

WestJet expanded on our success in 2013 as we introduced several new initiatives to enhance guest experience and grow our business. We achieved record earnings in 2013 and continued to earn awards as a top airline and employer.

In 2013, our network expansion continued as we added new destinations, and we announced our first transatlantic destination, Dublin, Ireland. As well, we added WestJet Encore's service to new communities in Western Canada. We now reach 88 destinations in 20 countries with our fleet of 113 Boeing 737 and Bombardier Q400 aircraft.

We successfully introduced WestJet Encore, as well as fare bundles and the Plus product, to the growing number of guests who choose to fly with WestJet and want different options. Supported by technological improvements, we continued to enhance the services we offer business and leisure guests with more choices for more segments of the market.

Our operational and financial success allowed us to continue delivering strong returns to our shareholders. We have now reported six consecutive quarters with a return on invested capital above our 12 per cent sustainable threshold, and in February 2014, we announced the fourth increase to our quarterly dividend.

Our business model remains robust, supported by our ongoing commitment to providing our guests with a remarkable experience, delivered every day by nearly 10,000 WestJetters.

We will continue to expand on our success in 2014 and beyond, and look forward to sharing this success with everyone in WestJet's world.

Regional and ready. WestJet Encore took to the skies.

WestJet Encore launched service on June 24, 2013, and ended 2013 with a fleet of eight Bombardier Q400 NextGen aircraft serving 15 communities in Canada with 60 daily departures.

The expansion of WestJet service with WestJet Encore enhanced the schedule to existing WestJet destinations along with the addition of four new destinations: Nanaimo, Fort St. John, Terrace and Brandon. WestJet Encore's goal of liberating communities from high fares, along with enhancing connectivity within the WestJet network, has been strongly embraced by the communities it serves.

WestJet Encore's performance exceeded expectations in 2013. We fully expect this success to continue into 2014 and beyond, with the launch of service into Central Canada this year – including Toronto and other parts of Ontario – and the growth of its fleet to a total of 16 Q400 aircraft by year-end.

Becoming more relevant by offering more to more customer segments.

Fare bundles enable us to keep fares low by only charging guests for the services they want, while at the same time offering high-value services (such as no change fees, priority security screening and advance boarding) that appeal to our growing business segment. Our growing business products, such as Plus, give our guests options for increased flexibility, comfort and convenience.

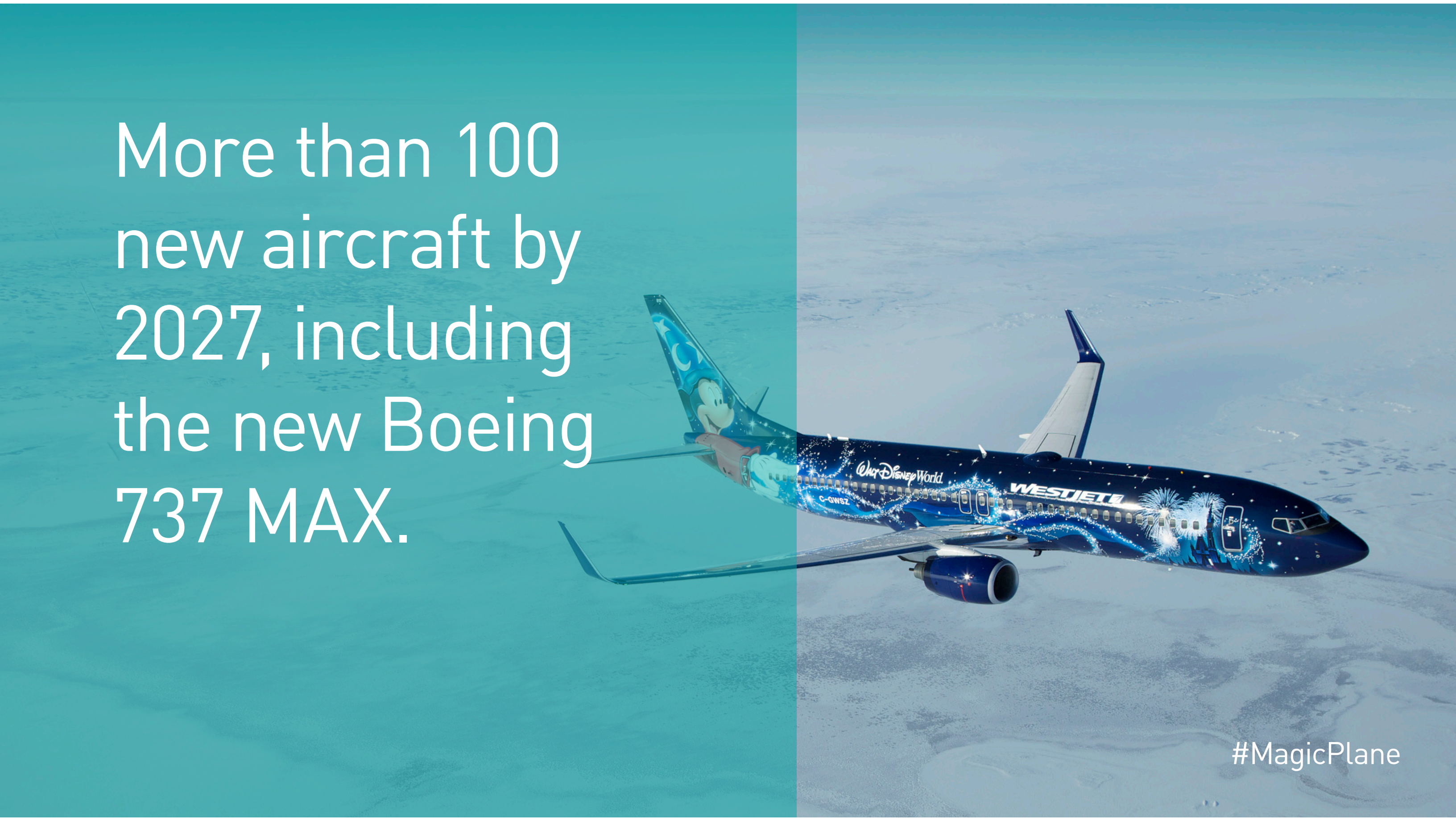
We are pleased with the full launch of fare bundles and Plus in the summer of 2013, and with how our guests have embraced these products. In 2014, we will continue to and make enhancements to fully optimize the value we offer to our guests.

$100-million cost-savings target will be met one year ahead of the original goal.

WestJet aims to provide our guests with affordable air travel by keeping costs low. In January 2013, we launched a company-wide business transformation initiative with the goal to reduce annual costs by $100 million by the end of 2015. During the year, we identified and put into action measures we believe will enable us to achieve that goal by the end of 2014, a full year ahead of plan.

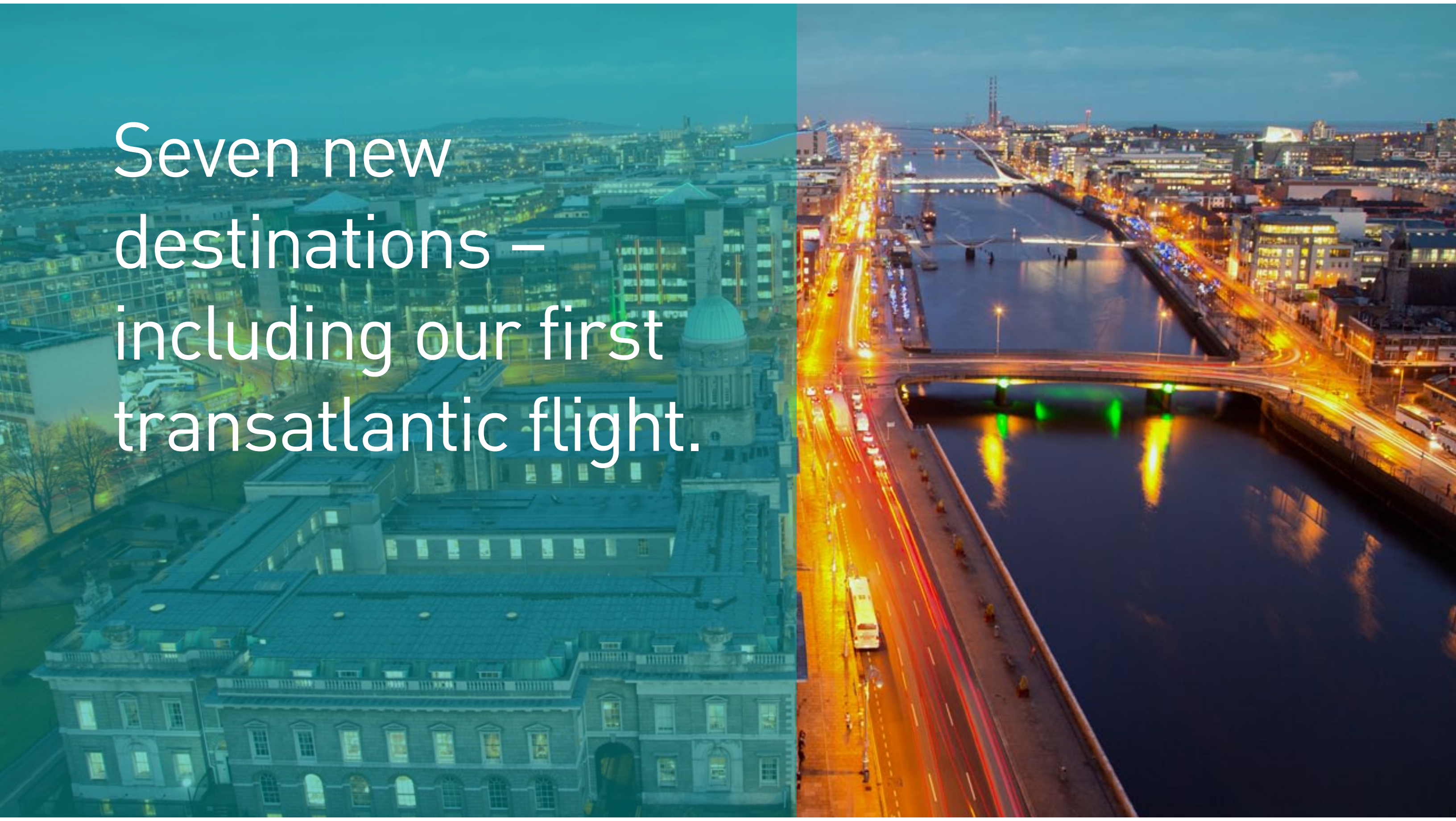
The $100 million in savings that we have identified are not an end point. In 2014, we expect to execute on the initiatives we have already identified, while continuing to look for new ways to reduce costs and provide low fares.

More than 100 new aircraft by 2027, including the new Boeing 737 MAX.



In 2013, we announced an order for 65 Boeing 737 MAX aircraft. The MAX introduces the latest fuel-efficient technology, making it 13 per cent more fuel-efficient than the current 737 NG. The MAX will enhance our guests' experience as well, with Boeing's new Sky Interior and quieter performance than the 737 Next-Generation (NG). The cabin looks and feels more spacious, with customizable LED lighting, bigger windows and overhead bins that push up and out of the way.

We also agreed to sell 10 of our oldest Boeing 737 NG 700 aircraft to Southwest Airlines in 2014 and 2015. At the same time, we entered an agreement with Boeing to purchase 10 new Boeing 737 NG 800 aircraft in 2014 and 2015, effectively reducing the average age of WestJet's fleet by approximately one year.

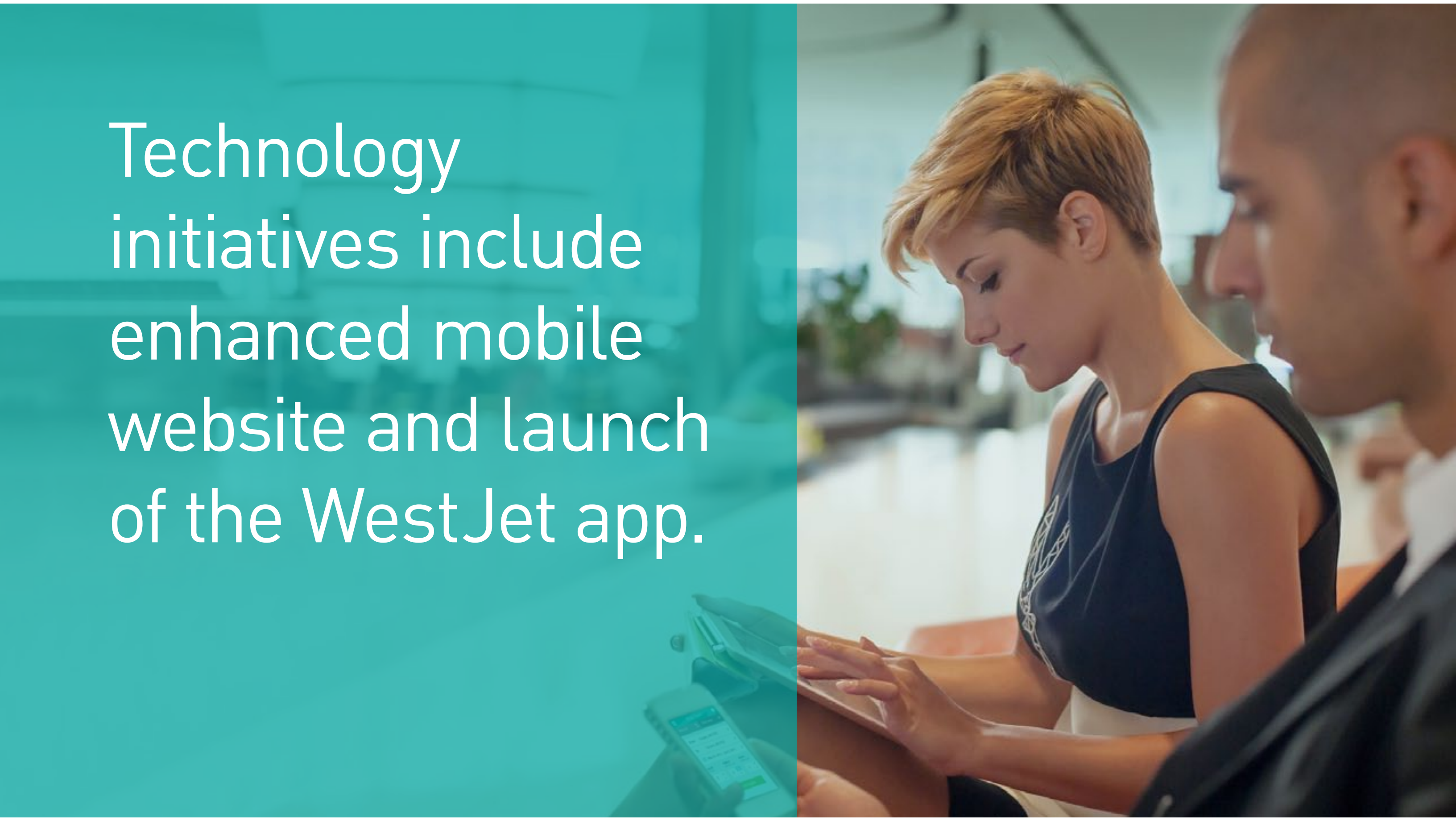


Seven new destinations – including our first transatlantic flight.

Airline partnerships allow WestJet to cost-effectively access markets and demand beyond the reach of our own network. In 2013, our airline partnerships grew to a total of 33. We now have 10 code-share relationships with some of the world's premier airlines.

Success in 2013 included welcoming WestJet Encore's new communities (Nanaimo, Fort St. John and Terrace, BC, and Brandon, MB) to our network. We introduced service to Dallas, Texas, and Myrtle Beach, South Carolina, and along the way became the first foreign airline to carry more than one million guests to and from Las Vegas in a year!

In 2014, our primary focus will be on maturing existing relationships to access additional destinations and incremental demand, and we expect to add a number of new partnerships. We will introduce WestJet to the European market as we launch flights to Dublin, Ireland, and we will bring WestJet Encore to Central Canada.



Technology initiatives include enhanced mobile website and launch of the WestJet app.

We completed our $40 million IT transformation effort in 2013 and are leveraging our new systems to begin delivering on these improvements; early results have shown substantial success.

WestJet's website is now much easier for our guests to use, with many more features, including the ability to make car rental and hotel reservations and buy insurance. Combined with our seat reconfiguration, we are able to offer our guests the benefits of accessing bundled fares through westjet.com.

More than one million notices are sent to our guests each month, which are personal notifications with helpful information about their flight booking, reminders to use mobile check-in, and status updates on their flight. In November, we introduced our first mobile app for Android devices. An app for Apple devices will be available in early 2014.

We will continue to make the most of our new technologies in 2014, bringing even more choices and a more customized experience to our guests.

Giving back to our communities.

We strongly believe in giving back to the communities we serve. In April 2013, we celebrated Big Brothers Big Sisters of Canada's 100 years of service in Canada by flying 100 Little Brothers and Sisters to Ottawa to participate in their National Youth Summit. The year also marked Make-A-Wish Canada's 30th anniversary, which we were proud to help celebrate.

WestJetters have contributed to Missing Children Society of Canada's efforts, and in October, we supported the Canadian Breast Cancer Foundation with the proceeds from sales of special pink pins and earbuds. In December 2013, WestJetters across Canada spread holiday joy by hosting special parties for local Boys and Girls Clubs, and took 16 youth from across Canada on our inaugural flight on the Magic Plane for a Christmas trip to Orlando, FL.

We were also overwhelmed by the more than 35 million views our December 2013 Christmas Miracle online video received. We were excited to showcase WestJet's caring spirit across the world.

Fostering a unique culture of caring.

