

2015 Annual Report

Evolving our business

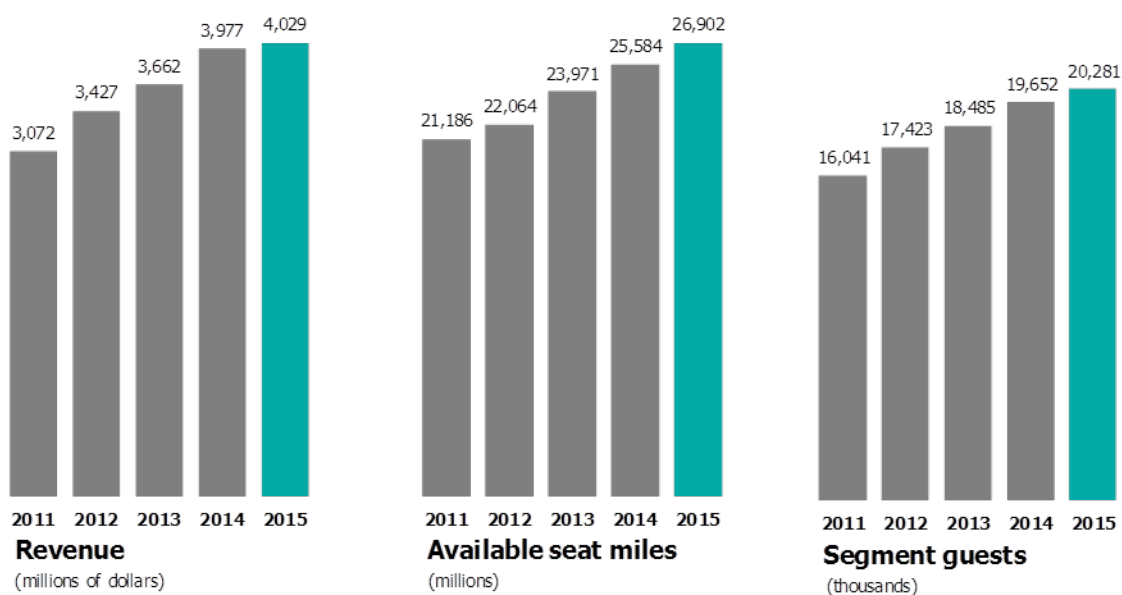




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Financial Overview⁽ⁱ⁾



(\$ in thousands, except per share data)	2015	2014	2013	2012	2011
Consolidated financial information					
Revenue	\$ 4,029,265	\$ 3,976,552	\$ 3,662,197	\$ 3,427,409	\$ 3,071,540
Earnings before income taxes	\$ 520,258	\$ 390,307	\$ 372,085	\$ 340,229	\$ 208,006
Net earnings	\$ 367,530	\$ 283,957	\$ 268,722	\$ 242,392	\$ 148,702
Adjusted net earnings	\$ 367,530	\$ 317,188	\$ 268,722	\$ 242,392	\$ 148,702
Cash and cash equivalents	\$ 1,183,797	\$ 1,358,071	\$ 1,256,005	\$ 1,408,199	\$ 1,243,605
Earnings per share					
Basic	\$ 2.94	\$ 2.22	\$ 2.05	\$ 1.79	\$ 1.06
Diluted	\$ 2.92	\$ 2.20	\$ 2.03	\$ 1.78	\$ 1.06
Adjusted diluted earnings per share	\$ 2.92	\$ 2.46	\$ 2.03	\$ 1.78	\$ 1.06
Operational highlights*					
Available seat miles (ASM)	26,902,227,359	25,584,033,077	23,970,921,260	22,063,583,754	21,186,304,409
Revenue passenger miles (RPM)	21,525,979,116	20,828,992,613	19,591,173,039	18,262,554,881	16,890,941,121
Load factor	80.0%	81.4%	81.7%	82.8%	79.7%
Yield (cents)	18.72	19.09	18.69	18.77	18.18
Revenue per ASM (cents)	14.98	15.54	15.28	15.53	14.50
Cost per ASM (cents)	12.86	13.68	13.61	13.83	13.29
Cost per ASM, excluding fuel and employee profit share (cents)	9.46	9.15	9.06	9.12	8.85

(i) Please refer to page 9 of this Annual Report

President's message to shareholders

Our airline turned 20 years old earlier this year and we did not miss the opportunity to celebrate this important milestone with WestJetters. Over the last 20 years, despite many changes in the macroeconomic environment and the continuing evolution of our business, WestJet has built a track record of success, reporting profits in 19 of our 20 years. The one thing that has remained constant for us over that period is the passion for our business that WestJetters demonstrate every day. Our now more than 11,000 WestJetters continue to drive our success and as we look to the next 20 years, I want to thank each and every one of them for their commitment to delivering our award-winning brand of caring friendly service to our guests.

In 2015, we reported all-time high net earnings of \$367.5 million or \$2.92 per fully diluted share, up 16 and 19 per cent respectively as compared to our 2014 adjusted results. 2015 was our fourth consecutive year of record net earnings and our 11th consecutive year of profitability. The fourth quarter of 2015 represented our 43rd consecutive profitable quarter. We continued to put significant focus on improving our on-time performance in 2015, and as a result 85.3 per cent of our flights arrived within 14 minutes of our published timetable, up 6.4 percentage points year-over-year, cementing our position as Canada's on-time airline. WestJet Encore, meanwhile, was North America's number one regional airline in on-time performance.