WestJet's remarkable employee engagement is driven by our culture of caring and fueled by ownership. WestJetters share in our profits, are rewarded through our Owners' Performance Award, and over 85 per cent participate in our employee share purchase program. This means we treat our guests and our business like owners, not just employees.

Our culture is one of our foundational elements and we strongly believe it is a tremendous capability and competitive advantage. We've committed to strong employee development and innovative compensation programs that align with our core values. These programs allow us to take care of WestJetters, which in turn, allow them to take care of our guests.

In March 2013, WestJet was recognized as Canada's Most Attractive Employer by Randstad Canada, demonstrated by the over 10,000 employment applications we receive monthly. The remarkable and caring guest service provided by WestJetters creates a strong, lasting relationship between WestJet and our guests.

Corporate information

Board of Directors

Clive Beddoe
Chair of the Board

Hugh Bolton
Director

Ron Brenneman
Director

Antonio Faiola
Director and 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 CEO

Arthur Scace
Director

Executive team

Gregg Saretsky
President and
Chief Executive Officer

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

Fred Cleveland
Executive Vice-President,
Operations

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

Brigid Pelino
Executive Vice-President,
People and Culture

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

Cheryl Smith
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

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

WestJet headquarters

22 Aerial Place NE
Calgary, AB 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. EDT
on Tuesday, May 6, 2014,
at TMX Broadcast Centre,
130 King Street West, Toronto, ON

Auditors

KPMG LLP, Calgary, Alberta

Transfer agent and registrar

CST Trust Company
Toll-free in North America: 1-800-387-0825
canstockta.com

Management's Discussion and Analysis of Financial Results 2013

CONTENTS

Annual Overview 21
2013 Results of Operations 25
2013 Fourth Quarter Results of Operations.................... 30
Summary of Quarterly Results 33
Guest Experience 33
Liquidity and Capital Resources 34
Fleet 37
Off Balance Sheet Arrangements 39
Related Party Transactions.. 39
Share Capital 40
Outlook 41
Financial Instruments and Risk Management 42
Risks and Uncertainties.. 44
Accounting 51
Controls and Procedures 55
Forward-Looking Information 56
Definition of Key Operating Indicators 59
Non-GAAP and Additional GAAP Measures 59

ADVISORIES

The following Management's Discussion and Analysis of Financial Results (MD&A), dated February 3, 2014, 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, 2013 and 2012. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). For periods prior to January 1, 2010, we prepared our financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the Canadian Institute of Chartered Accountant's Handbook (Previous GAAP). For additional information concerning the impact upon our financial statements for periods prior to January 1, 2011 of significant differences between IFRS as utilized in preparing our financial statements and Previous GAAP, please see note 22 to our financial statements for the years ended December 31, 2011 and 2010, which is incorporated by reference herein. 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 this MD&A under the heading "Risks and Uncertainties" and 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, 2014 and the year ended December 31, 2014 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 56 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 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 59 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; free cash flow per share; and diluted operating cash flow per share and for a reconciliation of additional GAAP measures, including adjusted debt-to-equity; adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR).

Definitions

Various terms used throughout this MD&A are defined at page 59 under the title "Definition of key operating indicators".

ANNUAL OVERVIEW

We are very pleased with the overall results we achieved in 2013. Our record annual net earnings of $268.7 million and diluted earnings per share of $2.03 marked our ninth consecutive year of profitability and is the seventeenth time we have reported an annual profit in our 18-years of reporting. During 2013, revenue increased by 6.9 per cent to end the year at approximately $3.7 billion driven mainly by an increase in traffic of 7.3 per cent, year over year.

In 2013, we successfully launched our short-haul regional airline, WestJet Encore; we completed the seat reconfiguration program and completed the commercial launch of fare bundles and the Plus product; we launched a company-wide business transformation initiative and implemented programs to realize $100 million of cost savings by the end of 2014; we expanded the WestJet network through airline partnership agreements and the launch of six new destinations; and we announced our newest destination, Dublin, Ireland as our first transatlantic destination.

We distributed approximately $164.6 million to our shareholders through our dividend and share buy-back programs in 2013. Since these programs began in 2010, we have returned over four hundred million dollars to our shareholders. Our 12-month ROIC was 13.9 per cent at year-end which is an improvement of 0.2 percentage points as compared to our 2012 year-end ROIC of 13.7 per cent and surpasses our goal of a sustainable 12 per cent ROIC.

2013 Summary

- Recognized total revenue of $3,662.2 million, an increase of 6.9 per cent from $3,427.4 million in 2012.
- Increased capacity, measured in ASMs, by 8.6 per cent over 2012.
- Increased traffic, measured in revenue passenger miles (RPMs), by 7.3 per cent over 2012.
- Decreased yield by 0.4 per cent over 2012.
- Realized RASM of 15.28 cents, down 1.6 per cent from 15.53 cents in 2012.
- Realized CASM of 13.61 cents, down 1.6 per cent from 13.83 cents in 2012.
- Realized CASM, excluding fuel and employee profit share, of 9.06 cents, down 0.7 per cent from 9.12 cents in 2012.
- Recorded an operating margin of 10.9 per cent, down 0.1 percentage points from 11.0 per cent in 2012.
- Recorded an EBT margin of 10.2 per cent, up 0.3 percentage points from 9.9 per cent in 2012.
- Reported net earnings of $268.7 million, an increase of 10.9 per cent from $242.4 million in 2012.
- Reported diluted earnings per share of $2.03, an increase of 14.0 per cent from $1.78 per share in 2012.

WestJetters

WestJetters are an essential part of our business. Their commitment to creating a positive, safe and caring experience for our guests supports our profitable results. In 2013, we welcomed on board 18.5 million guests, an increase of 6.1 per cent over 2012. We are extremely honoured to have been awarded a number of recognitions during 2013, which would not otherwise have been possible without the devotion to the success of our company by nearly 10,000 WestJetters.

- In March 2013, WestJet was honoured to have been recognized as Canada's Most Attractive Employer by the national recruitment firm, Randstad Canada.
- In May 2013, we received recognition as Canada's Most Preferred Airline by Leger Marketing.
- In June 2013, we received a Stevie Award in the Company of the Year – Transportation category for the seventh annual Stevie Awards for Sales & Customer Service. In addition, WestJet Vacations was recognized by U.S. Travel and Brand USA at Premier Chairman's Circle Honors from a selection of international companies for their prominence and contributions to the U.S. travel industry.
- In November 2013, Canadian Business magazine named Gregg Saretsky, WestJet President and CEO, as top new CEO, as part of its inaugural CEO of the Year awards. According to the magazine, the CEO of the Year program focuses on successful strategies implemented by CEOs who have made a major contribution to the Canadian business community and Canada's overall economic success.
- Subsequent to December 31, 2013, in January 2014, we were named the 2014 Value Airline of the Year as part of the Air Transport World magazine's 40th annual global airlines industry achievement awards.

During 2013, WestJet was involved in a variety of unique events, including supporting the Alberta Flood Aid concert held in Calgary, Alberta in August of 2013, partnering with Make-A-Wish Canada to grant our first wish from start to finish in September of 2013 and participating in our third Hero Holiday in November of 2013.

In August 2013, WestJet welcomed on board Brigid Pelino as the new Executive Vice-President (EVP), People and Culture, and in December 2013, we announced the appointment of Fred Cleveland to the position of EVP, Operations effective January 6, 2014.

WestJet Encore

On June 24, 2013, we successfully launched our short-haul regional airline, WestJet Encore and flew our inaugural flights to Nanaimo and Fort St. John, British Columbia. Since our launch, we have introduced affordable air travel to four new communities, including Brandon, Manitoba and most recently to Terrace, British Columbia in November 2013. WestJet Encore has not only allowed us to bring our friendly and caring service to new Canadian communities in 2013, it has enabled us to create new connections between existing WestJet markets, build additional feed into our current network and efficiently increase flight frequency between some existing routes by optimizing the size of aircraft deployed. On a go forward basis, we plan to continue bringing affordable fares and expanding our friendly and caring service to smaller communities. In the summer of 2014, WestJet Encore will be moving east to start service in Toronto with flights between Toronto, Ontario and Thunder Bay, Ontario and service between Thunder Bay, Ontario and Winnipeg, Manitoba.

During 2013 we took delivery of eight Bombardier Q400 NextGen (Q400s or Bombardier Q400) aircraft. As of the date of this MD&A, we have firm commitments to purchase 12 additional Q400s through to 2015 from Bombardier and we continue to hold options to take on an additional 25 Q400s between 2015 and 2018.

Network expansion

During 2013, we launched service to six new destinations: Myrtle Beach, South Carolina; Dallas, Texas; Nanaimo, Fort St. John and Terrace, British Columbia; and Brandon, Manitoba. On November 15, 2013, we announced Dublin, Ireland as our first transatlantic destination with seasonal daily service from June 15, 2014 to October 5, 2014. This new destination is significant to WestJet as we will be bringing our brand and guest experience to a whole new market. As of the date of this MD&A, WestJet offers scheduled service to 88 destinations in North America, Central America, the Caribbean and now Europe.

Over the course of 2013 we entered into five additional interline agreements and initiated two new code-share partnerships: Air France and China Southern Airlines. Establishing strong partnerships with other airlines from all major geographical regions is a key strategy of ours allowing us to welcome on board new guests from around the world. We have partnership agreements in place with 33 airlines enabling our guests to access over 140 destinations via WestJet.

Guest experience and service enhancements

During the fourth quarter of 2013, we unveiled a co-branded custom-painted Boeing Next-Generation (NG) 737-800 series aircraft featuring a Sorcerer Mickey Mouse (the Magic Plane). The Magic Plane is a result of the existing relationship between WestJet, WestJet Vacations and Walt Disney Parks & Resorts (Canada) and the shared vision of creating memorable experiences for our guests.

In 2013, we added functionality to our website, westjet.com, to include new online services and a more user-friendly experience. We delivered easy-to-use mobile web capabilities to Apple, Android and Blackberry devices for certain functionalities such as flight search, flight booking, check-in, and flight status. In November of 2013, our first WestJet mobile app was released to the Google store.

In November 2013, our WestJet RBC® World Elite MasterCard± ranked number one amongst travel reward cards in Canada's Top Travel Rewards Credit Card category by Rewards Canada. This ranking is in addition to the top rating received in the third quarter of 2013 as Canada's best travel rewards card for 2013, according to MoneySense magazine.

We completed the seat reconfiguration program and the commercial launch of fare bundles and the Plus product to the market. While the fare bundles – Econo, Flex and Plus – provide guests with the ability to pay for options they want, the Plus fare guest will gain additional flexibility, comfort and convenience through a full list of amenities and options offered by the Plus product. The Plus product includes complimentary flight change and cancellation options, extra baggage allowance, extra legroom, complimentary food and drinks, advance boarding and overhead bin space and priority security screening at certain airports. At the same time, fare bundles places a focus on incremental revenue opportunities, which we expect to be in the high end of our previously disclosed range of $50 million to $80 million on an annualized basis.

®Registered trademarks of Royal Bank of Canada. RBC and Royal Bank are registered trademarks of the Royal Bank of Canada.
±MasterCard and World MasterCard are registered trademarks of MasterCard International Incorporated.

Business transformation initiative

In January 2013, we launched a three-year company-wide business transformation initiative with the goal to reduce annual costs by $100 million by the end of 2015. Our long-term vision is to ensure WestJet's costs per available seat mile are competitive with other low-cost North American airlines, allowing us to continue to offer low fares to our guests. As part of this initiative, we held a series of meetings with WestJetters across Canada to explain its importance and to rally our cost-conscious culture. As of the date of this MD&A, we have identified and put into action measures that we believe will enable us to achieve $100 million of future annual cost savings by the end of 2014, a year ahead of our previous goal of 2015. These measures include, among others:

- The successful application for an exemption from Transport Canada that allows us to staff one flight attendant for every 50 seats onboard an aircraft (1:50 flight attendant ratio). This exemption is in-line with the international industry standard practice and is consistent with our commitment toward safety. On October 1, 2013, with the cooperation from our flight attendants, we transitioned to and are now operating under the 1:50 flight attendant ratio. We anticipate that this change will provide us with future cost savings, allow us the ability to compete on an equal basis with North American and international carriers and enable us to offer affordable fares to our guests.
- Obtaining agreement from the pilot association to move from a single-crew base and port system to a multi-base model. We believe this model will improve both operational performance and crew staffing efficiency by basing crews to better match our balanced east-west network, to reduce costs associated with crew accommodations and provide benefits to the health and well-being of our crew members by reducing the average commute time.
- Completing our seat reconfiguration program, as discussed above under the heading *Guest experience and service enhancements*.

- Optimization of our fleet strategy. In May 2013, we entered into an agreement with Southwest Airlines to sell 10 of our oldest Boeing 737 Next-Generation (NG) aircraft in 2014 and 2015 and we concurrently entered into an agreement with Boeing to purchase 10 Boeing 737 NG 800 aircraft in 2014 and 2015, effectively reducing the average age of WestJet's fleet by approximately one year. In September 2013, we entered into an agreement with Boeing to purchase 65 737 MAX aircraft, consisting of firm commitments to take delivery of 25 737 MAX 7 aircraft and 40 737 MAX 8 aircraft, with deliveries scheduled between 2017 and 2027. We anticipate that the 737 MAX aircraft, with its fuel-efficient technology and enhanced amenities, will support our continued growth and low-cost operating model while still providing our guests with an exceptional experience.

On a go-forward basis, we expect to continue to face upward pressures on CASM. We anticipate that the cost saving initiatives we have identified and put into action as of the date of this MD&A will help mitigate this pressure reflected in our expectation of full year 2014 CASM (described under the heading *Outlook*, on page 41 of this MD&A). We will continue to focus on actively identifying and putting into action new cost saving initiatives and remaining committed to working in collaboration with all WestJetters in setting our Company up for ongoing successful low-cost operations for years to come.

Select annual information

($ in thousands, except per unit data)	2013	2012	2011	2010	2009(i)
Financial summary					
Revenue	3,662,197	3,427,409	3,071,540	2,607,294	2,281,120
Earnings before income taxes	372,085	340,229	208,006	133,465	136,796
Net earnings	268,722	242,392	148,702	90,197	98,178
Basic earnings per share	2.05	1.79	1.06	0.62	0.74
Diluted earnings per share	2.03	1.78	1.06	0.62	0.74
Cash and cash equivalents	1,256,005	1,408,199	1,243,605	1,159,316	994,989
Total assets	4,143,463	3,746,615	3,473,678	3,383,980	3,493,702
Total long-term liabilities	1,147,163	1,086,457	1,161,604	1,240,285	1,051,912
Cash dividends declared per share	0.40	0.28	0.20	0.05	—
Operational summary					
ASMs	23,970,921,260	22,063,583,754	21,186,304,409	19,535,291,313	17,587,640,902
RPMs	19,591,173,039	18,262,554,881	16,890,941,121	15,613,121,610	13,834,761,211
Load factor	81.7%	82.8%	79.7%	79.9%	78.7%
Yield (cents)(ii)	18.69	18.77	18.18	16.70	16.49
RASM (cents)(ii)	15.28	15.53	14.50	13.35	12.97
CASM (cents)(ii)	13.61	13.83	13.29	12.37	11.77
CASM, excluding fuel and employee profit share (cents)(iii)	9.06	9.12	8.85	8.80	8.45
Fuel consumption (litres)	1,144,937,872	1,079,108,614	1,027,821,192	950,341,292	859,115,698
Fuel costs per litre (dollars)	0.91	0.92	0.89	0.71	0.66
Segment guests	18,485,144	17,423,352	16,040,682	15,173,581	14,038,827
Average stage length (miles)	976	978	984	968	923
Utilization (hours)	12.0	11.9	11.8	11.6	11.7
Number of full-time equivalent employees at period end	8,000	7,742	7,141	6,877	6,291
Fleet size at period end	113	100	97	91	86

(i) 2009 amounts have not been restated to conform to IFRS and are presented in accordance with Previous GAAP.
(ii) Please refer to page 59 of this MD&A for a definition of key operating indicators.
(iii) Please refer to page 59 of this MD&A for a reconciliation of non-GAAP measures.

2013 RESULTS OF OPERATIONS

Revenue

($ in thousands)	2013	2012	Change
Guest	3,337,569	3,133,492	6.5%
Other	324,628	293,917	10.4%
	3,662,197	3,427,409	6.9%
RASM (cents)	15.28	15.53	(1.6%)

During 2013, total revenue increased by 6.9 per cent to $3,662.2 million compared to $3,427.4 million in 2012, driven mainly by the additional seat capacity in our network and increased traffic despite a slight year-over-year decline in yield and load factor. Our 2013 load factor was 81.7 per cent, which represents a year-over-year decline of 1.1 percentage points. On an ASM basis, revenue declined by 1.6 per cent to 15.28 cents from 15.53 cents in 2012 as a result of the dilutive impact of the year-over-year increase in capacity.

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

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

	2013		2012		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	13,157,007,097	54.9%	12,561,790,582	56.9%	4.7%
Transborder and international	10,813,914,163	45.1%	9,501,793,172	43.1%	13.8%
Total	23,970,921,260	100.0%	22,063,583,754	100.0%	8.6%

For the year ended December 31, 2013, our overall capacity increased by 8.6 per cent. In addition to our five Boeing 737 NG 800 series aircraft deliveries in 2013, our high aircraft utilization rates, the completion of our seat reconfiguration program and the commencement of operations by WestJet Encore have all contributed to the year-over-year increase in capacity. Our domestic to transborder and international capacity mix remained relatively unchanged. During 2013, 45.1 per cent of ASMs were allocated to the transborder and international markets, as compared to the 43.1 per cent allocated to those markets in 2012.

During 2013, our domestic traffic, measured in RPMs, increased by 3.6 per cent year over year, as compared to the 4.7 per cent increase in capacity in 2012. With regards to our transborder and international markets, RPMs increased by 11.9 per cent over 2012 while capacity increased by 13.8 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 2013, other revenue increased by 10.4 per cent to $324.6 million from $293.9 million in 2012. This improvement was driven mainly by increases in ancillary revenue.

Ancillary revenue, which includes service fees, onboard sales and program revenue, provides an opportunity to maximize our profits through the sale of higher-margin goods and services, while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. For the year ended December 31, 2013, ancillary revenue was $165.0 million, an increase of approximately 20.2 per cent from $137.3 million in 2012. On a per guest basis, ancillary fees for the year increased by $1.05 or 13.3 per cent to $8.94 per guest, from $7.89 per guest for 2012. Year over year we experienced improvements in ancillary revenue primarily associated with the introduction of fare bundles and the commercial launch of our Plus product offering to the market. Under the new structure we saw an increase to certain change and cancel fees year over year and we offered additional pre-reserved seating opportunities for guests upgrading to the Plus product offering. We also experienced improvements associated with an increase in the rate charged for pre-reserved seating year over year and an increase in the number of these related bookings, as well as continued growth in our WestJet RBC MasterCard program.

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, 2013, WestJet Vacations' net non-air revenue grew, however this growth was partially impacted 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)		
	2013	2012	Change	2013	2012	Change
Aircraft fuel	1,039,448	992,787	4.7%	4.34	4.50	(3.6%)
Airport operations	459,465	424,911	8.1%	1.92	1.93	(0.5%)
Flight operations and navigational charges	410,052	376,050	9.0%	1.71	1.70	0.6%
Sales and distribution	356,988	333,106	7.2%	1.49	1.51	(1.3%)
Marketing, general and administration	222,567	202,398	10.0%	0.92	0.91	1.1%
Depreciation and amortization	200,840	185,401	8.3%	0.84	0.84	–
Inflight	176,907	162,633	8.8%	0.74	0.74	–
Aircraft leasing	175,646	173,412	1.3%	0.73	0.79	(7.6%)
Maintenance	169,197	154,406	9.6%	0.71	0.70	1.4%
Employee profit share	51,577	46,585	10.7%	0.21	0.21	–
Total operating expenses	3,262,687	3,051,689	6.9%	13.61	13.83	(1.6%)
Total, excluding fuel and profit share	2,171,662	2,012,317	7.9%	9.06	9.12	(0.7%)

During 2013, operating expenses increased by 6.9 per cent to $3,262.7 million as compared to $3,051.7 million in 2012, primarily driven by the 8.6 per cent year-over-year increase in capacity. On an ASM basis, operating expenses decreased by 1.6 per cent to 13.61 cents from 13.83 cents in 2012 driven largely by a lower fuel cost per ASM and lower aircraft leasing cost per ASM. Excluding fuel and employee profit share, CASM decreased by 0.7 per cent in 2013 to 9.06 cents as compared to 9.12 cents in 2012. This is in line with the previous estimate of full-year 2013 CASM, excluding fuel and employee profit share of down by approximately 0.5 per cent year over year.

Aircraft fuel

Fuel remains our most significant cost, representing 31.9 per cent of total operating expenses in 2013 and 32.5 per cent in 2012. For the year ended December 31, 2013, aircraft fuel expense increased by 4.7 per cent to $1,039.4 million from $992.8 million in 2012, primarily due to the 6.1 per cent year-over-year increase in our overall fuel consumption. Fuel costs per ASM for 2013, were 4.34 cents, compared to 4.50 cents in 2012, a decrease of 3.6 per cent year over year driven by the reduction in fuel cost per litre and an improvement in fuel consumption relative to ASM growth.

Our fuel costs per litre decreased by 1.1 per cent to 91 cents per litre during the year ended December 31, 2013 from 92 cents per litre in the same period of 2012. On average, the market price for jet fuel was US $124 per barrel in 2013 versus US $130 per barrel in 2012, a decrease of approximately 4.6 per cent. The benefit from the lower market price of jet fuel on a year-over-year basis was almost completely offset by the weaker Canadian dollar as the average market price for jet fuel in Canadian dollars decreased by only 0.8 per cent to $129 per barrel from $130 per barrel in 2012.

As at December 31, 2013, 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 2014, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately $8.0 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity of fuel costs to changes in fuel pricing to be approximately $12.0 million for every one-cent change per litre of fuel. We estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $10.7 million on fuel costs.

Airport operations

Airport operations expense consists primarily of airport landing and terminal fees, ground handling, salaries and benefits and de-icing costs. For the year ended December 31, 2013, our airport operations expense was $459.5 million, a $34.6 million or 8.1 per cent increase from $424.9 million for the same period in 2012. During 2013, we experienced cost savings from a year-over-year reduction in certain airports' rates and fees. We continued our network expansion and increased our volume of service out of our major airport bases. This expansion more than offset the absolute dollar cost savings during the period and resulted in year-over-year increased terminal and landing fees. In addition to these costs, annual market and merit adjustments contributed to an increase in compensation costs included within airport operations and severe winter weather conditions across Canada resulted in higher de-icing fluid usage in 2013 as compared to the same periods in the prior year.

Airport operations expense per ASM was 1.92 cents for 2013, a decrease of 0.5 per cent from 1.93 cents in the same period in 2012. This decrease is mainly driven by the reduction in certain airport rates offset by higher cost pressures as noted above.

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 year ended December 31, 2013, flight operations and navigational charges were $410.1 million, a $34.0 million or 9.0 per cent increase from $376.1 million during the same period in 2012. The increase was primarily attributable to a year-over-year increase in NAV Canada fees given our higher volume of flights, an increase in salaries and benefits due to a greater number of flying hours and additional costs related to guest recovery as a result of severe weather conditions experienced during 2013. Flight operations and navigational charges per ASM were 1.71 cents in 2013, an increase of 0.6 per cent from 1.70 cents in the same period in 2012.

Marketing, general and administration

Marketing largely consists of expenses such as advertising and sponsorship costs. General and administration expenses consist of corporate office departments, professional fees and insurance costs. For the year ended December 31, 2013, marketing, general and administration expense was $222.6 million, a $20.2 million or 10.0 per cent increase from $202.4 million in 2012. The absolute dollar increase was largely attributable to a $6.3 million provision recorded in 2013 for the expected reimbursed relocation costs associated with WestJet's move to a multi-base system as described under the heading *Overview – Business transformation initiative* on page 23 of this MD&A. In addition there was an increase of $4.0 million in our compensation incentives, which includes amounts pursuant to our Owners' Performance Award, and annual market and merit adjustments contributing to the increase in compensation costs. Marketing, general and administration costs per ASM were 0.92 cents for 2013, representing an increase of 1.1 per cent from 0.91 cents in 2012.

Inflight

Inflight expense is comprised mainly of salaries and benefits, travel costs and training for our flight attendants. For the year ended December 31, 2013 inflight expense was $176.9 million, a $14.3 million or an 8.8 per cent increase from $162.6 million in 2012. This year-over-year increase is mainly attributable to an increase in salaries and benefits along with additional travel costs as a result of a greater number of flying hours and the $3.2 million provision recorded in the second quarter of 2013 for flight attendants who accepted the voluntary early resignation package relating to our migration to a 1:50 flight attendant ratio. This increase was largely offset by the benefits associated with the implementation of the 1:50 flight attendant ratio in the fourth quarter of 2013. Our inflight cost per ASM remained flat at 0.74 cents in both 2013 and 2012.

Compensation

Our compensation philosophy is designed to align corporate and personal success. 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)	2013	2012	Change
Salaries and benefits	582,225	538,917	8.0%
Employee share purchase plan	73,010	65,439	11.6%
Employee profit share	51,577	46,585	10.7%
Share-based payment plans	14,533	12,815	13.4%
	721,345	663,756	8.7%
Presentation on the Consolidated Statement of Earnings:			
Airport operations	96,922	91,267	6.2%
Flight operations and navigational charges	219,547	200,883	9.3%
Sales and distribution	65,452	61,347	6.7%
Marketing, general and administration	95,156	86,210	10.4%
Inflight	137,990	126,738	8.9%
Maintenance	54,701	50,726	7.8%
Employee profit share	51,577	46,585	10.7%
	721,345	663,756	8.7%

Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During 2013, salaries and benefits increased by 8.0 per cent to $582.2 million from $538.9 million in 2012. This increase was primarily due to an increase in our total number of full-time equivalent employees of 3.3 per cent to 8,000 at December 31, 2013 from 7,742 at the end of 2012, our annual market and merit increases and the provision recorded in the second quarter of 2013 relating to voluntary resignation packages in connection with our migration to a 1:50 flight attendant ratio, as discussed under the section *Overview – Business transformation initiative*, on page 23 of this MD&A. 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 $12.6 million was recognized in 2013 compared to $4.9 million recognized in 2012 for this award, an increase of over 150 per cent. This increase is due to the combination of a higher eligible payment pool driven by higher earnings year over year and the final outcome for the 2013 cost metric which resulted in the maximum payout for this area. 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, 2013, 83.7 per cent of our eligible active employees participated in the ESPP, contributing an average of 14.0 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 2013, our matching expense was $73.0 million, an 11.6 per cent increase from $65.4 million in 2012, driven largely by the increase in salaries and benefits.

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, 2013, was $51.6 million, a 10.7 per cent increase from $46.6 million in 2012, bringing our total profit share expense since 1996 to approximately $322 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, 2013, share-based payment expense totaled $14.5 million, representing an increase of 13.4 per cent over the $12.8 million recognized in 2012. This increase related primarily to the year-over-year increase in the number of employees eligible for awards under the share-based payment plans and a revision made to the number of PSUs expected to vest in early 2014 offset by the recapture of share-based payment expense from the departure of certain employees. Share-based payment expense related to pilots' awards is included in flight operations and navigational charges, while the expense related to senior executives' and certain non-executive employees' awards is included in marketing, general and administration expense.

Foreign exchange

The gain or loss on foreign exchange included in our consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary liabilities. At December 31, 2013, US-dollar-denominated net monetary liabilities totaled approximately US $0.3 million (2012 – US $11.5 million). These net monetary liabilities 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. We reported a foreign exchange gain of $1.1 million in 2013 and 2012 on the revaluation of our US-dollar-denominated net monetary liabilities.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At December 31, 2013, 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 $13.4 million per month for the period of January to December 2014 for a total of US $161.3 million at a weighted average contract price of 1.0425 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, 2013, 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, 2013 and 2012 and on the consolidated statement of earnings for the years ended December 31, 2013 and 2012.

($ in thousands)	Statement presentation	2013	2012
Consolidated Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	4,187	800
Fair value	Accounts payable and accrued liabilities	(29)	(898)
Unrealized gain (loss)	Hedge reserves (before tax)	4,158	(98)
Consolidated Statement of Earnings:			
Realized gain (loss)	Aircraft leasing	4,752	1,245

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 2014, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $13.3 million on our annual unhedged operating costs, (approximately $10.7 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, 2013 was 28 per cent, as compared to 29 per cent for the same periods in 2012.

The year-over-year decrease in our effective rate for both the three and twelve months ended December 31, 2013, was due to the absence of any significant corporate income tax rate changes as compared to 2012. Although we did realize an increase to the general corporate tax rates for British Columbia and New Brunswick that were substantively enacted in 2013, for the same periods in the prior year, the provincial government of Ontario cancelled the scheduled corporate income tax rate reductions and froze the corporate income tax rate at 11.5 per cent, resulting in a more substantial change to our deferred income tax expense and liability that increased our effective tax rate in the 2012 periods.

For 2014, we anticipate that our annual effective tax rate will remain in the range of approximately 27 to 29 per cent.

2013 FOURTH QUARTER RESULTS OF OPERATIONS

Our 2013 fourth quarter financial results represent our 35th consecutive quarter of reported profitability with net earnings of $67.8 million and diluted earnings per share of $0.52, representing year-over-year improvements of 11.3 per cent and 13.0 per cent, respectively. During the quarter, we increased our revenue by 7.6 per cent as compared to the fourth quarter of 2012 though we experienced a slight decline in RASM, down 0.6 per cent year over year.

Quarterly financial summary

- Recognized total revenue of $926.4 million, an increase of 7.6 per cent from $860.6 million in the fourth quarter of 2012.
- Increased capacity, measured in ASMs, by 8.3 per cent over the fourth quarter of 2012.
- Increased traffic, measured in RPMs, by 6.1 per cent over the fourth quarter of 2012.
- Increased yield by 1.4 per cent over the fourth quarter of 2012.
- Recorded RASM of 15.59 cents, down 0.6 per cent from 15.68 cents in the fourth quarter of 2012.
- Realized CASM of 13.88 cents, down 0.9 per cent from 14.01 cents in the fourth quarter of 2012.
- Realized CASM, excluding fuel and employee profit share, of 9.29 cents, down 0.3 per cent from 9.32 cents in the fourth quarter of 2012.
- Recorded an operating margin of 11.0 per cent, up 0.4 percentage points from 10.6 per cent in the fourth quarter of 2012.
- Recorded an EBT margin of 10.2 per cent, up 0.3 percentage points from 9.9 per cent in the fourth quarter of 2012.
- Realized net earnings of $67.8 million, an increase of 11.3 per cent from $60.9 million in the fourth quarter of 2012.
- Reported diluted earnings per share of $0.52, up 13.0 per cent from $0.46 in the fourth quarter of 2012.

	Three months ended December 31		
($in thousands, except per unit data)	2013	2012	Change
Financial summary			
Revenue	926,417	860,640	7.6%
Earnings before income taxes	94,173	85,543	10.1%
Net earnings	67,807	60,944	11.3%
Basic earnings per share	0.52	0.46	13.0%
Diluted earnings per share	0.52	0.46	13.0%
Cash dividends declared per share	0.10	0.08	25.0%
Operational summary			
ASMs	5,942,032,692	5,487,467,646	8.3%
RPMs	4,768,595,990	4,492,833,159	6.1%
Load factor	80.3%	81.9%	(1.6 pts)
Yield (cents)(i)	19.43	19.16	1.4%
RASM (cents)(i)	15.59	15.68	(0.6%)
CASM (cents)(i)	13.88	14.01	(0.9%)
CASM, excluding fuel and employee profit share (cents)(ii)	9.29	9.32	(0.3%)
Fuel consumption (litres)	284,337,058	271,741,925	4.6%
Fuel costs per litre (dollars)	0.92	0.91	1.1%
Segment guests	4,557,606	4,314,024	5.6%
Average stage length (miles)	944	973	(3.0%)
Utilization (hours)	11.8	12.0	(1.7%)
Number of full-time equivalent employees at period end	8,000	7,742	3.3%

(i) Please refer to page 59 of this MD&A for a definition of key operating indicators.
(ii) Please refer to page 59 of this MD&A for a reconciliation of non-GAAP measures.

Revenue

($ in thousands)	Three months ended December 31 2013	2012	Change
Guest	836,399	783,750	6.7%
Other	90,018	76,890	17.1%
	926,417	860,640	7.6%
RASM (cents)	15.59	15.68	(0.6%)

For the fourth quarter of 2013, revenue increased by 7.6 per cent to $926.4 million from $860.6 million in the fourth quarter of 2012. This year-over-year increase was driven by both the 6.1 per cent increase in traffic and 1.4 per cent year-over-year improvement in yield.

On an ASM basis, we saw a slight decline in RASM of 0.6 per cent to 15.59 cents in the fourth quarter of 2013, as compared to a RASM of 15.68 cents in the same period of 2012. This year-over-year decrease was primarily driven by the dilutive impact of the additional seat capacity. During the fourth quarter of 2013, 49.9 per cent of ASMs were allocated to the transborder and international markets, which represents an 11.4 per cent increase versus the same quarter of 2012.

	Three months ended December 31				
	2013		2012		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	2,974,310,927	50.1%	2,823,935,413	51.5%	5.3%
Transborder and international	2,967,721,765	49.9%	2,663,532,233	48.5%	11.4%
Total	5,942,032,692	100.0%	5,487,467,646	100.0%	8.3%

During the three months ended December 31, 2013, our domestic traffic, measured in RPMs, increased by 2.7 per cent year-over-year as compared to the 5.3 per cent increase in domestic capacity. Our scheduled transborder and international traffic increased 9.8 per cent, as compared to the 11.4 per cent increase in capacity to these areas.

Other revenue

Other revenue increased by 17.1 per cent to $90.0 million for the fourth quarter of 2013, from $76.9 million in the comparable quarter of 2012. These improvements were driven mainly by improvements in our ancillary revenue.

For the three months ended December 31, 2013 ancillary revenue was $45.9 million, an increase of approximately 33.4 per cent from $34.4 million in the same quarter 2012. On a per guest basis, ancillary fees for the quarter increased by $2.11 or 26.4 per cent to $10.09 per guest, from $7.98 per guest during the fourth quarter of 2012. Quarter over quarter we experienced improvements in ancillary revenue primarily associated with fare bundles and our Plus product offering.