The fundamentals of our business are very strong, and the strategic initiatives we have been undertaking to continue *evolving our business* will help us meet the needs of a changing marketplace. These include:

- The continuing development of our network, including our virtual network of airline partners;
- The continued expansion of WestJet Encore;
- The introduction of our enhanced Plus service, with an empty middle seat;
- The introduction of wide-body aircraft into our fleet;
- The further evolution of our fare bundles product and ancillary revenue; and
- Our new inflight entertainment and connectivity system, WestJet Connect.

In 2015 we continued to grow and strengthen our network which now serves more than 100 destinations in North America, Central America, the Caribbean and Europe. Combined with our airline partners, our virtual network provides our guests access to over 160 destinations via WestJet. Over the course of 2015 we continued to develop our airline partnerships, evolving our interline agreements with Philippine Airlines and Aeroméxico into code-share agreements.

We continued to expand our fleet in 2015 with the addition of 12 new Boeing 737-800NGs and nine new Bombardier Q400s while disposing of five of our oldest Boeing 737-700NGs as part of our strategy to optimize and modernize our fleet. Supported by this fleet expansion, we flew more than 20 million guests for the first time in 2015, an increase of 3.2 per cent year over year, or 629,000 additional guests.

WestJet Encore continued its successful expansion in 2015, bringing WestJet's brand of friendly caring service to new communities, generating feed for our broader network, and increasing our overall schedule efficiency. During the year, we announced Boston, Massachusetts as WestJet Encore's first transborder destination, and we recently added Nashville, Tennessee, with service beginning in the first half of 2016. We continue to see new opportunities for WestJet Encore, and I look forward to its continued growth as part of our overall network.

In October, we began operating wide-body Boeing 767-300ER aircraft for the first time. We took delivery of the first two of our four Boeing 767 aircraft, and recently began service with those aircraft on routes between Alberta and Hawaii. Beginning in the spring of 2016, we will use our Boeing 767 aircraft to expand our transatlantic service to London Gatwick. London is the crown jewel of international travel from Canada, and we have seen a strong market response to our new service. Strength in the Pound Sterling versus the Canadian dollar is helping to propel UK point of sale bookings on these routes, and we expect our 767 service to be immediately accretive to earnings.

We continued to evolve our fare bundles product in 2015. In September, we launched enhancements to our Plus product, including two-by-two seating for more space and privacy, and upgraded amenities and meal options on longer flights. These new features are in addition to priority boarding and security screening as well as flight change flexibility that are offered as part of WestJet's Plus product. While these added features provide exceptional value to our guests, we also expect the enhancements to support ancillary revenue growth on a go-forward basis. So far, market response to these enhancements has been very positive.

In July, we launched WestJet Connect, our new inflight entertainment system, which we first announced in early 2014. WestJet Connect features wireless broadband internet connectivity and more than 450 movies and television programs. Guests can access WestJet Connect using their laptops, or via the WestJet app downloaded onto their mobile devices. Seats on WestJet Connect equipped aircraft have 110 - volt and USB power outlets, allowing all guests the opportunity to charge or power their devices. We have installed and activated WestJet Connect on 34 of our Boeing 737s, and two of our Boeing 767s and expect installations to be completed on the majority of our Boeing 737 & 767 fleet by the end of 2016.

We were honored in 2015 to receive several awards highlighting our remarkable brand and culture, as well as the friendly caring service for which WestJet is known. Among these awards, Waterstone Human Capital named WestJet one of Canada's 10 most-admired corporate cultures for a record sixth time. The value of our brand was recognized by several organizations in 2015, as both WestJet and WestJet Vacations received the highest brand equity scores among airlines and vacation package suppliers in a Nielson EquiTrend study, Brand Finance ranked WestJet in the top 100 Canadian brands, and CanadianBusiness.com recognized us as having one of Canada's Best Brands. We were also pleased that for the third consecutive year, the WestJet/RBC World Elite MasterCard was rated first in the travel rewards category by MoneySense magazine, remaining Canada's top travel rewards card because of its high value, flexibility, premium features and connection to our WestJet Rewards program.

As always, WestJetters are the foundation of WestJet's success. In 2015, we were pleased to have reached new five-year agreements with our flight attendants and WestJet Encore pilots. We also welcomed several new members to our executive team in 2015, including Mark Porter, as Executive Vice President (EVP), People and Culture, Harry Taylor, as EVP, Finance and Chief Financial Officer and Cam Kenyon, returning as our interim EVP, Operations.

We remain committed to returning value to shareholders. In 2015, we repurchased and cancelled 3,200,000 shares under our normal course issuer bids ("NCIB"), and in February 2015, announced a 17 per cent increase in our quarterly dividend, from \$0.12 to \$0.14. Combined, we returned almost \$200 million to shareholders under these programs in 2015. In February 2016, we announced an amendment to our existing NCIB to increase the maximum number of shares available for repurchase under the bid from 4 million to 6 million shares, demonstrating our continued confidence in WestJet's proven business model and the financial strength of our airline.

Turning to 2016, we continue to feel the impact of economic weakness in Alberta and the Prairie Provinces as well as the weakening of the Canadian dollar to US dollar exchange rate on our business. We are taking actions to respond to this economic environment, including adjusting our schedules and redeploying capacity from softer Alberta markets to markets of greater strength. As we move forward in 2016, we are focused on a number of new initiatives to evolve our business which we expect to bring value to guests and shareholders alike. These initiatives include:

- Launching an expanded Plus section across our fleet to better penetrate the business and premium leisure segments;
- Continuing to reconfigure our fleet with larger aircraft to drive down seat mile costs;
- Growing our airline partnerships to expand our network utility; and
- Further enhancing our WestJet/RBC MasterCard program to include new companion benefits to Southern and European destinations.

Notwithstanding the challenges we are seeing so far in 2016, WestJet has a proven track record of profitability, we have built the right management team to guide our airline through this period of economic weakness, and we are confident in delivering on our long-term plan. We are focused on managing the business responsibly for our shareholders and our ROIC target of 13 to 16 per cent while maintaining the only investment grade credit in the Canadian airline industry.

On behalf of the Board of Directors, the Executive team, and our more than 11,000 WestJetters, thank you for your continued support of our airline.

A handwritten signature in black ink, appearing to read "Gregg Saretsky". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gregg Saretsky
President and Chief Executive Officer
March 22, 2016

Caution regarding forward-looking statements

Certain statements set forth in the above president's message to shareholders, including without limitation, information respecting WestJetters continuing to drive our success for the next 20 years; our plans to introduce service to Nashville, Tennessee beginning in the first half of 2016; our plans to expand our transatlantic service to London, Gatwick in the spring of 2016; our expectation that our 767 service will be immediately accretive to earnings; our expectation that enhancements to our Plus product will support ancillary revenue growth on a go-forward basis; our expectations that installations of our WestJet Connect system will be completed on the majority of our Boeing 737 & 767 fleet by the end of 2016; our expectation that our new initiatives will bring value to guests and shareholders; our plans to launch new initiatives including an expanded Plus section across our fleet to better penetrate the business and premium leisure segments, continuing to reconfigure our fleet with larger aircraft to drive down seat mile costs, growing our airline partnerships to expand our network utility, and further enhancing our WestJet/RBC MasterCard program to include new companion benefits to Southern and European destinations; and WestJet's return on invested capital target of 13 to 16 per cent contain certain forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond WestJet's control. These forward-looking statements are based on our existing strategies, our long-term strategic plan, our fleet plan and our current forecast, but may vary due to factors including, but not limited to changes in fuel prices, changes in guest demand, general economic conditions, competitive environment, ability to effectively implement and maintain critical systems, ability to successfully negotiate and effectively implement new partnering relationships, regulatory approvals and requirements, and other factors described in WestJet's public reports and filings, which are available on WestJet's profile at sedar.com. Readers are cautioned that undue reliance should not be placed on forward-looking statements as actual results may vary materially from the forward-looking statements. WestJet does not undertake to update, correct or revise any forward-looking statements as a result of any new information, future events or otherwise, except as may be required by applicable law.

Non-GAAP measures

This president's message to shareholders contains disclosure respecting non-GAAP measures including, without limitation, adjusted net earnings; adjusted diluted earnings per share; and return on invested capital. Non-GAAP measures are included to enhance the overall understanding of WestJet's financial performance and to provide an alternative method for assessing WestJet's operating results in a manner that is focused on the performance of WestJet's ongoing operations, and to provide a more consistent basis for comparison between reporting periods. These measures are not calculated in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures provided by other entities. Readers are urged to review the section entitled "Reconciliation of non-GAAP and additional GAAP measures" in WestJet's management's discussion and analysis of financial results for the year ended December 31, 2015.

Management's Discussion and Analysis



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

For the years ended December 31, 2015 and 2014

WestJet Airlines Ltd.
Annual 2015 MD&A
February 1, 2016



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Advisories

The following Management's Discussion and Analysis of Financial Condition and Operating Results (MD&A), dated February 1, 2016, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as audited consolidated financial statements and notes thereto, for the years ended December 31, 2015 and 2014. The consolidated financial statements for each of the two years ended December 31 have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "WestJet," "the Corporation," "the Company", "we," "us" or "our" mean WestJet Airlines Ltd. and its 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 changes to the pricing environment), labour matters, government regulations, stock market volatility, the ability to access sufficient capital from internal and external sources, and additional risk factors discussed in other documents we file from time to time with securities regulatory authorities, which are available on SEDAR at sedar.com or, upon request, without charge from us.

The disclosure found under the heading *Outlook* in this MD&A, including the guidance summary for the three months ended March 31, 2016 and the year ended December 31, 2016 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 53 of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development. Our assumptions and estimates relating to the forward-looking information referred to above are updated in conjunction with filing our quarterly and annual MD&A and, except as required by law, we do not undertake to otherwise update forward-looking information.

Non-GAAP and additional GAAP measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by Generally Accepted Accounting Principles (GAAP) and, therefore, are considered non-GAAP measures. These measures are provided to enhance the reader's overall understanding of our financial performance or current financial condition. 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 56 of this MD&A for definitions of the non-GAAP measures and a reconciliation of non-GAAP measures, including cost per available seat mile (CASM), excluding fuel and employee profit share; return on invested capital (ROIC); free cash flow; diluted free cash flow per share; diluted operating cash flow per share; adjusted net earnings, adjusted diluted earnings per share, and adjusted earnings before income tax (EBT) margin, and for a reconciliation of additional GAAP measures, including adjusted debt-to-equity; adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR), adjusted net debt to adjusted EBITDAR and the cash to trailing twelve months revenue ratio.

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

Definitions

Various terms used throughout this MD&A are defined at page 55 under the title *Definition of key operating indicators*.