Operating expenses

	Three months ended December 31					
	Expense (thousands)			CASM (cents)		
	2013	2012	Change	2013	2012	Change
Aircraft fuel	260,528	246,216	5.8%	4.38	4.48	(2.2%)
Airport operations	115,938	109,895	5.5%	1.95	2.00	(2.5%)
Flight operations and navigational charges	100,565	94,408	6.5%	1.69	1.72	(1.7%)
Sales and distribution	94,267	81,499	15.7%	1.59	1.49	6.7%
Marketing, general and administration	64,562	57,505	12.3%	1.09	1.05	3.8%
Depreciation and amortization	52,168	46,175	13.0%	0.88	0.84	4.8%
Inflight	36,790	42,384	(13.2%)	0.62	0.77	(19.5%)
Aircraft leasing	42,462	43,729	(2.9%)	0.71	0.80	(11.3%)
Maintenance	44,999	35,590	26.4%	0.76	0.65	16.9%
Employee profit share	12,463	11,639	7.1%	0.21	0.21	–
Total operating expenses	824,742	769,040	7.2%	13.88	14.01	(0.9%)
Total, excluding fuel and profit share	551,751	511,185	7.9%	9.29	9.32	(0.3%)

During the fourth quarter of 2013, operating expenses increased by 7.2 per cent to $824.7 million as compared to $769.0 million in 2012. This increase was primarily driven by the 8.3 per cent quarter-over-quarter increase in capacity. On an ASM basis, operating expenses decreased by 0.9 per cent to 13.88 cents from 14.01 cents in 2012. Excluding fuel and employee profit share, CASM decreased by only 0.3 per cent in 2013 to 9.29 cents as compared to 9.32 cents in 2012.

Aircraft fuel

In the fourth quarter of 2013, aircraft fuel expense increased by 5.8 per cent to $260.5 million from $246.2 million mainly due to the 4.6 per cent year-over-year increase in our overall fuel consumption. Fuel costs per ASM for the fourth quarter of 2013, was 4.38 cents, compared to 4.48 cents in the fourth quarter of 2012, a decrease of 2.2 per cent year over year, driven by the improved fuel consumption relative to ASM growth.

Our fuel costs per litre increased by 1.1 per cent to 92 cents per litre during the quarter ended December 31, 2013 from 91 cents per litre in the same period of 2012. On average, the market price for jet fuel was US $124 per barrel in the fourth quarter of 2013 versus US $128 per barrel in the fourth quarter of 2012, a decrease of approximately 3.1 per cent. With a weaker Canadian dollar versus the US dollar on a quarter-over-quarter basis, the average market price for jet fuel in Canadian dollars was approximately $130 per barrel during the three months ended December 31, 2013 as compared to $126 per barrel in the comparable period of 2012. The impact of the Canadian dollar more than offset the favourable decrease in the US dollar market price for jet fuel.

Sales and distribution

Sales and distribution is comprised mainly of WestJet and WestJet Vacations commissions and credit card fees. For the three months ended December 31, 2013, sales and distribution expense was $94.3 million, a 15.7 per cent increase from $81.5 million in the comparable period of 2012. Sales and distribution costs per ASM were 1.59 cents for the fourth quarter of 2013, representing an increase of 6.7 per cent from 1.49 cents in the same period of the prior year. This year-over-year increase was primarily associated with improved sales in the fourth quarter of 2013 as compared to the same period in 2012 which more than offset the reduction in the 2013 commission rates paid to certain segments of the business.

Inflight

For the three months ended December 31, 2013, our inflight expense was $36.8 million, a $5.6 million or 13.2 per cent decrease from $42.4 million in the same period in 2012. Inflight expense per ASM was 0.62 cents for the fourth quarter of 2013, a decrease of 19.5 per cent from 0.77 cents in the comparable period of 2012. This quarter-over-quarter decrease is driven primarily by the benefits associated with the implementation of the 1:50 flight attendant ratio in the fourth quarter of 2013.

Maintenance

Maintenance expense for the three months ended December 31, 2013, was $45.0 million, a $9.4 million or 26.4 per cent increase from $35.6 million in the comparable period in 2012. Maintenance cost per ASM was 0.76 cents in the fourth quarter of 2012, representing an increase of 16.9 per cent from 0.65 cents in the fourth quarter of 2012. The fourth quarter of 2012 included an adjustment to our maintenance provision estimate reducing the expense by approximately $3.1 million while no significant change in estimate occurred in the fourth quarter of 2013. Our provision is calculated based on the best information available to us and includes estimates on maintenance cycle timing, total cost and discount rates. The remaining increase in expense is a result of an increase in routine maintenance events as the fleet continues to grow and mature.

SUMMARY OF QUARTERLY RESULTS

($ 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

($ in thousands, except per share data)	Three months ended Dec. 31 2012	Sept. 30 2012	Jun. 30 2012	Mar. 31 2012
Total revenue	860,640	866,537	809,282	890,950
Net earnings	60,944	70,648	42,479	68,321
Basic earnings per share	0.46	0.53	0.31	0.50
Diluted earnings per share	0.46	0.52	0.31	0.49

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 or lost baggage claims made per 1,000 guests.

	Three months ended December 31			Twelve months ended December 31		
	2013	2012	Change	2013	2012	Change
On-time performance	69.3%	64.0%	5.3 pts	73.9%	75.4%	(1.5 pts)
Completion rate	98.6%	98.5%	0.1 pts	98.6%	98.9%	(0.3 pts)
Bag ratio	3.62	2.94	23.1%	3.25	2.68	21.3%

During the fourth quarter of 2013, our on-time performance increased by 5.3 percentage points. While faced with challenging winter weather conditions at our key domestic airports in the fourth quarter of 2013, there were fewer significant weather impacts than the fourth quarter of 2012, which was impacted by Hurricane Sandy in addition to similar winter weather issues.

On an annual basis our on-time performance decreased slightly by 1.5 percentage points compared to the prior year due to an increase in weather-related events and operational factors outside of our control, including winter storms, flooding at Toronto Pearson International Airport, a power failure at Calgary International Airport and a de-icing facility failure at Toronto Pearson International Airport.

For the three and twelve months ended December 31, 2013, our bag ratio increased by 23.1 per cent and 21.3 per cent, respectively, on a year-over-year basis. These increases are the result of the significant weather related events and operational factors noted above and in particular due to the severe winter events at Calgary International Airport and Toronto Pearson International Airport in the fourth quarter of 2013. 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.

Despite these challenges, our year-over-year completion rate remained strong for both the three and twelve months ended December 31, 2013, 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

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. Our consistent and strong financial results enable us to maintain a healthy balance sheet. We completed 2013 with a cash and cash equivalents balance of $1,256.0 million, compared to $1,408.2 million at December 31, 2012. The decrease in our cash position was a result of $715.2 million spent on capital expenditures, $215.3 million in aircraft financing outflows, including cash interest paid, and a combined total of $164.6 million spent on our dividend and share buy-back programs offset by our positive cash flow from operations of $608.1 million and aircraft financing inflows of $318.1 million.

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, 2013, was $551.0 million, an increase of 14.6 per cent from $480.9 million at December 31, 2012. We have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities, when due, under both normal and stressed conditions. At December 31, 2013, we had cash on hand of 2.28 (2012 – 2.93) times our advance ticket sales balance.

We monitor capital on a number of measures, including adjusted debt-to-equity and adjusted net debt to EBITDAR. Our adjusted debt-to-equity ratio at December 31, 2013 was 1.38, which took into consideration $1.3 billion in off-balance-sheet aircraft operating leases. Our adjusted debt-to-equity ratio of 1.38 is unchanged from December 31, 2012, as our increase in adjusted debt from additional aircraft financing in 2013 was offset by our increase in adjusted equity in 2013 due to higher net earnings. At December 31, 2013, our adjusted net debt to EBITDAR ratio of 1.22 increased by 41.9 per cent compared to 0.86 at December 31, 2012, attributable to the decrease in cash and cash equivalents and an increase in adjusted debt.

Our current ratio, defined as current assets over current liabilities, was 1.09 at December 31, 2013 as compared to 1.38 at December 31, 2012, a decrease of 21.0 per cent due to a decrease in cash and cash equivalents and an increase in accounts payable and accrued liabilities, advance ticket sales, the current portion of maintenance provisions and the current portion of long-term debt.

Select cash flow information

($ in thousands)	2013	2012	Change
Cash provided by operating activities	608,147	722,624	(114,477)
Less:			
Cash used by investing activities	(715,172)	(269,307)	(445,865)
Cash used by financing activities	(61,547)	(289,044)	227,497
Cash flow from operating, investing and financing activities	(168,572)	164,273	(332,845)
Effect of foreign exchange on cash and cash equivalents	16,378	321	16,057
Net change in cash and cash equivalents	(152,194)	164,594	(316,788)
Cash and cash equivalents, beginning of year	1,408,199	1,243,605	164,594
Cash and cash equivalents, end of year	1,256,005	1,408,199	(152,194)

Operating cash flows

For the year ended December 31, 2013, our cash flow from operations decreased 15.8 per cent to $608.1 million compared to $722.6 million in the prior year. This year-over-year decrease was mainly the result of an increase in cash taxes paid.

On a per share basis, for the year ended December 31, 2013, our cash flow from operations decreased 13.4 per cent to $4.60 per share compared to $5.31 per share in the prior year. Partially offsetting this year-over-year decrease in operating cash flow per share, was a favourable impact of a reduced number of shares outstanding from our share buy-back program.

At December 31, 2013, restricted cash consisted of $48.5 million (2012 – $43.2 million) for cash held in trust by WestJet Vacations; $8.3 million (2012 – $7.6 million) for security on letters of guarantee; and, in accordance with U.S. regulatory requirements, $1.3 million (2012 – $0.9 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

For the year ended December 31, 2013, cash flow used for investing activities totaled $715.2 million as compared to $269.3 million in the prior year. This significant year-over-year increase is mainly due to the delivery of five 737-800 aircraft, eight Q400 aircraft, future aircraft deposits for 10 Boeing 737 NG aircraft as part of the Southwest transaction, future aircraft deposits for 65 of Boeing's new 737 MAX aircraft, costs incurred for owned aircraft overhauls and additional rotable parts and spare engine acquisitions.

Financing cash flows

For the year ended December 31, 2013, our financing cash outflow of $61.5 million consisted mainly of cash inflows of $318.1 million related to the financing of five Boeing 737 NG 800 series aircraft and eight Q400 aircraft, offset by cash outflows related to long-term debt repayments of $178.6 million, cash interest paid of $36.7 million, dividends paid of $52.2 million and shares repurchased pursuant to our normal course issuer bid of $112.4 million. In the prior year, financing cash outflow of $289.0 million was mainly attributable to cash inflow of $73.0 million related to the financing of two 737-800 series aircraft and cash outflow related to long-term debt repayments of $162.7 million, cash interest paid of $43.1 million, dividends paid of $37.5 million and share repurchases of $112.1 million.

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, 2013, was a negative $107.0 million, as compared to a positive $453.3 million in the prior year. This decrease is due to the significant cash outflows made in the current year related to five Boeing 737 NG 800 aircraft deliveries, eight Q400 aircraft deliveries, aircraft deposits related to the Southwest transaction and Boeing MAX aircraft purchase agreement, costs incurred for owned aircraft overhauls and additional rotable parts and spare engine acquisitions.

On a per share basis, for the year ended December 31, 2013, our free cash flow decreased 124.3 per cent to negative $0.81 per share compared to $3.33 per share in 2012.

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

Aircraft financing

We have grown through acquisitions of Boeing 737 NG and Bombardier Q400 aircraft. Our Boeing 737 NG aircraft deliveries in 2013 were financed by secured term loans with Canadian chartered banks and guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) for approximately 85 per cent of the purchase price of the aircraft. Our Q400 aircraft deliveries in 2013 were financed by secured term loans with Export Development Canada (EDC) for approximately 80 per cent of the purchase price of the aircraft. Our aircraft debt in 2013 was financed in Canadian dollars, eliminating the foreign exchange exposure on any US-dollar denominated debt. At December 31, 2013, we had 59 Boeing 737 NG aircraft and eight Q400 aircraft financed with a remaining debt balance of $878.4 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, 2013, 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, 2013 and 2012 and on the consolidated statement of earnings for the years ended December 31, 2013 and 2012.

($ in thousands)	Statement presentation	2013	2012
Consolidated Statement of Financial Position:			
Fair value	Accounts payable and accrued liabilities	(3,220)	(611)
Fair value	Other liabilities	–	(268)
Fair value	Other long-term assets	4,103	–
Unrealized gain (loss)	Hedge reserves (before tax)	883	(879)
Consolidated Statement of Earnings:			
Realized loss	Finance costs	(1,058)	(418)

The fair value of the interest rate swap agreements is measured based on the difference between the fixed swap rate and the forward curve for the applicable floating interest rates obtained from the counterparty, which can be observed and corroborated in the marketplace.

In March 2013, we signed 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, which commenced on January 24, 2013. 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, 2013, we have $689.0 million undrawn under the loan agreement.

In July 2013, we finalized a guarantee commitment with the Ex-Im Bank for $190.5 million and entered into a loan agreement with a Canadian Chartered Bank to finance five Boeing 737-800 aircraft. During the year ended December 31, 2013, we drew down on the guarantee commitment with Ex-Im and the Canadian Chartered Bank loan for our three Boeing 737 NG 800 aircraft delivered in the first quarter and two Boeing 737 NG 800 aircraft delivered in the fourth quarter of 2013. The loan amounts were calculated as 85 per cent of the net price with terms to maturity of up to 12 years, repayable in quarterly instalments, at a floating rate of interest equal to the Canadian Dealer Offer Rate plus a basis point spread. The Corporation has fixed the rate of interest for the five delivered aircraft using interest rate swaps. The term loans are secured by the five delivered aircraft. At December 31, 2013, there is no remaining commitment with Ex-Im Bank and no undrawn loan amounts from the Canadian Chartered Bank.

Contractual obligations and commitments

At December 31, 2013, our contractual obligations and commitments are indicated in the following table. All US-dollar amounts have been converted at the year-end closing exchange rate and presented in Canadian dollars in the table.

($ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 Years	Over 5 years
Long-term debt repayments	878,395	189,191	282,199	170,843	236,162
Operating leases and commitments (i)	831,454	226,144	311,368	177,894	116,048
Purchase commitments (ii)	4,483,196	461,557	738,100	849,954	2,433,585
Total contractual obligations	6,193,045	876,892	1,331,667	1,198,691	2,785,795

(i) Relates to operating leases and commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming.

(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. 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 these and any outstanding matters will not have a material effect upon our financial position, results of operations or cash flows.

FLEET

During 2013, we took delivery of eight Bombardier Q400 aircraft and five Boeing 737 NG 800 aircraft to end the year with a registered total fleet of 113 aircraft, with an average age of 6.8 years.

In May 2013, we announced the sale of 10 of our oldest Boeing 737 NG aircraft to take place between 2014 and 2015 to Southwest Airlines. Due to the weakening Canadian dollar, we have revised our previously disclosed non-cash book loss range of $60 million to $70 million, calculated using an exchange rate of 1.03, down to $50 million to $60 million calculated using an exchange rate of 1.11 Canadian dollars to one US dollar. This non-cash book loss will be recognized closer to each aircraft's anticipated delivery date, in accordance with accounting guidelines. A significant portion of the book loss is driven by the strengthening of the Canadian dollar since the aircraft were originally purchased in 2002 and 2003, thus the final book loss will depend on the prevailing US dollar exchange rate at that time.

In September 2013, we entered into an agreement with Boeing to purchase 65 737 MAX aircraft (the MAX Transaction). This transaction consists of firm commitments to take delivery of 25 737 MAX 7 aircraft and 40 737 MAX 8 aircraft, with deliveries scheduled between 2017 and 2027. We also have substitution rights between these aircraft and for 737 MAX 9 aircraft. Of these 65 aircraft, 15 represent substitutions of our then existing Boeing 737 NG aircraft orders that were scheduled to be delivered between December 2014 and 2018, for a net increase of 50 committed deliveries to our fleet plan. We also have options to purchase an additional 10 737 MAX aircraft between the years 2020 and 2021.

As at December 31, 2013, in addition to the above MAX Transaction, we have firm commitments to take delivery of 25 Boeing 737 NG aircraft and 12 Bombardier Q400s. We have 44 Boeing 737 NG aircraft leases expiring between 2014 and 2023, each with the option to renew. Subsequent to December 31, 2013, we extended one of the three leases previously scheduled to be returned in 2014. We expect to extend the other two in early 2014. The combination of our firm commitments, our sale to Southwest and the lease renewal options provides us with the flexibility to optimize our fleet size and age.

The following table illustrates our Boeing 737 NG, Boeing MAX and Bombardier Q400 fleet as at December 31, 2013 and December 31, 2012, as well as our firm commitments by year to 2017, by three-year period from 2018 to 2023, for the four-year period between 2024 and 2027, and the potential fleet size at the end of 2027:

	Dec. 31, 2012	Dec. 31, 2013	2014	2015	2016	2017	2018-2020	2021-2023	2024-2027	Total	2027
Boeing											
737-600 NG	13	13	—	—	—	—	—	—	—	—	**13**
737-700 NG	69	69(iii)	—	5(ii)	7(ii)	1(ii)	—	—	—	**13**	**82**
737-800 NG	18	23(iv)	7	5	—	—	—	—	—	**12**	**35**
737 MAX 7(i)(iv)(v)	—	—	—	—	—	—	6	4	15	**25**	**25**
737 MAX 8(i)(iv)(v)	—	—	—	—	—	4	19	11	6	**40**	**40**
Bombardier											
Q400 (vi)	—	8	8	4	—	—	—	—	—	**12**	**20**
	100	**113**	**15**	**14**	**7**	**5**	**25**	**15**	**21**	**102**	**215**
Disposals(vii)	**—**	**—**	(5)	(5)	—	—	—	—	—	**(10)**	**(10)**
Total fleet with lease renewals	**100**	**113**	10	9	7	5	25	15	21	**92**	**205**
Lease expiries(viii)	**—**	**—**	(3)	(12)	(8)	(6)	(12)	(3)	—	**(44)**	**(44)**
Total fleet without lease renewals	**100**	**113**	**7**	**(3)**	**(1)**	**(1)**	**13**	**12**	**21**	**48**	**161**

(i) We have options to purchase an additional 10 Boeing 737 MAX aircraft between the years 2020 and 2021.
(ii) We have an option to convert any of these Boeing 737 NG 700 future commitments to Boeing 737 NG 800 aircraft.
(iii) At December 31, 2013, of the 69 Boeing 737 NG 700 aircraft in our fleet, 30 are leased (2012 – 30) and 39 are owned (2012 - 39).
(iv) At December 31, 2013, of the 23 Boeing 737 NG 800 aircraft in our fleet, 14 are leased (2012 – 14) and 9 are owned (2012 – 4).
(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 options to purchase an additional 25 Bombardier Q400 aircraft between the years 2015 and 2018.
(vii) Sale of 10 of our oldest Boeing 737 NG 700 aircraft to Southwest Airlines.
(viii) Subsequent to year end in January 2014, we extended one of the three leases previously scheduled to be returned in 2014 and expect to extend the other two.