About WestJet

WestJet is a Canadian airline based in Calgary, Alberta. Through scheduled flights across a growing network, WestJet also operates WestJet Vacations, which provides air, hotel, car and excursion packages, and WestJet Encore, a regional airline which operates a fleet of turboprop aircraft in a network of destinations in Canada and one destination in the U.S. As of December 31, 2015, our airline offers scheduled service to over 100 destinations in North America, Central America, the Caribbean and Europe with our fleet of 114 Boeing 737 Next Generation (Boeing 737 NG) aircraft, 24 Bombardier Q400 (Q400) aircraft and for the first time in 2015 two wide-body, Boeing 767-300ERW (Boeing 767) aircraft. When including destinations accessed through our airline partners, we serve over 160 destinations. We plan to continue adding new destinations and additional frequencies to our existing markets through the growth of our regional Bombardier Q400 fleet, our narrow-body Boeing 737 NG fleet and wide-body Boeing 767 aircraft.

WestJet's mission is to enrich the lives of everyone in WestJet's world by providing safe, friendly and affordable air travel. We strive to be one of the top five airlines in the world. We believe that focusing on metrics such as on-time performance, safety, profitability, guest satisfaction and employee engagement will lead us toward this goal.

Guiding us every day towards accomplishing our mission and vision are our core values:

- commitment to safety;
- positive and passionate in everything we do;
- appreciative of our people and guests;
- fun, friendly and caring;
- aligning the interests of WestJetters with the interests of the Company; and
- honest, open and keeping our commitments.

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

Our commitment to our people allows us to take care of WestJetters, who in turn take care of our guests. When this occurs, we will build on our success and take care of our business which in turn allows us to take care of our people, and so on, as depicted in the graphic below. Our caring culture is essential to our continuous growth and is one of the key elements that provide us with the capability to execute on our strategies.



Financial and Operational Highlights

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

(\$ in thousands, unless otherwise noted)		2015	2014	2013	2012	2011
Select annual information	Revenue	4,029,265	3,976,552	3,662,197	3,427,409	3,071,540
	Operating expenses	3,459,512	3,501,081	3,262,687	3,051,689	2,814,989
	Earnings from operations	569,752	475,471	399,510	375,720	256,551
	Operating margin	14.1%	12.0%	10.9%	11.0%	8.4%
	Earnings before income taxes (EBT)	520,258	390,307	372,085	340,229	208,006
	Adjusted EBT ⁽ⁱ⁾	520,258	435,766	372,085	340,229	208,006
	EBT margin ⁽ⁱ⁾	12.9%	9.8%	10.2%	9.9%	6.8%
	Adjusted EBT margin ⁽ⁱ⁾	12.9%	11.0%	10.2%	9.9%	6.8%
	Net earnings	367,530	283,957	268,722	242,392	148,702
	Adjusted net earnings ⁽ⁱ⁾	367,530	317,188	268,722	242,392	148,702
	Earnings per share:					
	Basic	2.94	2.22	2.05	1.79	1.06
	Diluted	2.92	2.20	2.03	1.78	1.06
	Adjusted diluted ⁽ⁱ⁾	2.92	2.46	2.03	1.78	1.06
	ROIC ⁽ⁱ⁾	15.3%	14.3%	13.9%	13.7%	10.1%
	Cash and cash equivalents	1,183,797	1,358,071	1,256,005	1,408,199	1,243,605
	Total assets	5,129,024	4,646,433	4,143,463	3,746,615	3,473,678
	Total long-term liabilities	1,617,106	1,530,630	1,147,163	1,086,457	1,161,604
	Cash dividends declared per share ⁽ⁱⁱ⁾	0.56	0.48	0.40	0.28	0.20

		2015	2014	2013	2012	2011
Operational highlights	ASMs	26,902,227,359	25,584,033,077	23,970,921,260	22,063,583,754	21,186,304,409
	RPMS	21,525,979,116	20,828,992,613	19,591,173,039	18,262,554,881	16,890,941,121
	Load factor	80.0%	81.4%	81.7%	82.8%	79.7%
	Yield (cents)	18.72	19.09	18.69	18.77	18.18
	RASM (cents)	14.98	15.54	15.28	15.53	14.50
	CASM (cents)	12.86	13.68	13.61	13.83	13.29
	CASM, excluding fuel and employee profit share (cents) ⁽ⁱ⁾	9.46	9.15	9.06	9.12	8.85
	Fuel consumption (litres)	1,278,079,174	1,214,001,002	1,144,937,872	1,079,108,614	1,027,821,192
	Fuel costs per litre (cents)	64	90	91	92	89
	Segment guests	20,281,376	19,651,977	18,485,144	17,423,352	16,040,682
	Average stage length (miles)	910	936	976	978	984
	Departures	209,770	192,858	171,436	160,244	154,176
	Utilization (hours)	11.6	11.8	12.0	11.9	11.8
	Full-time equivalent employees at period end	9,211	8,698	8,000	7,742	7,141
	Fleet size at period end	140	122	113	100	97

(i) Please refer to page 56 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

(ii) Identical dividends are paid on our Common and Variable Voting Shares.

Annual Overview

Our 2015 financial results represent our 11th consecutive year of reported profitability with net earnings of \$367.5 million and a record annual diluted earnings per share of \$2.92. During the year, our operating margin was 14.1 per cent, driven largely by continued lower fuel prices and an increase in ancillary revenue. Total revenue increased by 1.3 per cent year over year, driven by the increase in ancillary revenue which was offset by lower guest revenue resulting from downward pressure on our fares and a lower load factor.

We returned approximately \$193.5 million to our shareholders through our dividend and share buy-back programs in 2015. Since these programs began in 2010, we have returned over seven hundred million dollars to our shareholders. At December 31, 2015, our annual ROIC was 15.3 per cent, which represents an increase of 1.0 percentage point compared to our 2014 annual ROIC of 14.3 per cent. This result is consistent with our ROIC targeted range of 13.0 to 16.0 per cent.