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 $590.6 million at December 31, 2013 (2012 – US $756.4 million) which we expect to fund through cash from operations. Although the current obligations related to our aircraft operating lease agreements are not recognized on our consolidated statement of financial position, we include an amount equal to 7.5 times our annual aircraft leasing expense in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios discussed previously.

Fuel 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, 2013, the fuel facility and de-icing corporations have combined total assets of approximately $495.2 million and liabilities of approximately $456.9 million.

RELATED-PARTY TRANSACTIONS

At December 31, 2013, 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, 2014	December 31, 2013
Issued and outstanding:		
Common voting shares	107,002,015	107,062,008
Variable voting shares	21,646,235	21,563,412
Total voting shares issued and outstanding	128,648,250	128,625,420
Voting shares potentially issuable:		
Stock options	2,787,740	2,834,639
RSUs – Key employee plan	476,103	476,103
RSUs – Executive share unit plan	192,084	192,084
PSUs	243,567	243,567
Total voting shares potentially issuable	3,699,494	3,746,393
Total outstanding and potentially issuable voting shares	132,347,744	132,371,813

Quarterly dividend policy

Our dividend policy is reviewed on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On February 3, 2014, the Board of Directors declared our 2014 first quarter dividend of $0.12 per common voting share and variable voting share payable on March 31, 2014 to shareholders of record on March 19, 2014. This represents an increase of 20.0 per cent from our previous quarterly amount of $0.10 per share declared and paid during the fourth quarter of 2013. We believe this demonstrates our confidence in delivering continued profitable results and is consistent with our objective of creating and returning value to our shareholders.

Normal course issuer bid

On February 14, 2013, the Toronto Stock Exchange (TSX) accepted our notice to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, we are authorized to purchase up to 6,616,543 common voting shares and variable voting shares (representing approximately five per cent of our issued and outstanding shares at the time of the bid) between the period of February 19, 2013 and February 18, 2014 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 year ended December 31, 2013, we repurchased and cancelled 4,717,710 shares under the bid, equal to 71.3 per cent of the maximum number of shares we are authorized to repurchase, for total consideration of $112.4 million.

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 expand on our success in 2013, achieving record annual earnings per share of $2.03 as we increased our revenue by 6.9 per cent year over year, achieved net earnings of $268.7 million, and carried a record 18.5 million guests, an increase of 6.1 per cent over 2012. We remain focused on generating value for our shareholders, as evidenced by our fourth quarter ROIC of 13.9 per cent, which represented the sixth consecutive quarter in which we exceeded our 12.0 per cent target.

During 2013, our traffic grew 7.3 per cent and our system-wide capacity increased 8.6 per cent year over year, resulting in a load factor for the year of 81.7 per cent, representing our second highest annual load factor. We expect our revenue growth and strong traffic results to continue into the first quarter of 2014, and anticipate our first quarter RASM will be flat to up slightly when compared with the first quarter of 2013.

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 2013, we added five new Boeing 737 NG 800 series aircraft to our fleet, while WestJet Encore took delivery of eight new Bombardier Q400 aircraft, ending the year with a total of 113 aircraft. In 2014, we will take delivery of seven Boeing 737 NG 800 series aircraft and eight more Bombardier Q400 aircraft, and will dispose of five of our oldest Boeing 737 NG aircraft. We expect our system-wide capacity growth to be between 7.5 and 8.5 per cent for the first quarter of 2014, and between 4.0 and 6.0 per cent for the full-year 2014. We anticipate domestic capacity to grow between 9.0 and 10.0 per cent in the first quarter of 2014, and between 5.0 and 6.0 per cent year over year for the full-year 2014.

Given the recent decline of the Canadian to US dollar exchange rate to approximately 1.11 Canadian dollars to one US dollar, as well as accelerated expenses arising from the decision to advance the timing of particular engine overhauls and repairs in anticipation of one of our suppliers providing notice recommending earlier replacement of certain parts, we now expect our full year 2014 CASM, excluding fuel and employee profit share, to be up 1.5 to 2.5 per cent year over year, as compared to our previous guidance of flat to up 1.0 per cent. Further information on the sensitivity of our annual operating costs, to changes in the value of the Canadian dollar versus the US dollar, is provided under the heading *Foreign Exchange*, on page 29 of this MD&A.

For the first quarter of 2014, we expect our CASM, excluding fuel and employee profit share, to be up 3.5 to 4.5 per cent year over year, primarily driven by the weakening of the Canadian dollar versus the US dollar, accelerated depreciation expense from the decision to advance the timing of certain engine overhauls and repairs with a greater proportion starting in the first quarter of 2014, and the impact of the challenging winter weather on our operations.

For the first quarter of 2014, we expect fuel costs to range between 95 and 97 cents per litre, representing a 2.0 to 4.0 per cent year-over-year increase. The first quarter 2014 expected fuel costs are based on current forecasted jet fuel prices of US $125 per barrel and an average foreign exchange rate of approximately 1.11 Canadian dollars to one US dollar.

For the full-year 2014, we now forecast our capital expenditures to between $610 million and $630 million, with spending related primarily to aircraft deliveries, deposits on future aircraft as well as engine overhauls. This compares with our previous full-year 2014 guidance of between $580 million and $600 million, with the difference driven by the weakening of the Canadian dollar exchange rate to the US dollar, and accelerated capital costs arising from the decision to advance the timing of certain engine overhauls. For the first quarter of 2014, we expect our capital expenditures to range between $140 million and $150 million.

We expect to continue our profitable growth fuelled by our ongoing focus on controlling our costs, achieving a sustained long-term ROIC, and revenue growth opportunities including WestJet Encore and our new fare bundles product.

	Three months ended March 31, 2014	**Year ended December 31, 2014**
RASM	Flat to up slightly when compared with Q1 2013	
Fuel cost per litre	95 to 97 cents	
CASM, excluding fuel and profit share	Up 3.5% to 4.5%	Up 1.5% to 2.5%
System capacity	Up 7.5% to 8.5%	Up 4.0% to 6.0%
Domestic capacity	Up 9.0% to 10.0%	Up 5.0% to 6.0%
Effective tax rate		27.0% to 29.0%
Capital expenditures	$140 to $150 million	$610 to $630 million

See *Advisories – Cautionary statement regarding forward-looking information* and *Forward-Looking Information* on page 20 and page 56, 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, 2013, aircraft fuel expense represented approximately 31.9 per cent (2012 – 32.5 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. During 2012, we decided to cease our fuel hedging program. 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, 2013, 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 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, risk management activities, 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 *2013 Results of operations – Foreign exchange* on page 29 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 $4.6 million for the year ended December 31, 2013 (2012 – $5.0 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, 2013, totaled $32.0 million (2012 – $31.1 million). A reasonable change in market interest rates at December 31, 2013, 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, 2013, would not impact net earnings.

We are exposed to interest rate fluctuations on our variable-rate long-term debt, which, at December 31, 2013 totaled $239.0 million or 27.2 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 the loans. 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, risk management activities, 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 – Aircraft Financing* on page 35 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, 2013, 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)	2013	2012
Cash and cash equivalents (i)	1,256,005	1,408,199
Restricted cash (i)	58,106	51,623
Accounts receivable (ii)	42,164	37,576
Deposits (iii)	32,021	31,088
Derivative financial assets (iv)	11,568	800

(i) Consist of bank balances and short-term investments with terms of up to 95 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, 2013. 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)	480,836	480,836	–	–	–
Derivative financial liabilities(ii)	6,527	3,249	3,278	–	–
Long-term debt	1,015,995	227,653	331,163	195,957	261,222
Total	1,503,358	711,738	334,441	195,957	261,222

(i) Excludes deferred WestJet Rewards liability of $59,082, foreign exchange derivative liabilities of $29 and interest rate derivative liabilities of $3,220.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of $29 and interest rate derivative contracts of $6,498. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2013, net long-term interest rate derivative assets were $4,103, with $3,278 in a liability position and $7,381 in an asset position.

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, 2013, the fair value of our long-term debt was approximately $924.6 million (2012 – $810.6 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, 2013, rates used in determining the fair value ranged from 1.28 per cent to 4.10 per cent (2012 – 1.52 per cent to 1.72 per cent). The increase in the fair value of our long-term debt is due to the additional aircraft term loans entered into during the year, partially offset by higher 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 *2013 Results of Operations – Foreign exchange and Liquidity and Capital Resources – Aircraft Financing* on page 29 and page 35, 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, 2013.

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

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

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

Our fuel costs constitute our largest single expense category, representing 31.9 and 32.5 per cent of operating costs in 2013 and in 2012, respectively. As discussed below, our low cost operation contributes significantly to our growth strategy. Therefore, the price of fuel has affected, and could continue to affect, the timing and nature of our growth initiatives and our financial results. In 2012 we ceased our fuel hedging program though we may re-visit our hedging program as changing markets and competitive conditions warrant. However, there can be no assurance that we will be able to cost-effectively hedge against increases in fuel prices in the future.

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

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 our operating expenditures, mainly aircraft fuel, aircraft leasing expense, certain maintenance costs, a portion of airport operation costs and the hotel cost associated with WestJet Vacation packages. Since our revenues are received primarily in Canadian dollars, we are exposed to fluctuations in the US-dollar exchange rate with respect to these payment obligations.

As of the date of this MD&A, we are exposed to fluctuations in the US-dollar exchange rate relating to 25 Boeing 737 NG aircraft purchase commitments and 65 Boeing MAX aircraft purchase commitments. Historically, the purchase of our Boeing aircraft is financed by funds drawn in Canadian dollars; however, the aircraft are paid for in U.S. funds at the date of each aircraft delivery. As a result, we are exposed to foreign currency fluctuations prior to each delivery date. We continuously review financing alternatives available to us for our future direct aircraft deliveries. We are also exposed to general market fluctuations of interest rates, as we have future aircraft purchase commitments that will be financed at prevailing market rates.

Our low-cost operation is one of our competitive advantages, and many factors could affect our ability to continue to offer low-cost travel.

Our low cost operations has been one of our core strategic advantages and facilitates our ability to offer our guests lower fares, which in turn allows us to increase market share, and pursue our growth strategy. While we have been successful, to date, in pursuing a strategy of reducing costs in a manner that has allowed us to maintain a competitive cost per available seat mile, there can be no guarantee that we will be able to achieve our future reductions in cost, or that such reductions will be sufficient to counter the upwards costs pressure from factors that are largely beyond our control, such as fuel, labor, insurance and regulatory compliance costs.

We have taken various measures in an attempt to control costs, including signing long-term commitments to purchase new more fuel-efficient aircraft and agreements to dispose of our older aircraft. Should the assumptions underlying these decisions, such as the continued high price of fuel and the cost of maintaining older aircraft prove incorrect, we may be forced to incur significant capital expenditures without benefiting from a concurrent reduction to our costs, which may put us at a disadvantage compared to any competitors that have taken different strategic decisions with respect to controlling cost.

If we are unable to maintain competitively low fares we may suffer a disproportionately large drop in the demand for our products and services given the portion of our guest segment that travels on a discretionary basis for leisure, which in turn, could have a material adverse effect on our business, results from operations and financial condition.

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

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

The continued integration of WestJet Encore, our short-haul regional airline, could result in unforeseen disruptions, distractions and costs.

The third quarter of 2013 marked the first complete quarter of operations for WestJet Encore after its official launch on June 24, 2013. While we have made substantial progress at integrating our new short-haul, regional airline into our operations, the continued integration of Encore could result in unforeseen costs that may adversely affect our business.

Our move to a multi-based system involves a material reconfiguration of the manner in which we situate and deploy flight crews and other resources and the transition to this structure may be disruptive to our operations.

Traditionally our flight crews have been based solely in Calgary, Alberta. In 2014, we will be reconfiguring our operations to create a multi-base system involving the deployment of our flight crews and certain other operational resources to bases in Toronto, Ontario and Vancouver, British Columbia to better align with our aircraft utilization. This move will involve the relocation of existing personnel which may result in disruptions during the transition phase to a multi-base system which could negatively impact our financial results and business operations during this phase.

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

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

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

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

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.

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. We are also reliant upon third party performance for timely and effective completion of many of our technology initiatives. In the ordinary course of business, our systems will require modifications and refinements to address our growth and business requirements. We could be adversely affected if we are unable to modify our systems as necessary.

As a company that processes, transmits and stores credit card data, we are subject to compliance with certain requirements established by credit card companies. Non-compliance with these requirements, whether through system breaches or limitations, may result in substantial fines or temporary or permanent exclusion from one or more credit card acceptance programs. The inability to process one or more credit card brands could have a material adverse impact on our guest bookings 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 and we are dependent on Bombardier as supplier for our Bombardier Q400 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 our sole supplier of aircraft engines on our Boeing 737 NG aircraft, and are dependent on Pratt & Whitney Canada as the sole 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.

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.

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

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

We may be subject to unionization.

At present we have a non-union workforce which 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 recognized employee association.

While to date, 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.

We believe that our recognized employee association has, to date, been helpful in balancing the interests of the business with those of WestJetters, by taking a pro-active approach to resolving issues and needs of WestJetters, while fostering the culture and vision of the Company. Additionally we have a memorandum of agreement with our pilots under which we have agreed, on a balance-of-interests basis, to certain work terms. We believe that this approach with our pilots, and potentially with our flight attendants, buttresses the important work undertaken by our employee association. If we run into difficulties in coming to mutually acceptable terms under these memoranda of agreement from time to time, a union could see this as an opportunity to undermine our work and attempt to organize. Unionization could fundamentally change the dynamic of our relationship with our employees and result in demands that adversely affect our financial condition and a collective agreement could materially impact many facets of how we run our business. In addition, the introduction of a unionized workforce may diminish our employee-friendly corporate culture and reputation. If unionization occurs and we cannot agree to the terms of a collective agreement (and we exhaust the dispute resolution processes available under the Canada Labour Code) we may be subject to work stoppages which would be harmful to our business.

Our maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2013, was 6.8 years. Our maintenance costs will increase as our fleet ages and warranties expire. Since we began acquiring our Boeing 737 NG aircraft, 86 aircraft have come off warranty, with an additional 5 coming off warranty in 2014. Our repair and maintenance program includes overhauls to engines, landing gear and airframes in addition to ongoing maintenance requirements. Overhaul costs on owned components are separately capitalized and amortized over the period until the next overhaul. Overhaul costs on leased components are accrued for in our maintenance provision. The 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 program due to mechanical failures or from directives from suppliers or regulators could impact the amount of costs incurred in a given period.

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

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

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

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

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

The airline business is labour intensive. Employment-related issues that may impact our results of operations include hiring/retention rates, pay rates, outsourcing costs and the costs of employee benefits. Significantly increased labour costs, combined with curtailed growth, could negatively impact our competitive position.

Our business is subject to the effects of weather and natural disasters and seasonality, which can cause our results to fluctuate.

Our results of operations will reflect fluctuations from weather, natural disasters and seasonality. Severe weather conditions and natural disasters can significantly disrupt service and create air traffic control problems. These events decrease revenue and can also increase costs. In addition, increases in frequency, severity or duration of thunderstorms, hurricanes or other severe weather events, including from changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays and cancellations, any of which would adversely affect our business.

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 and have implemented policies, procedures and certain ongoing training of employees with regard to business conduct and many key legal requirements; however, there can be no assurance that our employees will adhere to our code of business ethics, our other policies, or other legal requirements. If we fail to enforce our policies and procedures properly or maintain adequate record-keeping and internal accounting practices to accurately record our transactions, we may be subject to sanctions. In the event that we believe or have reason to believe that employees have or may have violated applicable laws or regulations, we may be subject to investigation costs, potential penalties and other related costs, which in turn, could negatively affect our business.

Risks relating to the airline industry

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

A major safety incident involving our aircraft during operations could cause substantial repair or replacement costs to the damaged aircraft, a disruption in service, significant claims relating to injured guests and others, and a negative impact on our reputation for safety, all of which may adversely affect our ability to attract and retain guests. We have an Emergency Response Plan 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 may not be available to us in the commercial markets, and the costs and impact of such costs are, as yet, undetermined.

Alternative solutions, such as those envisioned by the International Civil Aviation Organization (ICAO) and the International Air Transport Association (IATA), have not developed as planned, due to actions taken by other countries and the recent availability of supplemental insurance products. ICAO and IATA are continuing their efforts in this area; however, the achievement of a global solution is not likely in the immediate or near future. The U.S. federal government has set up its own facility to provide war risk coverage to U.S. carriers, thus removing itself as a key component of any global plan.

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

General worldwide economic conditions have experienced negative impacts due to the effects of the European debt crisis, unfavourable U.S. economic conditions and slower growth in certain Asian economies, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. The airline industry is particularly sensitive to changes in economic conditions, which affect guest travel patterns and related revenue. For some guests, leisure travel is a discretionary expense, and short-haul guests, in particular, have the option to replace air travel with surface travel. As such, a weak economy could reduce our bookings, and a reduction in discretionary spending could also decrease amounts our guests are willing to pay. Unfavourable economic conditions can also impact the ability of airlines to raise fares to help offset increased fuel, labour and other costs. These factors could adversely affect our business.