2015 Summary

- Recognized total revenue of \$4,029.3 million, an increase of 1.3 per cent from \$3,976.6 million in 2014.
- Increased capacity, measured in available seat miles (ASMs), by 5.2 per cent over 2014.
- Increased traffic, measured in revenue passenger miles (RPMs), by 3.3 per cent over 2014.
- Realized yield of 18.72 cents, down 1.9 per cent from 2014.
- Realized RASM of 14.98 cents, down 3.6 per cent from 15.54 cents in 2014.
- Realized CASM of 12.86 cents, down 6.0 per cent from 13.68 cents in 2014.
- Realized CASM, excluding fuel and employee profit share, of 9.46 cents, up 3.4 per cent from 9.15 cents in 2014.
- Recorded an operating margin of 14.1 per cent, up 2.1 percentage points from 12.0 per cent in 2014.
- Recorded EBT margin of 12.9 per cent, up 3.1 percentage points from 9.8 per cent in 2014. Adjusted for the pre-tax non-cash loss recorded in 2014, EBT margin was up 1.9 percentage points.
- Reported net earnings of \$367.5 million, an increase of 29.4 per cent from \$284.0 million in 2014. Adjusted for the after-tax non-cash loss recorded in 2014, net earnings increased 15.9 per cent.
- Reported diluted earnings per share of \$2.92, an increase of 32.7 per cent from \$2.20 per share in 2014. Adjusted for the after-tax non-cash loss recorded in 2014, diluted earnings per share increased 18.7 per cent.

Please refer to page 56 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

WestJetters

Overall, 2015 was a busy year marked with opportunities, challenges and changes for WestJetters. We flew a record number of guests while improving our on-time performance in 2015 and, as always, we kept our focus on providing a remarkable guest experience. We believe our strong caring culture is one of the key factors that make our airline successful and WestJetters' dedication to our airline will continue to contribute to our success for many years to come. Therefore, we sincerely thank over 11,000 WestJetters for all the work that they do each and every day to enrich the lives of everyone in WestJet's world.

In May 2015, we were pleased that our flight attendants voted in favour of a new five-year work agreement. With their collaboration, we developed a fair and balanced agreement. This is an important milestone for WestJet as it represents the first ratified agreement with our WestJet flight attendants. Items ratified in the five-year agreement include compensation, work rules, standardized processes and a formal framework to facilitate communication with our flight attendants.

The WestJet Professional Pilots Association (a now disbanded union comprised of WestJet pilots) filed an application for certification as bargaining agent for WestJet Boeing 737 pilots with the Canada Industrial Relations Board on June 22, 2015. We were pleased that on August 5, 2015 the majority of our Boeing 737 pilots voted against union representation. With this result, we continue to be governed under our current pilot agreement expected to expire on April 30, 2019 and we continue the work that needs to take place to better understand some of the issues for our pilot group. We strongly believe that our model of collaboration and pilot representation through the WestJet Pilots' Association (WJPA) has allowed for the continued success of our pilots and our airline.

On December 20, 2015, our WestJet Encore pilots voted in favour of a new five-year work agreement expected to expire on December 31, 2020. The tentative agreement was negotiated between WestJet Encore and the WJPA and is the first ratified agreement between WestJet and Encore pilots.

2015 also marked a year of change for our executive team. We were excited to welcome new members to the executive team: Mark Porter, as the new Executive Vice President (EVP), People and Culture, Harry Taylor, as the new EVP, Finance and Chief Financial Officer (CFO) and Cam Kenyon, returning as our interim EVP, Operations. Also in 2015, Brigid Pelino, former Executive Vice-President (EVP), People, Fred Cleveland, former EVP, Operations and Vito Culmone, our former EVP of Finance and CFO left WestJet.

Throughout 2015, we were honoured to receive a number and variety of awards and recognitions, which would not have been possible without the commitment and care delivered by WestJetters:

- On February 23, 2015, Canadian supply chain companies named WestJet Cargo Best Air Cargo Provider 2014 at the first annual Cargo Logistics Canada Awards of Excellence.
- On March 2, 2015, Brand Finance, a brand valuation consultancy based out of London, England, once again ranked us in the top 100 Canadian brands.
- On May 4, 2015, WestJet Airlines and WestJet Vacations received the highest brand equity scores among airline and vacation package supplier brands in Canada for the 2014 Nielsen EquiTrend® Study.
- On September 25, 2015, Gregg Saretsky, our President and CEO, was honoured as a recipient of the David Foster Foundation Visionary Award, recognizing him as the National Business Leader of the Year.
- On October 27, 2015, we were recognized as one of Canada's Best Brands by CanadianBusiness.com.
- On November 20, 2015, for a record sixth time, Waterstone Human Capital has named us as having one of Canada's 10 most-admired corporate cultures.

Finally, on December 9, 2015 thousands of WestJet employees around the WestJet world completed nearly 32,000 random acts of kindness in a 24-hour period. Through our WestJet Christmas Miracle, WestJetters inspired random acts of kindness across Canada and from as far away as Europe and Australia.

Guest experience and service enhancements

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

In 2015, we began rolling out WestJet Connect, our new inflight entertainment system featuring wireless broadband internet connectivity and more than 450 movies and television programs. Guests can access WestJet Connect using their laptops, or via the WestJet app downloaded onto their mobile devices. Seats on WestJet Connect equipped aircraft have 110-volt and USB power outlets, allowing all guests the opportunity to charge or power their devices. The new system was first activated on one of our Boeing 737 aircraft on July 28, 2015 and we are receiving positive feedback from our guests. WestJet Connect provides our guests' the ability to stream a large selection of free content and the ability to connect to the Internet, at a reasonable price. As of the date of the MD&A we have installed and activated WestJet Connect systems on 34 of our Boeing 737s, on two of our Boeing 767s and expect installations to be completed on the majority of our Boeing 737 fleet by the end of 2016. The remaining two Boeing 767s will have WestJet Connect installed by mid-2016.

We also launched our enhanced Plus product on all Boeing NG 737 aircraft in 2015. This new product features an empty middle seat for more space and privacy, added services, and upgraded meal options including premium boxed meals on longer flights. On WestJet's Boeing 767 aircraft, guests in Plus can enjoy wider seats configured with an aisle separating each set of two seats. These new features are in addition to flexibility and convenience features already offered as part of WestJet's Plus product. While these added features provide exceptional value to our guests it is also expected to support our ancillary revenues on a go-forward basis.

Throughout 2015, we continued to invest in our digital channels to improve the ease with which our guests do business with us. Specifically, we are continually enhancing our mobile apps and website technology by optimizing guest experience (through content and functionality) across a wide range of devices, including desktop, smart phone and tablet. We also upgraded the technology that supports our ancillary revenues, specifically expanding the distribution channels that can market and sell our Plus fare and pre-reserved seating functionality.

Finally, on September 22, 2015, for the third consecutive year the WestJet RBC World Elite MasterCard was rated first in the travel rewards category by *MoneySense* magazine. Our travel rewards card received top marks and remains Canada's top travel rewards card because of its high value, flexibility, premium features and connection to WestJet Rewards.

Network expansion and fleet

We continue to strategically grow our airline through new and increased service across our scheduled network. In 2015, we announced new destinations and comprehensive schedules that reflect the varied needs of our guests. These new destinations included WestJet Encore's first U.S. destination, service to five new sun destinations, and the first transatlantic destination for our wide-body Boeing 767 aircraft, London, United Kingdom. London will be serviced from six Canadian cities, through London Gatwick beginning in the spring of 2016. We also extended certain routes from seasonal to year round service and increased frequencies on certain routes within Canada. These additions and changes are in-line with our strategies to improve our business and leisure products.

The following table depicts our newest destinations announced in 2015:

Destination	Operated by	Service started or scheduled to commence
Houston, Texas	WestJet	Summer 2015
Gander, Newfoundland	WestJet and WestJet Encore	Summer 2015
Loreto, Mexico (seasonal)	WestJet	February 14, 2015
London, United Kingdom	WestJet	Spring 2016
Boston, Massachusetts	WestJet Encore	Winter 2015-2016
West Palm Beach, Florida	WestJet	Winter 2015-2016
Sarasota, Florida	WestJet	Winter 2015-2016
Huatulco, Mexico	WestJet	Winter 2015-2016
Merida, Mexico	WestJet	Winter 2015-2016
San Jose, Costa Rica	WestJet	Winter 2015-2016
Nashville, Tennessee	WestJet Encore	Summer 2016

WestJet Encore's expansion in Atlantic Canada is representative of WestJet's continuing commitment to expanding WestJet service to smaller-sized cities from coast to coast, offering Canadians lower airfares, more choice and greater connectivity to the airline's broader network. The launch of service between Calgary and Houston is a key destination for both our business and leisure travelers.

On January 6, 2016, we announced that flights from Calgary and Toronto to London, United Kingdom will now operate on a year-round basis. This extension represents another important step in the international expansion of WestJet. Our business and leisure guests will have the opportunity to take advantage of our low fares, high value and remarkable guest experience on both sides of the Atlantic.

On January 25, 2016, we announced our 2016 summer schedule, which includes non-stop service from Toronto to Nashville and Los Angeles as well as increased service out of Toronto to Ottawa, Montreal and Fredericton. This will add greater flexibility for our business travellers.

During 2015, we initiated two new code-share agreements: Philippine Airlines and most recently in the fourth quarter of 2015, Aeroméxico. We continued to focus on developing our relationships with our 46 airline partners as establishing strong airline partnerships continues to be a key strategy of ours. Our partnerships enable our guests to access over 160 destinations.

In the fourth quarter of 2015 we added one new Q400 aircraft to our fleet for a total of 24 Q400s. We also added six Boeing 737 800 series aircraft to our fleet for a total of 114 Boeing 737 NG aircraft at December 31, 2015. We took delivery of the second of four Boeing 767 aircraft in the fourth quarter of 2015. Our first Boeing 767 aircraft was put into service on October 22, 2015 and on December 30, 2015 we received extended-range twin-engine operations (ETOP) certification for the Boeing 767 aircraft which allows us to fly this aircraft over long bodies of water. We anticipate the remaining two Boeing 767 aircraft will be delivered in early 2016. The addition of wide-body aircraft to our WestJet fleet allows us to explore the expansion of our operations into additional overseas markets.

As our fleet, including our future deliveries of Boeing 737 MAX aircraft and wide-body Boeing 767s, continues to expand, we expect to establish additional profitable routes in Canada, the U.S. and internationally. Our evolving aircraft mix allows us to provide increased route frequency, increased non-stop routes and improved scheduling times and connectivity to our guests.