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

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

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

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

The proximity of several U.S. airports in cities close to the Canadian border has also presented an additional challenge for us. Higher taxes, charges and fees for guests departing from Canada travelling to the U.S. has redirected appreciable guest traffic away from Canadian airports. Low-cost carriers based in the U.S. have and may continue to increase their capacity at these airports and 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 we carry 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.

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

After the terrorist attacks of September 11, 2001, the airline industry experienced a decline in guest traffic and revenue, and increased security and insurance costs. In late 2009, certain incidents again heightened the concern regarding terrorist attacks. Any future incidents causing a heightened concern over potential terrorist attacks could cause a 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 and special circumstances or events occurring in the locations we serve.

Delays or cancellations due to weather conditions and work stoppages or strikes by airport workers, baggage handlers, air traffic controllers and other workers not employed by us could have a material adverse impact on our business. Delays contribute to increased costs and decreased aircraft utilization, which also negatively affect our business.

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

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

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.

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.

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.

(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, these judgments are based on industry standards, manufacturers’ guidelines and company-specific history and experience.

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (CGU) is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations.

(iv) Lease classification

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

(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.

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. The unwinding of the discounted present value is recorded as a finance cost. At December 31, 2013, our maintenance provision is discounted using a weighted average risk-free rate of approximately 0.99 per cent (2012 – 1.16 per cent) which is equal to the weighted average remaining term of approximately 27 months until cash outflow (2012 – 38 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 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 *2013 Results of Operations – Foreign exchange* and *Liquidity and Capital Resources – Aircraft Financing* on page 29 and page 35, 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, 2013.

Future accounting pronouncements

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standard that has not been applied in preparing our audited consolidated financial statements and notes thereto, for the years ended December 31, 2013 and 2012 as its effective date falls within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date
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, 2015

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

As previously disclosed in our December 31, 2012 annual consolidated financial statements, effective January 1, 2013, the Corporation adopted IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities* and IFRS 13 – *Fair Value Measurement*. The adoption of these new standards had no impact on the recognition or measurement of any items in our audited consolidated financial statements for the year ended December 31, 2013. Additional disclosures related to these new standards can be found in notes 1 and 18 of the audited consolidated financial statements.

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, 2013, 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, 2013, 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 1992 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, 2013, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2013 that have materially affected, or are reasonably likely to affect, our ICFR.

FORWARD-LOOKING INFORMATION

This MD&A offers our assessment of WestJet's future plans, operations and outlook and contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation: our expectation that our incremental revenue opportunities from fare bundles will be in the high end of our range of $50 million to $80 million on an annualized basis, referred to under the heading *Guest Experience and Service Enhancements* on page 23; our belief that our actions pursuant to our business transformation initiative provides us with the targeted $100 million in future cost savings in 2014, referred to under the heading *Business Transformation Initiative* on page 23; our belief that the 1:50 flight attendant ratio will provide future cost savings, will allow us to compete on an equal basis with North American and international carriers and will enable us to continue to offer affordable fares to our guests, referred to under the heading *Business Transformation Initiative* on page 23; our belief that our move to a multi-base model will improve both operational performance and crew staffing efficiency, referred to under the heading *Business Transformation Initiative* on page 23; our expectation that our order for 737 MAX aircraft will support our continued growth and low-cost operating model while still providing our guests with an exceptional experience, referred to under the heading Business Transformation Initiative on page 24; our belief that we will continue to encounter ongoing CASM pressures, referred to under the heading *Business Transformation Initiative* on page 24; that we anticipate the $100 million of future cost savings expected in 2014 will mitigate some of the ongoing CASM pressures reflected in our expectation of full year 2014 CASM, referred to under the heading *Business Transformation Initiative* on page 24; 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 heading *Aircraft Fuel* on page 26; our estimate of our sensitivity of fuel costs to changes in crude oil of approximately $8.0 million annually for every one US-dollar change per barrel of WTI crude oil, and our estimate of our sensitivity to changes in fuel pricing of approximately $12.0 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 $10.7 million for every one-cent change in the value of the Canadian dollar versus the US dollar, all referred to under the heading *Aircraft Fuel* on page 26; our expectation that our compensation philosophy will align corporate and personal success and will encourage employees to become owners in WestJet and have a vested interest in our financial results and operational accomplishments, referred to under the heading *Compensation* on page 27; that the ESPP provides our employees with the opportunity to enhance their earnings by becoming owners of WestJet shares, referred to under the heading *Employee share purchase plan (ESPP)* on page 28; our estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $13.3 million on our annual unhedged operating costs, (approximately $10.7 million for fuel and $2.7 million related to other US-dollar-denominated operating expenses), referred to under the heading *Foreign Exchange* on page 29; that we anticipate our annual effective tax rate will remain in the range of 27 per cent to 29 per cent for 2014, referred to under the heading *Income Taxes* on page 30; 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 *Aircraft Financing* on page 35; 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 36; 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 37; that we will take delivery of 25 Boeing 737 MAX 7 aircraft and 40 Boeing 737 MAX 8 aircraft between 2017 and 2027, referred to under the heading *Fleet* on pages 38 and 39; that we will take delivery of our remaining firm commitments for 25 Boeing 737 NG aircraft, with 44 Boeing 737 NG aircraft leases expiring between 2014 and 2021, each with the option to renew, referred to under the heading *Fleet* on page 37 and 38; that we will sell 10 of our oldest Boeing 737 NG aircraft between 2014 and 2015 to Southwest Airlines and that we anticipate a non-cash book loss in the range of $50 million to $60 million, calculated using an exchange rate of 1.11 Canadian dollars to one US dollar, to be recognized closer to the time the aircraft are to be delivered, referred to under the heading *Fleet* on page 37; we expect that the final book loss on the sale of the 10 Boeing 737-700 aircraft will depend on the prevailing US dollar exchange rate at that time, referred to under the heading *Fleet* on page 37; our expectation that we will extend two leases in 2014 under the headed *Fleet* on page 37; 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 39; that we will pay a dividend on March 31, 2014 to shareholders of record on March 19, 2014, referred to under the heading *Quarterly Dividend Policy* on page 40; our confidence in delivering continued profitable, as referred to under section *Quarterly Dividend Policy* on page 40; that we anticipate revenue growth and strong traffic results to continue in the first quarter of 2014 and RASM to be flat to up slightly compared with the first quarter of 2013, referred to under the heading *Outlook* on page 41; our expectation that we will take delivery of seven more Boeing 737 NG aircraft, eight more Bombardier Q400 aircraft and will dispose of five of our oldest Boeing 737 NG aircraft, all in 2014, referred to under the heading *Outlook* on page 41; our expectation that system-wide capacity growth will be between 7.5 and 8.5 per cent for the first quarter of 2014, and between 4.0 and 6.0 per cent for the full-year 2014, referred to under the heading *Outlook* on page 41; that we anticipate our domestic capacity to grow between 9.0 and 10.0 per cent for the first quarter of 2014 and between 5.0 to 6.0 per cent year-over-year growth for the full-year 2014, referred to under the heading *Outlook* on page 41; our expectation that one of our suppliers will provide notice recommending earlier replacement of certain parts, referred to under the heading *Outlook* on page 41; that we expect full-year 2014 CASM, excluding fuel and employee profit share, to be up 1.5 to 2.5 per cent, and first-quarter 2014 CASM, excluding fuel and employee profit share, to be up 3.5 to 4.5 per cent year over year, referred to under the heading *Outlook* on page 41; that we expect fuel costs to range between 95 and 97 cents per litre for the first quarter of 2014, representing a two to four per cent year-over-year increase, referred to under the heading *Outlook* on page 41; that for the full-year 2014, we are forecasting capital expenditures between $610 million and $630 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 41; that for the first quarter of 2014, we are forecasting capital expenditures to range between $140 million and $150 million, as referred to under the heading *Outlook* on page 41; that we expect continued profitable growth driven by controlling our costs, achieving a sustained long-term ROIC, and for revenue growth opportunities that include WestJet Encore and our new fare bundles product, referred to under the heading *Outlook* on page 41; that we do not anticipate early adopting the new financial instrument standard, referred to under the heading *Future Accounting Pronouncements* on page 54.

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 expectation that our incremental revenue opportunities from fare bundles we will be in the high end of our range of $50 million to $80 million on an annualized basis is based on the current strategic plan;
- Our belief that our actions pursuant to our business transformation initiative provides us with the targeted $100 million in future cost savings in 2014 and that this will mitigate some of the ongoing CASM pressures reflected in our expectation of full year 2014 CASM, is based on our current strategic cost savings plan and our analysis of the results to date;
- Our belief that the 1:50 flight attendant ratio will provide future cost savings, will allow us to compete on an equal basis with other international carriers and will enable us to continue to offer affordable fares to our guests members is based on our analysis of the business models of other international carriers current strategic cost savings plan;
- our belief that our move to a multi-base model will improve both operational performance and crew staffing efficiency is based on our crew scheduling and fleet optimization plan;
- Our expectation that our order for Boeing 737 MAX aircraft will support our continued growth and low-cost operating model while still providing our guests with an exceptional experience is based on the features of the 737 MAX aircraft, understanding of what experiences are valued by guests and our strategic plan;
- Our expectation that we will continue to mitigate the risk of movements in fuel prices through our revenue management strategy and that we may re-visit our hedging program is based on our risk management policies;
- 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, as well as a Canadian-US dollar exchange rate similar to the current rate;
- Our expectations that our compensation philosophy will align corporate and personal success is based on our assessment that compensation variability tied to our financial results creates a personal vested interest in our financial and operational performance;
- That employees will have their earnings enhanced by the ESPP is based on our compensation strategy to encourage employees to become WestJet owners;
- 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 the exchange rate for the Canadian dollar similar to the current market rate;

- Our expected annual effective tax rate for 2014 is based on current legislation, and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- Our expectation to that there will not be adverse changes to our future ability to access sources of aircraft financing is based on our current financial position, aircraft delivery schedule and strategic plan;
- Our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect on our financial position, results of operations or cash flow is based on a review of current legal proceedings by management and legal counsel;
- That we will take delivery of 25 Boeing 737 MAX 7 aircraft and 40 Boeing 737 MAX 8 aircraft between 2017 and 2027 is based on our current fleet plan and our agreement with Boeing;
- Our expectation that we will take delivery of our remaining firm commitments for Boeing 737 NG aircraft is based on our current fleet plan and our agreement with Boeing;
- That we will sell 10 of our oldest Boeing 737 NG 700 aircraft is based on our agreement with Southwest;
- Our anticipated amount and timing of a non-cash book loss on the sale of 10 Boeing 737 NG 700 aircraft is based on a 1.11 Canadian dollar to US dollar foreign exchange rate, our assessment of when the aircraft will be considered ready for sale and the aircrafts net book value at that time;
- Our expectation that we will extend the two leases in early 2014 is based on our negotiations with the lessor;
- Our expectation that we will fund operating leases and commitments through cash from operations is based on our current strategic plan, budget and forecast;
- Our intention to pay our 2014 first quarter dividend to shareholders of record on March 19, 2014 on March 31, 2014 is based on the declaration and terms of the dividend declared by our Board of Directors;
- Our confidence in delivering continued profitable results is based on our current strategic plan, budget and forecast;
- Our expectations that our first quarter RASM will be flat to up slightly when compared with Q1 2013 is based on our current demand forecast;
- Our expectations regarding revenue growth and strong traffic to continue into the first quarter of 2014 is based on our current demand forecast;
- Our expectation that system-wide capacity will be between 7.5 and 8.5 per cent for the first quarter of 2014, and between 4.0 and 6.0 per cent for the full-year 2014, that domestic capacity will increase between 9.0 and 10.0 per cent for the first quarter of 2014, and between 5.0 to 6.0 per cent year-over-year for the full-year 2014, is based on our current network plans and aircraft deliveries;
- Our expectation that one of our suppliers will provide notice recommending earlier replacement of certain parts is based on the history of the supplier issuing notices, our relationship with that supplier and ongoing negotiations;
- Our anticipation that our 2014 full-year CASM, excluding fuel and employee profit share, will be up 1.5 to 2.5 per cent, and first-quarter 2014 CASM, excluding fuel and employee profit share, will be up 3.5 to 4.5 per cent compared to the first quarter of 2013 and the factors contributing thereto is based on our current operating forecast;
- Our projection of fuel costs to range between 95 and 97 cents per litre for the first quarter of 2014, representing a two to four per cent year-over-year increase is based on current forecasted jet fuel prices of US $125 per barrel and an average foreign exchange rate of approximately 1.11 Canadian dollars to one US dollar;
- Our expectation that full-year 2014 capital expenditures will be between $610 and $630 million and for first quarter of 2014, will range between $140 to $150 million is based on our 2014 capital forecast and contractual commitments;
- Our belief that our ROIC target of 12 per cent will allow continued profitable growth driven by controlling our costs, achieving a sustained ROIC and opportunities for revenue growth that include WestJet Encore and our new fare bundles product is based on our current financial and operating results as well as our long-term strategic goals;
- Our expectations that we will not early adopt IFRS 9 – *Financial Instruments* is based on our current accounting policies and the assessment of those standards on our policies.

DEFINITION OF KEY OPERATING INDICATORS

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

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

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

Average stage length: The average distance of a non-stop flight leg between take-off and landing as defined by 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 net debt to EBITDAR, as defined below.

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

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

EBITDAR: Earnings before net finance costs, taxes, depreciation, 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.

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

	Three months ended December 31			Twelve months ended December 31		
($ in thousands)	2013	2012	Change	2013	2012	Change
Operating expenses	824,742	769,040	55,702	3,262,687	3,051,689	210,998
Aircraft fuel expense	(260,528)	(246,216)	(14,312)	(1,039,448)	(992,787)	(46,661)
Employee profit share expense	(12,463)	(11,639)	(824)	(51,577)	(46,585)	(4,992)
Operating expenses, adjusted	551,751	511,185	40,566	2,171,662	2,012,317	159,345
ASMs	5,942,032,692	5,487,467,646	8.3%	23,970,921,260	22,063,583,754	8.6%
CASM, excluding above items (cents)	9.29	9.32	(0.3%)	9.06	9.12	(0.7%)

Adjusted debt-to-equity

($ in thousands)	2013	2012	Change
Long-term debt(i)	878,395	739,048	139,347
Off-balance-sheet aircraft leases(ii)	1,317,345	1,300,590	16,755
Adjusted debt	2,195,740	2,039,638	156,102
Total shareholders' equity	1,589,840	1,472,305	117,535
Add: Hedge reserves	(105)	5,746	(5,851)
Adjusted equity	1,589,735	1,478,051	111,684
Adjusted debt-to-equity	1.38	1.38	–

(i) At December 31, 2013, long-term debt includes the current portion of long-term debt of $189,191 (2012 – $164,909) and long-term debt of $689,204 (2012 – $574,139).

(ii) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2013, the trailing 12 months of aircraft leasing costs totaled $175,646 (2012 – $173,412).

Adjusted net debt to EBITDAR

($ in thousands)	2013	2012	Change
Adjusted debt (as above)	2,195,740	2,039,638	156,102
Less: Cash and cash equivalents	(1,256,005)	(1,408,199)	152,194
Adjusted net debt	939,735	631,439	308,296
Net earnings	268,722	242,392	26,330
Add:			
Net finance costs(i)	25,599	30,509	(4,910)
Taxes	103,363	97,837	5,526
Depreciation and amortization	200,840	185,401	15,439
Aircraft leasing	175,646	173,412	2,234
Other(ii)	(1,136)	5,451	(6,587)
EBITDAR	773,034	735,002	38,032
Adjusted net debt to EBITDAR	1.22	0.86	41.9%

(i) At December 31, 2013, net finance costs includes the trailing 12 months of finance income of $17,848 (2012 – $18,391) and the trailing 12 months of finance cost of $43,447 (2012 – $48,900).

(ii) At December 31, 2013, other includes the trailing 12 months foreign exchange gain of $1,136 (2012 – gain of $1,061) and the trailing 12 months non-operating loss on derivatives of $nil (2012 – loss of $6,512).

Return on invested capital

($ in thousands)	2013	2012	Change
Earnings before income taxes	372,085	340,229	31,856
Add:			
Finance costs	43,447	48,900	(5,453)
Implicit interest in operating leases(i)	92,214	91,041	1,173
	507,746	480,170	27,576
Invested capital:			
Average long-term debt(ii)	808,722	783,880	24,842
Average obligations under finance leases(iii)	–	1,625	(1,625)
Average shareholders' equity	1,531,073	1,421,261	109,812
Off-balance-sheet aircraft leases(iv)	1,317,345	1,300,590	16,755
	3,657,140	3,507,356	149,784
Return on invested capital	13.9%	13.7%	0.2 pts

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

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

(iii) Average obligations under finance leases include 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, 2013, the trailing 12 months of aircraft leasing costs totaled $175,646 (2012 – $173,412).