Corporate commitment

While we have a healthy balance sheet and are achieving record results, it is important that we are proactive in our approach to managing our business to ensure our continued profitability. In 2015, we experienced a healthy demand environment and our overall brand and increasing network strength continued to bolster our strong earnings performance, even with the uncertainty in the Alberta economy. The ability to protect and grow our earnings, in light of a volatile fuel price environment, fluctuating foreign exchange rates and changes in the competitive environment, is important to our business. We are committed to working in collaboration with all WestJetters on implementing revenue management strategies, pricing initiatives and cost-reduction strategies in order to set our company up for ongoing successful low-cost operations for years to come.

Outlook

For the first quarter of 2016, we expect system-wide capacity to grow between 6.0 and 6.5 per cent year over year, and domestic capacity to grow between 10.0 and 10.5 per cent year over year. In terms of the full-year 2016, we now anticipate system-wide capacity growth between 7.0 and 10.0 per cent year over year, as compared to our previous guidance of up 8.0 to 11.0 per cent, and domestic capacity growth between 3.0 and 4.0 per cent year over year. Effective mid-February, we are adjusting our schedules and redeploying capacity from softer Alberta markets to markets of greater strength, the net effect of which is a drop in capacity of approximately 1.0 per cent from our prior plans, on an annualized basis. Capacity plans beyond the first quarter are fluid and further reviews of planned growth will be undertaken as necessary as we move through the year.

In the first quarter of 2016, we expect continued leisure traffic growth and stronger load factors with booked loads up year over year in each of the three months, driven by fare discounting in domestic and southern markets. We continue to feel the impact of macroeconomic weakness in Alberta and the Prairie Provinces on our business. Business demand in Western Canada is much softer with the severe downturn in the energy sector. As a result, we anticipate year over year declines in RASM of 10.0 to 12.0 per cent versus the very strong first quarter 2015. Nevertheless, we expect EBT margin roughly in line with our five-year average, excluding the 2015 high water mark.

We expect CASM, excluding fuel and employee profit share for the first quarter of 2016 to be up 7.5 to 8.0 per cent year over year. This year over year increase in CASM excluding fuel and employee profit share in the first quarter is expected to be primarily the result of higher depreciation and amortization expense and the continued weakening of the Canadian dollar to US dollar exchange rate which we expect to moderate in the back half of the year. For the full-year 2016, we now expect CASM, excluding fuel and employee profit share, to be flat to up 2.0 per cent year over year. This compares with our previous full-year 2016 guidance of down 0.5 to up 1.5 per cent year over year, with the difference primarily driven by the continued weakening of the Canadian dollar to US dollar exchange rate.

For the first quarter of 2016, we expect fuel costs to range between 47 and 49 cents per litre, which represents a year-over-year decrease of approximately 25 to 28 per cent. The first quarter 2016 expected fuel costs are based on current forecasted jet fuel prices of US \$40 per barrel and an average forecasted foreign exchange rate of approximately 1.41 Canadian dollars to one US dollar.

For the full-year 2016, we continue to forecast capital expenditures between \$830 million and \$850 million, with spending related primarily to aircraft deliveries, deposits on future aircraft, overhauls on owned engines and the installation of a new inflight entertainment system on certain aircraft. For the first quarter of 2016, we expect our capital expenditures to be between \$240 million and \$250 million.

The first quarter and full-year 2016 expected CASM, excluding fuel and employee profit share and capital expenditures are based on an average forecasted foreign exchange rate of approximately 1.41 Canadian dollars to one US dollar.

Guidance summary

		Three months ended March 31, 2016	Year ended December 31, 2016
Guidance summary	RASM	Down 10.0% to 12.0%	
	Fuel cost per litre	47 to 49 cents	
	CASM, excluding fuel and profit share	Up 7.5% to 8.0%	Flat to up 2.0%
	System capacity	Up 6.0% to 6.5%	Up 7.0% to 10.0%
	Domestic capacity	Up 10.0% to 10.5%	Up 3.0% to 4.0%
	Effective tax rate		28% to 30%
	Capital expenditures	\$240 to \$250 million	\$830 to \$850 million

2015 Results of Operations

Capacity

For the year ended December 31, 2015, our overall capacity increased by 5.2 per cent over 2014. This increase is a result of taking aircraft deliveries (please refer to the *Fleet* section of this MD&A, on page 34), and the substitution of larger gauge Boeing 737 NG 800s for the 10 Boeing 737 NG 700s which were sold to Southwest, partially offset by the impact of our new enhanced Plus product which had the effect of taking six seats off every Boeing 737 aircraft in our fleet starting in the fourth quarter of 2015.

The following table depicts our capacity allocation between our domestic, transborder and international markets for the year ended December 31, 2015:

	2015		2014		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	14,883,384,477	55.3%	13,883,212,833	54.3%	7.2%
Transborder and international	12,018,842,882	44.7%	11,700,820,244	45.7%	2.7%
Total	26,902,227,359	100.0%	25,584,033,077	100.0%	5.2%

Our domestic to transborder and international capacity mix remained relatively unchanged year over year. The majority of domestic capacity growth in the year was driven by increased frequencies and new destinations serviced by our growing Bombardier Q400 fleet, new and redeployed Boeing 737 fleet and the addition of two new Boeing 767s in the fourth quarter of 2015. The capacity increase in transborder and international markets was serviced by our new and redeployed Boeing 737 fleet.

For the year ended December 31, 2015, domestic traffic, measured in RPMs, increased 4.0 per cent year over year compared to the 7.2 per cent increase in capacity. The increases in RPMs were lower than the increases in capacity, which is partially a result of industry capacity running ahead of demand in certain markets and the uncertain economic conditions experienced in Alberta.