Operating cash flow per share

($ in thousands, except per share data)	2013	2012	Change
Cash flow from operating activities	608,147	722,624	(114,477)
Weighted average number of shares outstanding - diluted	132,074,002	135,964,118	(3,890,116)
Diluted operating cash flow per share	4.60	5.31	(13.4%)

Free cash flow

($ in thousands, except per share data)	2013	2012	Change
Cash flow from operating activities	608,147	722,624	(114,477)
Adjusted for:			
Aircraft additions	(639,592)	(218,116)	(421,476)
Other property and equipment and intangible additions	(75,580)	(51,191)	(24,389)
Free cash flow	(107,025)	453,317	(560,342)
Weighted average number of shares outstanding - diluted	132,074,002	135,964,118	(3,890,116)
Diluted free cash flow per share	(0.81)	3.33	(124.3%)

Consolidated Financial Statements and Notes
For the years ended December 31, 2013 and 2012

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 3, 2014
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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

February 3, 2014
Calgary, Canada

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

	Note	2013	2012
Revenue:			
Guest		3,337,569	3,133,492
Other		324,628	293,917
		3,662,197	3,427,409
Operating expenses:			
Aircraft fuel		1,039,448	992,787
Airport operations		459,465	424,911
Flight operations and navigational charges		410,052	376,050
Sales and distribution		356,988	333,106
Marketing, general and administration		222,567	202,398
Depreciation and amortization		200,840	185,401
Inflight		176,907	162,633
Aircraft leasing		175,646	173,412
Maintenance		169,197	154,406
Employee profit share		51,577	46,585
		3,262,687	3,051,689
Earnings from operations		399,510	375,720
Non-operating income (expense):			
Finance income	15	17,848	18,391
Finance cost	15	(43,447)	(48,900)
Gain on foreign exchange		1,136	1,061
Gain (loss) on disposal of property and equipment		(2,962)	469
Loss on fuel derivatives		–	(6,512)
		(27,425)	(35,491)
Earnings before income tax		372,085	340,229
Income tax expense (recovery):			
Current		154,964	66,230
Deferred		(51,601)	31,607
	11	103,363	97,837
Net earnings		268,722	242,392
Earnings per share:			
Basic		2.05	1.79
Diluted		2.03	1.78

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	2013	2012
Assets			
Current assets:			
Cash and cash equivalents	5	1,256,005	1,408,199
Restricted cash	6	58,106	51,623
Accounts receivable	19	42,164	37,576
Prepaid expenses, deposits and other	19	133,263	101,802
Inventory	19	36,722	35,595
		1,526,260	1,634,795
Non-current assets:			
Property and equipment	7	2,487,734	1,985,599
Intangible assets	8	58,691	50,808
Other assets	19	70,778	75,413
Total assets		4,143,463	3,746,615
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	19	543,167	460,003
Advance ticket sales	19	551,022	480,947
Non-refundable guest credits	19	46,975	47,859
Current portion of maintenance provisions	9	76,105	34,135
Current portion of long-term debt	10	189,191	164,909
		1,406,460	1,187,853
Non-current liabilities:			
Maintenance provisions	9	142,411	145,656
Long-term debt	10	689,204	574,139
Other liabilities	19	8,834	9,914
Deferred income tax	11	306,714	356,748
Total liabilities		2,553,623	2,274,310
Shareholders' equity:			
Share capital	12	603,861	614,899
Equity reserves		69,079	69,856
Hedge reserves		105	(5,746)
Retained earnings		916,795	793,296
Total shareholders' equity		1,589,840	1,472,305
Total liabilities and shareholders' equity		4,143,463	3,746,615

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	2013	2012
Operating activities:			
Net earnings		268,722	242,392
Items not involving cash:			
Depreciation and amortization		200,840	185,401
Change in maintenance provisions		26,610	31,378
Change in other liabilities		1,782	(383)
Amortization of hedge settlements		1,400	1,400
Loss on fuel derivatives		–	6,512
(Gain) loss on disposal of property and equipment		2,962	(469)
Share-based payment expense	12	14,533	12,815
Deferred income tax expense (recovery)		(51,601)	31,607
Unrealized foreign exchange gain		(12,020)	(1,487)
Change in non-cash working capital		298,697	208,110
Change in restricted cash		(6,484)	(3,282)
Change in other assets		(1,374)	(6,894)
Cash interest received		19,079	17,780
Cash taxes paid		(147,868)	(950)
Purchase of shares pursuant to compensation plans		(7,131)	(1,306)
		608,147	722,624
Investing activities:			
Aircraft additions		(639,592)	(218,116)
Other property and equipment and intangible additions		(75,580)	(51,191)
		(715,172)	(269,307)
Financing activities:			
Increase in long-term debt		318,075	72,995
Repayment of long-term debt		(178,647)	(162,678)
Decrease in obligations under finance leases		–	(75)
Shares repurchased	12	(112,362)	(112,065)
Dividends paid	13	(52,188)	(37,549)
Issuance of shares pursuant to compensation plans		106	198
Cash interest paid		(36,677)	(43,055)
Change in non-cash working capital		146	(6,815)
		(61,547)	(289,044)
Cash flow from operating, investing and financing activities		(168,572)	164,273
Effect of foreign exchange on cash and cash equivalents		16,378	321
Net change in cash and cash equivalents		(152,194)	164,594
Cash and cash equivalents, beginning of year		1,408,199	1,243,605
Cash and cash equivalents, end of year	5	1,256,005	1,408,199

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	2013	2012
Share capital:			
Balance, beginning of year		614,899	630,408
Issuance of shares pursuant to compensation plans		11,027	16,251
Shares repurchased		(22,065)	(31,760)
	12	603,861	614,899
Equity reserves:			
Balance, beginning of year		69,856	74,184
Share-based payment expense	12	14,533	12,815
Issuance of shares pursuant to compensation plans		(15,310)	(17,143)
		69,079	69,856
Hedge reserves:			
Balance, beginning of year		(5,746)	(3,353)
Other comprehensive income		5,851	(2,393)
		105	(5,746)
Retained earnings:			
Balance, beginning of year		793,296	668,978
Dividends declared	13	(52,188)	(37,549)
Shares repurchased	12	(90,297)	(80,305)
Purchase of shares pursuant to compensation plans		(2,738)	(220)
Net earnings		268,722	242,392
		916,795	793,296
Total shareholders' equity		**1,589,840**	**1,472,305**

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)

	2013	2012
Net earnings	268,722	242,392
Items to be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Amortization of hedge settlements to aircraft leasing	1,400	1,400
Net unrealized gain (loss) on foreign exchange derivatives(i)	6,660	(2,611)
Reclassification of net realized gain on foreign exchange derivatives(ii)	(3,514)	(926)
Net unrealized gain (loss) on interest rate derivatives(iii)	522	(566)
Reclassification of net realized loss on interest rate derivatives(iv)	783	310
	5,851	(2,393)
Total comprehensive income	274,573	239,999

(i) Net of income taxes of $(2,347) (2012 – $904).
(ii) Net of income taxes of $1,238 (2012 – $319).
(iii) Net of income taxes of $(183) (2012 – $199).
(iv) Net of income taxes of $(275) (2012 – $(108)).

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

1. Statement of significant accounting policies

The annual consolidated financial statements of WestJet Airlines Ltd. (the Corporation) for the years ended December 31, 2013 and 2012, were authorized for issue by the Board of Directors on February 3, 2014. 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 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.

Effective January 1, 2013, the Corporation adopted IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities and IFRS 13 – Fair Value Measurement. The adoption of these new standards had no recognition or measurement impacts on the Corporation's accounts. The new disclosure requirements relating to IFRS 12 are provided in note 18. The new disclosure requirements under IFRS 13 have been provided in note 16. There were no retroactive restatements of prior periods applicable to the Corporation from the adoption of these new accounting standards.

(b) Principles of consolidation

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

(c) Seasonality

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

(d) Revenue recognition

(i) Guest

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

(ii) Other

Other 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 ancillary revenues from the WestJet Rewards Program.

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. The fair value of these credits is deferred and recognized on redemption as described above. Revenue from cardholder retail spend is recognized in other revenue at the time a credit is issued. 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, 2013 and 2012, 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.

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 the anticipated transaction occurs, at which time, the amount is recorded in net earnings under the same caption as the hedged item. If the transaction is no longer expected to occur, amounts previously accumulated in hedge reserves within shareholders' equity will be reclassified to non-operating income (expense).

(g) Foreign currency

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at the rate of exchange in effect at the consolidated statement of financial position date, with any resulting gain or loss recognized in net earnings. Non-monetary assets, non-monetary liabilities, 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 95 days.

(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
Live satellite television equipment	Straight-line	10 years/Term of lease
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 rotable parts is recognized in maintenance expense as incurred.

(k) 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 and 20 years. Expected useful lives and amortization methods are reviewed annually.

(l) Impairment

Property and equipment and intangible assets are grouped into cash generating units (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.

1. Significant accounting policies (continued)

(m) 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 incurred.

(n) Leases

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

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.

(o) Borrowing costs

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

1. Significant accounting policies (continued)

(p) Income taxes

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

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

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

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

(q) Share-based payment plans

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

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.

(r) Earnings per share

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

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

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates

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

(ii) Depreciation and amortization

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

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or CGU is impaired. The determination of 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. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Corporation's operations.

(iv) Lease classification

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

(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 18 for additional disclosures of the Corporation's interest in unconsolidated structured entities.

Estimates

(vi) 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.

1. Statement of significant accounting policies (continued)

(s) Critical accounting judgments and estimates (continued)

Estimates (continued)

(vii) 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.

(viii) Income taxes

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

(ix) 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.

(x) 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.

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 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, 2015

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

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

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

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 adjusted debt-to-equity and adjusted net debt to earnings before net finance cost, taxes, depreciation and amortization and aircraft leasing (EBITDAR). EBITDAR is an 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.

	2013	2012	Change
Adjusted debt-to-equity			
Long-term debt(i)	878,395	739,048	139,347
Off-balance-sheet aircraft leases(ii)	1,317,345	1,300,590	16,755
Adjusted debt	2,195,740	2,039,638	156,102
Total shareholders' equity	1,589,840	1,472,305	117,535
Add: Hedge reserves	(105)	5,746	(5,851)
Adjusted equity	1,589,735	1,478,051	111,684
Adjusted debt-to-equity(v)	1.38	1.38	–
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	2,195,740	2,039,638	156,102
Less: Cash and cash equivalents	(1,256,005)	(1,408,199)	152,194
Adjusted net debt	939,735	631,439	308,296
Net earnings	268,722	242,392	26,330
Add:			
Net finance cost(iii)	25,599	30,509	(4,910)
Taxes	103,363	97,837	5,526
Depreciation and amortization	200,840	185,401	15,439
Aircraft leasing	175,646	173,412	2,234
Other(iv)	(1,136)	5,451	(6,587)
EBITDAR	773,034	735,002	38,032
Adjusted net debt to EBITDAR(v)	1.22	0.86	41.9%

(i) At December 31, 2013, long-term debt includes the current portion of long-term debt of $189,191 (2012 – $164,909) and long-term debt of $689,204 (2012 – $574,139).

(ii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2013, the trailing 12 months of aircraft leasing costs totaled $175,646 (2012 – $173,412).

(iii) At December 31, 2013, net finance cost includes the trailing 12 months of finance income of $17,848 (2012 – $18,391) and the trailing 12 months of finance cost of $43,447 (2012 – $48,900).

(iv) At December 31, 2013, other includes the trailing 12 months foreign exchange gain of $1,136 (2012 – $1,061) and the trailing 12 months non-operating loss on derivatives of $nil (2012 – $6,512).

(v) At December 31, 2013 and 2012, the Corporation exceeded its internal targets of an adjusted debt-to-equity measure of no more than 3.00 and an adjusted net debt to EBITDAR measure of no more than 3.00.

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

4. Employee counts and compensation

The Corporation employed 8,000 full-time equivalent employees at December 31, 2013 (2012 – 7,742). The following table reconciles the Corporation's compensation expense items to where the amounts are presented on the consolidated statement of earnings:

	Note	2013	2012
Salaries and benefits[(i)]		582,225	538,917
Employee share purchase plan[(i)]	12	73,010	65,439
Employee profit share		51,577	46,585
Share-based payment expense[(i)]	12	14,533	12,815
		721,345	663,756
Airport operations		96,922	91,267
Flight operations and navigational charges		219,547	200,883
Sales and distribution		65,452	61,347
Marketing, general and administration		95,156	86,210
Inflight		137,990	126,738
Maintenance		54,701	50,726
Employee profit share		51,577	46,585
		721,345	663,756

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

5. Cash and cash equivalents

	December 31, 2013	December 31, 2012
Bank balances[(i)]	394,984	395,601
Short-term investments[(i)]	861,021	1,012,598
	1,256,005	1,408,199

(i) Included in these balances, at December 31, 2013, the Corporation has US-dollar cash and cash equivalents totaling US $106,749 (2012 – US $84,752).

6. Restricted cash

	December 31, 2013	December 31, 2012
Cash held in trust for WestJet Vacations Inc.	48,530	43,154
Security on facilities for letters of guarantee	8,322	7,562
Passenger facility charges	1,254	907
	58,106	51,623

Notes to Consolidated Financial Statements
As at and for the years ended December 31, 2013 and 2012
(Stated in thousands of Canadian dollars, except percentage, ratio, share and per share amounts)

7. Property and equipment

	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

	January 1 2012	Net additions	Depreciation	Transfers	December 31 2012
Aircraft[(i)]	1,514,633	96,502	(154,301)	20,554	1,477,388
Ground property and equipment	59,663	7,504	(11,795)	1,743	57,115
Spare engines and rotables	90,416	16,856	(8,240)	2,677	101,709
Deposits on aircraft	110,245	114,084	–	(15,727)	208,602
Buildings	119,236	102	(3,439)	–	115,899
Leasehold improvements	11,355	799	(1,429)	277	11,002
Assets under finance leases	3,105	(2,969)	(136)	–	–
Assets under development	2,574	20,834	–	(9,524)	13,884
	1,911,227	253,712	(179,340)	–	1,985,599

(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, 2013, total aircraft depreciation expense for overhaul components was $56,523 (2012 – $62,623) and $105,605 for aircraft (2012 - $91,678).

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

December 31, 2012	Cost	Accumulated depreciation	Net book value
Aircraft	2,605,277	(1,127,889)	1,477,388
Ground property and equipment	136,167	(79,052)	57,115
Spare engines and rotables	146,422	(44,713)	101,709
Deposits on aircraft	208,602	–	208,602
Buildings	135,924	(20,025)	115,899
Leasehold improvements	16,538	(5,536)	11,002
Assets under finance leases	821	(821)	–
Assets under development	13,884	–	13,884
	3,263,635	(1,278,036)	1,985,599

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was $1,640,952 at December 31, 2013 (2012 – $1,380,412).

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

8. Intangible assets

	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

	January 1 2012	Net additions	Amortization	Transfers	December 31 2012
Software	15,136	3,985	(5,540)	5,389	18,970
Landing rights	17,782	–	(521)	–	17,261
Other	–	4,956	–	–	4,956
Assets under development	875	14,135	–	(5,389)	9,621
	33,793	23,076	(6,061)	–	50,808

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

December 31, 2012	Cost	Accumulated amortization	Net book value
Software	54,519	(35,549)	18,970
Landing rights	17,782	(521)	17,261
Other	4,956	–	4,956
Assets under development	9,621	–	9,621
	86,878	(36,070)	50,808

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

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.

	2013	2012
Opening balance	179,791	151,890
Additions	32,740	33,502
Change in estimate(i)	(1,055)	(3,866)
Foreign exchange	12,115	(3,479)
Accretion(ii)	1,990	2,013
Settled	(7,065)	(269)
Ending balance	218,516	179,791
Current portion	(76,105)	(34,135)
Long-term portion	142,411	145,656

(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, 2013, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 0.99% to reflect the weighted average remaining term of approximately 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, 2013, the current portion of maintenance reserves included in prepaid expenses, deposits and other is $49,810 (2012 – $32,586) and the long-term portion of maintenance reserves included in other assets is $11,851 (2012 – $21,277).

10. Long-term debt

	2013	2012
Term loans – purchased aircraft(i)	510,764	669,859
Term loans – purchased aircraft(ii)	238,964	69,154
Term loans – purchased aircraft(iii)	128,667	–
Term loan – Calgary hangar facility	–	35
	878,395	739,048
Current portion	(189,191)	(164,909)
	689,204	574,139

(i) 52 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling $40,676, at an effective weighted average fixed rate of 5.95%, maturing between 2014 and 2020. These facilities are guaranteed by Export-Import Bank of the United States (Ex-Im Bank) and secured by one 800-series aircraft, 38 700-series aircraft and 13 600-series aircraft.

(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 2.85% at December 31, 2013, 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 800-series aircraft.

(iii) 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. Each term loan is secured by one Q400 aircraft.

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

10. Long-term debt (continued)

Future scheduled repayments of long-term debt at December 31, 2013 are as follows:

Within 1 year	189,191
1 – 3 years	282,199
3 – 5 years	170,843
Over 5 years	236,162
	878,395

In March 2013, the Corporation signed 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, 2013, is $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.

In July 2013, the Corporation finalized a guarantee commitment with the Ex-Im Bank for $190,489 and entered into a loan agreement with a Canadian Chartered Bank to finance five Boeing 737-800 aircraft. For the year ended December 31, 2013, the Corporation drew down on the guarantee commitment with Ex-Im and the Canadian Chartered Bank loan. The loan amounts are calculated as 85 per cent of the net price with terms to maturity of up to 12 years, repayable in quarterly instalments, at a floating rate of interest equal to the Canadian Dealer Offer Rate plus a basis point spread. The Corporation has fixed the rate of interest for the five aircraft using interest rate swaps. The term loans are secured by the five delivered aircraft. At December 31, 2013, there is no remaining commitment with Ex-Im Bank and no undrawn loan amounts from the Canadian Chartered Bank.

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:

	2013	2012
Earnings before income tax	372,085	340,229
Combined Canadian federal and provincial income tax rate	26.02%	25.95%
Expected income tax provision	96,817	88,289
Add (deduct):		
Non-deductible expenses	3,694	3,709
Non-deductible share-based payment expense	1,920	2,978
Effect of tax rate changes	1,829	4,426
Other	(897)	(1,565)
Actual income tax provision	103,363	97,837
Effective tax rate	27.78%	28.76%

The decrease in the effective tax rate is due to relatively fixed permanent tax differences having a smaller impact on higher comparative earnings. In addition, the higher effective tax rate in the prior year was due to the cancellation of scheduled corporate income tax rate reductions in Ontario that increased the Corporation's deferred income tax expense and liability in 2012 only. There were no significant changes to corporate income tax rates in 2013 that had a significant impact on the Corporation's effective tax rate.

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

11. Income taxes (continued)

(b) Deferred tax

Components of the net deferred tax liability are as follows:

	2013	2012
Deferred tax liability:		
Property and equipment	(255,969)	(262,219)
Deferred partnership income	(49,464)	(101,352)
Net unrealized gain on derivatives designated in a hedging relationship	(1,314)	–
Deferred tax asset:		
Share issue costs	–	373
Net unrealized loss on derivatives designated in a hedging relationship	–	253
Non-capital losses[(i)]	33	752
Credit carry forwards	–	5,445
	(306,714)	(356,748)

(i) Non-capital losses will begin to expire in 2032.

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.

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

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

	2013		2012	
	Number	**Amount**	**Number**	**Amount**
Common and variable voting shares:				
Balance, beginning of year	132,256,794	614,899	138,280,556	630,408
Issuance of shares pursuant to compensation plans	1,086,336	11,027	890,556	16,251
Shares repurchased	(4,717,710)	(22,065)	(6,914,318)	(31,760)
Balance, end of year	128,625,420	603,861	132,256,794	614,899

At December 31, 2013, the number of common voting shares outstanding was 107,062,008 (2012 – 123,947,500) and the number of variable voting shares was 21,563,412 (2012 – 8,309,294).

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 is 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 is completed or terminated at the Corporation's option. Any shares purchased under this bid are purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid are cancelled.

During the year ended December 31, 2013, the Corporation purchased and cancelled 4,717,710 shares under its normal course issuer bid for total consideration of $112,362. The average book value of the shares repurchased was $4.68 per share and was charged to share capital. The excess of the market price over the average book value, including transaction costs, was $90,297 and was charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2013, 9,749,555 (2012 – 10,797,269) voting shares were reserved for issuance to officers and employees of the Corporation, subject to the following limitations:

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

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

(iii) the number of common voting shares issuable under the stock option 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.

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

12. Share capital (continued)

(c) Stock option plan (continued)

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

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	3,850,898	14.45	7,350,756	14.17
Granted	1,722,013	21.92	1,874,467	14.82
Exercised	(2,668,440)	14.24	(3,498,819)	12.95
Forfeited	(67,796)	14.05	(78,520)	14.46
Expired	(2,036)	13.55	(1,796,986)	16.62
Stock options outstanding, end of year	2,834,639	19.20	3,850,898	14.45
Exercisable, end of year	637,292	14.57	2,141,811	14.05

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, 2013, option holders exercised 2,660,717 options (2012 – 3,483,587 options) on a cashless settlement basis and received 1,064,373 shares (2012 – 707,783 shares). For the year ended December 31, 2013, 7,723 options were exercised on a cash basis and option holders received 7,723 shares (2012 – 15,232 options and 15,232 shares, respectively).

The following table summarizes the options outstanding and exercisable at December 31, 2013:

Outstanding options				Exercisable options	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
11.35-12.50	7,439	2.95	12.36	4,463	12.44
12.51-15.50	1,044,012	3.25	14.63	619,277	14.54
15.51-19.99	62,046	5.50	16.90	13,238	16.64
20.00-22.83	1,721,142	4.17	21.92	314	21.68
	2,834,639	3.86	19.20	637,292	14.57

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

The fair value of options granted during the years ended December 31, 2013 and 2012, and the assumptions used in their determination are as follows:

	2013	2012
Weighted average fair value per option	4.54	3.95
Weighted average risk-free interest rate	1.3%	1.4%
Weighted average expected volatility	29%	36%
Expected life of options (years)	3.9	4.1
Weighted average dividend yield	1.6%	1.5%

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

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, 2013, 944,738 (2012 – 947,398) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2013, the Corporation settled 2,660 and 156,610 RSUs with shares issued from treasury and purchased through the open market, respectively.

	2013		2012	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	465,417	14.52	353,348	13.86
Granted	168,571	21.92	247,676	14.65
Units, in lieu of dividends	7,612	24.75	7,242	16.81
Settled	(159,270)	14.27	(118,668)	13.09
Forfeited	(6,227)	14.49	(24,181)	13.93
Units outstanding, end of year	476,103	17.39	465,417	14.52

(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, 2013, 1,011,927 (2012 – 1,023,507) 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.

	2013				2012			
	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	214,168	14.54	254,515	14.41	201,716	13.94	250,941	13.73
Granted	68,205	21.82	82,635	21.89	95,790	14.44	105,513	14.12
Units, in lieu of dividends	713	25.24	959	24.97	–	–	–	–
Settled	(71,765)	14.00	(68,893)	13.64	(83,338)	12.96	(50,087)	13.28
Forfeited	(19,237)	14.70	(25,649)	14.70	–	–	(51,852)	11.63
Units outstanding, end of year	192,084	17.35	243,567	17.18	214,168	14.54	254,515	14.41

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

12. Share capital (continued)

(f) Share-based payment expense

The following table summarizes share-based payment expense for the Corporation's equity-based plans and where the amounts are presented on the consolidated statement of earnings:

	2013	2012
Stock option plan	7,706	7,033
Key employee plan	3,602	3,200
Executive share unit plan	3,225	2,582
Total share-based payment expense	14,533	12,815
Flight operations and navigational charges	7,580	7,041
Marketing, general and administration	6,953	5,774
Total share-based payment expense	14,533	12,815

(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, 2013, 23,887 (2012 – 21,162) DSUs were granted, with $1,848 (2012 – $1,080) of expense included in marketing, general and administration expense. During the years ended December 31, 2013 and 2012, 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, 2013 is $3,542 (2012 – $2,046). At December 31, 2013, 127,183 (2012 – 103,296) 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 2013 amounted to $73,010 (2012 – $65,439) and is recorded as compensation expense within the related business unit (refer to note 4).

13. Dividends

During the year ended December 31, 2013, the Corporation declared quarterly cash dividends of $0.10 per share on its common voting shares and variable voting shares. For the year ended December 31, 2013, the Corporation paid dividends totaling $52,188 (2012 – $37,549).

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

14. Earnings per share

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

	2013	2012
Weighted average number of shares outstanding – basic	130,974,532	135,174,285
Effect of dilution:		
Employee stock options	454,574	235,207
Key employee – RSUs	380,470	329,997
Executive – RSUs	129,077	128,280
Executive – PSUs	135,349	96,349
Weighted average number of shares outstanding – diluted	132,074,002	135,964,118

For the year ended December 31, 2013, 372,349 employee stock options (2012 – 734,448) and zero (2012 – 8,932) restricted share units were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

15. Finance income and cost

	2013	2012
Finance income:		
Interest on cash and cash equivalents	17,848	18,391

	Note	2013	2012
Finance cost:			
Interest on term loans and finance leases		41,457	46,887
Accretion on aircraft lease return obligations	9	1,990	2,013
		43,447	48,900

16. Financial instruments and risk management

(a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, 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, 2013 and 2012:

	Fair value		Amortized cost		Total	
December 31, 2013	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)

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

16. Financial instruments and risk management (continued)

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

	Fair value		**Amortized cost**		**Total**	
December 31, 2012	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents[(i)]	1,459,822	–	–	–	1,459,822	1,459,822
Accounts receivable	–	–	37,576	–	37,576	37,576
Foreign exchange derivatives[(ii)]	–	(98)	–	–	(98)	(98)
Interest rate derivatives[(iii)]	–	(879)	–	–	(879)	(879)
Deposits[(iv)]	31,088	–	–	–	31,088	31,088
Accounts payable and accrued liabilities[(v)]	–	–	–	(417,377)	(417,377)	(417,377)
Long-term debt[(vi)]	–	–	–	(739,048)	(739,048)	(810,640)
	1,490,910	(977)	37,576	(1,156,425)	371,084	299,492

(i) Includes restricted cash of $58,106 (2012 – $51,623).

(ii) Includes $4,187 (2012 – $800) classified in prepaid expenses, deposits and other, and $29 (2012 – $898) classified in accounts payable and accrued liabilities.

(iii) Includes $3,220 (2012 – $611) classifed in accounts payable and accrued liabilities and $4,103 classified in other long-term assets (2012 – $268 in long-term liabilities).

(iv) Includes $19,355 (2012 – $19,241) classified in prepaid expenses, deposits and other, and $12,666 (2012 – $11,847) classified in other long-term assets.

(v) Excludes deferred WestJet Rewards program revenue of $59,082 (2012 – $41,117), foreign exchange derivative liabilities of $29 (2012 – $898), and interest rate derivative liabilities of $3,220 (2012 – $611).

(vi) Includes current portion of long-term debt of $189,191 (2012 – $164,909) and long-term debt of $689,204 (2012 – $574,139).

The following items shown in the consolidated statement of financial position at December 31, 2013 and 2012, 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, 2013, using level 3 inputs, was $nil (2012 – $nil).

December 31, 2013	**Level 1**	**Level 2**	**Total**
Asset (liability):			
Cash and cash equivalents	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

December 31, 2012	**Level 1**	**Level 2**	**Total**
Asset (liability):			
Cash and cash equivalents	1,459,822	–	1,459,822
Foreign exchange derivatives	–	(98)	(98)
Interest rate derivatives	–	(879)	(879)
Deposits	31,088	–	31,088
	1,490,910	(977)	1,489,933

During the years ended December 31, 2013 and 2012, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

16. Financial instruments and risk management (continued)

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

Cash and cash equivalents: Consist of bank balances and short-term investments, primarily highly liquid instruments, with terms up to 95 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, 2013, the weighted average contracted rate on the forward contracts was 1.0425 (2012 – 1.0001) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.0683 (December 31, 2012 – 0.9995) 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, 2013, the Corporation's swap contracts have a weighted average fixed interest rate of 2.59% (2012 – 2.19%). 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 2.76% (2012 – 2.01%).

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, 2013, the rates used in determining the fair value ranged from 1.28% to 4.10% (2012 – 1.52% to 1.72%). The fair value of the Corporation's floating-rate debt approximates its carrying value.

(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, 2013, aircraft fuel expense represented approximately 32% (2012 – 33%) of the Corporation's total operating expenses.

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

16. Financial instruments and risk management (continued)

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

Market risk (continued)

(i) Fuel price risk (continued)

Under the Corporation's fuel price risk management policy, the Corporation was permitted to hedge a portion of its future anticipated jet fuel purchases for up to 36 months. During 2012, the Corporation ceased its fuel hedging program. For the year ended December 31, 2013, the Corporation did not enter into any additional fuel hedging contracts. Previously, upon proper qualification, the Corporation accounted for its fuel derivatives as cash flow hedges.

(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, 2013, US-dollar-denominated net monetary liabilities totaled approximately US $256 (2012 – US $11,514).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar at December 31, 2013, would have increased or decreased net earnings for the year ended December 31, 2013, by $2 (2012 – $82), as a result of the Corporation's US-dollar-denominated net monetary liability balance.

US dollar aircraft leasing costs

At December 31, 2013, the Corporation has entered into foreign exchange forward contracts for an average of US $13,439 (2012 – US $13,534) per month for the period of January to December 2014 for a total of US $161,273 (2012 – US $162,405) at a weighted average contract price of 1.0425 Canadian dollars to one US dollar to offset a portion of its US-dollar-denominated aircraft lease payments. At December 31, 2013, 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	2013	2012
Fair value	Prepaid expenses, deposits and other	4,187	800
Fair value	Accounts payable and accrued liabilities	(29)	(898)
Unrealized gain (loss)	Hedge reserves (before tax)	4,158	(98)

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	2013	2012
Realized gain	Aircraft leasing	4,752	1,245

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2013, would impact OCI, net of taxes, by $1,192 (2012 – $1,157) as a result of the Corporation's foreign exchange derivatives.

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

16. Financial instruments and risk management (continued)

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

Market risk (continued)

(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 $4,639 (2012 – $4,956) 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, 2013, totaled $32,021 (2012 – $31,088). A reasonable change in market interest rates at December 31, 2013, 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, 2013, would not impact net earnings.

At December 31, 2013, 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 2.59%, 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	2013	2012
Fair value	Accounts payable and accrued liabilities	(3,220)	(611)
Fair value	Other assets	4,103	–
Fair value	Other liabilities	–	(268)
Unrealized gain (loss)	Hedge reserves (before tax)	883	(879)

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	2013	2012
Realized loss	Finance cost	(1,058)	(418)

A change of 50 basis points in market interest rates at December 31, 2013, would impact OCI, net of taxes, by $4,926 (2012 – $826) as a result of the Corporation's interest rate derivatives.

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

16. Financial instruments and risk management (continued)

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

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, 2013, 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:

	2013	2012
Cash and cash equivalents(i)	1,256,005	1,408,199
Restricted cash(i)	58,106	51,623
Accounts receivable(ii)	42,164	37,576
Deposits(iii)	32,021	31,088
Derivative financial assets(iv)	11,568	800

(i) Consist of bank balances and short-term investments with terms of up to 95 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.

For the year ended December 31, 2013, there was $69 (2012 – $nil) bad debts recorded. There have been no other changes to the allowance for doubtful accounts during the year.

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, 2013. 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)	480,836	480,836	–	–	–
Derivative financial liabilities(ii)	6,527	3,249	3,278	–	–
Long-term debt	1,015,995	227,653	331,163	195,957	261,222
	1,503,358	711,738	334,441	195,957	261,222

(i) Excludes deferred WestJet Rewards liability of $59,082, foreign exchange derivative liabilities of $29 and interest rate derivative liabilities of $3,220.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of $29 and interest rate derivative contracts of $6,498. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2013, net long-term interest rate derivative assets were $4,103, with $3,278 in a liability position and $7,381 in an asset position.

A portion of the Corporation's cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at December 31, 2013, was $551,022 (2012 – $480,947). 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, 2013, the Corporation had cash and cash equivalents on hand of 2.28 times (2012 – 2.93) 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, 2013, the Corporation's current ratio was 1.09 (2012 – 1.38). At December 31, 2013, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.

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

17. Commitments

(a) Purchased aircraft and spare engines

At December 31, 2013, the Corporation is committed to purchase 13 737-700 and 12 737-800 Next Generation aircraft as well as 25 737 MAX 7 and 40 737 MAX 8 aircraft for delivery between 2014 and 2017 and 2017 and 2027, respectively. The Corporation is also commitment to purchase 12 Q400 NextGen aircraft for delivery between 2014 and 2015 and a total of 11 Boeing and Bombardier spare engines for delivery between 2014 and 2027.

The remaining estimated amounts to be paid in deposits and purchase prices for the 102 aircraft and 11 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	461,557
1 – 3 years	738,100
3 – 5 years	849,954
Over 5 years	2,433,585
	4,483,196

(b) Operating leases and contractual commitments

The Corporation has entered into operating leases and other contractual commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and satellite programming. At December 31, 2013, 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	226,144
1 – 3 years	311,368
3 – 5 years	177,894
Over 5 years	116,048
	831,454

(c) Letters of guarantee

At December 31, 2013, the Corporation has a revolving letter of credit facility with a Canadian Chartered Bank totaling $30,000 (2012 – $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, 2013, $8,322 (2012 – $7,562) letters of guarantee were issued under the facility by assigning restricted cash of $8,322 (2012 – $7,562).

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

18. Related parties

(a) Interests in subsidiaries

The consolidated financial statements of WestJet Airlines Ltd., the parent company, include the accounts of the Corporation and its following 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, 2013, the Corporation has $1,852 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, 2013, the 11 FFCs and one DFC have combined total assets of approximately $495,151 and liabilities of $456,919. 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, 2013 and 2012.

	2013	2012
Salaries, benefits and other compensation(i)	5,428	6,727
Share-based payment expense(ii)	5,657	4,648
	11,085	11,375

(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.

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

19. Additional financial information

(a) Assets

	Note	2013	2012
Accounts receivable:			
Trade and industry(i)		43,198	37,633
Other		1,403	2,311
Allowance(ii)		(2,437)	(2,368)
		42,164	37,576
Prepaid expenses, deposits and other:			
Prepaid expenses(iii)		43,628	35,608
Short-term deposits(iv)		35,438	32,756
Maintenance reserves – current portion	9	49,810	32,586
Derivatives	16	4,187	800
Other		200	52
		133,263	101,802
Inventory:			
Fuel		24,365	23,101
Aircraft expendables		9,749	8,982
De-icing fluid		900	427
Other		1,708	3,085
		36,722	35,595
Other Assets:			
Aircraft deposits(v)		47,615	44,540
Maintenance reserves – long term	9	11,851	21,277
Derivatives	16	4,103	–
Other(vi)		7,209	9,596
		70,778	75,413

(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) For the year ended December 31, 2013, there was $69 (2012 – $nil) in new allowances recorded. The remaining allowance was recorded in 2009 related to cargo operations.

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

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

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

(vi) Includes long-term deposits for airport operations.

(b) Liabilities

	Note	2013	2012
Accounts payable and accrued liabilities:			
Trade and industry		330,836	281,574
Taxes payable		109,674	101,379
WestJet Rewards		59,082	41,117
Derivatives	16	3,249	1,509
Other		40,326	34,424
		543,167	460,003
Other current liabilities:			
Advance ticket sales		551,022	480,947
Non-refundable guest credits		46,975	47,859
Other liabilities:			
Deferred contract incentives(i)		8,834	9,646
Derivatives	16	–	268
		8,834	9,914

(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.