With regard to our transborder and international markets, RPMs increased by 2.6 per cent over 2014 while capacity increased 2.7 per cent.

Revenue

(\$ in thousands)	2015	2014	Change
Guest	3,557,222	3,599,157	(1.2%)
Other	472,043	377,395	25.1%
Total revenue	4,029,265	3,976,552	1.3%
Load factor	80.0%	81.4%	(1.4 pts)
Yield (cents)	18.72	19.09	(1.9%)
RASM (cents)	14.98	15.54	(3.6%)

For the year ended December 31, 2015 total revenue increased by 1.3 per cent to \$4,029.3 million compared to \$3,976.6 million in 2014. The overall increase in total revenue was driven by an increase in ancillary revenue included in other revenue, partially offset by lower guest revenue resulting from a lower load factor and downward pressure on fares.

On an ASM basis, total revenue decreased by 3.6 per cent to 14.98 from 15.54 cents in the same period of the prior year. The overall demand environment in 2015 was strong compared to the same period in 2014, and load factors held up reasonably well, in light of industry capacity increases in certain markets running ahead of demand.

Other revenue

Included in other revenue are amounts related to ancillary revenue, WestJet Vacations' non-air revenue and our cargo and charter operations. For 2015, other revenue increased by 25.1 per cent to \$472.0 million from \$377.4 million in 2014. This increase was driven mainly by an increase in ancillary revenue.

Ancillary revenue, which includes service fees, our WestJet RBC® MasterCard® program revenue and onboard sales, 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. The following table presents ancillary revenue and ancillary revenue on a per guest basis for the year ended December 31, 2015:

	2015	2014	Change
Ancillary revenue (\$ in thousands)	336,326	216,842	55.1%
Ancillary revenue per guest	16.62	11.05	50.4%

For the year ended December 31, 2015, ancillary revenue was \$336.3 million, an increase of 55.1 per cent from \$216.8 million in the same period of the prior year. This increase is mainly attributable to the introduction of the first bag fee in October 2014. Other areas contributing to the increase include higher guest bookings, an increase in Plus seating upgrade sales as well as higher fees associated with the enhanced Plus product launched in mid-September 2015 and the continued penetration of our WestJet RBC® MasterCard® program. On a per guest basis, ancillary fees for the year increased by 50.4 per cent to \$16.62 per guest, from \$11.05 per guest for 2014. This change is mainly attributable to the introduction of the first bag fee.

WestJet Vacations continues to generate revenue which supports WestJet's overall network. The non-air component of this revenue, which includes hotels, attractions and car rentals, is reported on the consolidated statement of earnings at the net amount. For the year ended December 31, 2015, WestJet Vacations' non-air revenue component declined as the weaker Canadian dollar impacted our margins compared to 2014. The majority of the land components are paid in US dollars, which is netted against the gross revenue collected in Canadian dollars.

Expenses

On December 31, 2015, we transitioned from a functional-based presentation of operating expenses to a nature-based presentation of operating expenses. The transition to a nature-based presentation of operating expenses was done to align more closely with industry reporting practices and enhance comparability with industry peers. Total operating expenses remain unchanged. The following table provides our newly presented financial statement operating expense line items for the current and comparative period (please refer to page 26 under the heading *Nature-Based Reporting* for five years of historical annual operating expenses re-presented).

	Expense (\$ in thousands)			CASM (cents)		
	2015	2014	Change	2015	2014	Change
Aircraft fuel	814,498	1,090,330	(25.3%)	3.03	4.26	(28.9%)
Salaries and benefits	801,715	724,941	10.6%	2.98	2.83	5.3%
Rates and fees	562,745	520,340	8.1%	2.09	2.03	3.0%
Sales and marketing	325,127	325,370	(0.1%)	1.21	1.27	(4.7%)
Depreciation and amortization	264,921	226,740	16.8%	0.98	0.89	10.1%
Aircraft leasing	174,089	182,450	(4.6%)	0.65	0.71	(8.5%)
Maintenance	164,305	126,761	29.6%	0.61	0.50	22.0%
Other	251,147	235,362	6.7%	0.94	0.92	2.2%
Employee profit share	100,965	68,787	46.8%	0.37	0.27	37.0%
Total operating expenses	3,459,512	3,501,081	(1.2%)	12.86	13.68	(6.0%)
Total, excluding fuel and profit share	2,544,049	2,341,964	8.6%	9.46	9.15	3.4%

During the year ended December 31, 2015, operating expenses decreased by 1.2 per cent to \$3,459.5 million as compared to \$3,501.1 million in the same period in 2014, primarily driven by the year-over-year decrease in aircraft fuel expense, partially offset by the increase in our employee profit share expense, maintenance expense, depreciation and amortization expense and salaries and benefits expense.

On an ASM basis, operating expenses for the year ended December 31, 2015 decreased by 6.0 per cent to 12.86 cents from 13.68 cents in 2014. Included in the first half of 2014 is a fuel value added tax recovery (VAT recovery) of \$20.1 million, comprised of \$17.6 million in aircraft fuel expense and \$2.5 million in airport operations expense, related to the periods 2009 to 2013. Excluding the VAT recovery from the comparable period, CASM would have decreased by 6.5 per cent and CASM, excluding fuel and profit share would have increased by 3.2 per cent over the same period in 2014.

Aircraft fuel

	2015	2014	Change
Aircraft fuel expense (\$ in thousands)	814,498	1,090,330	(25.3%)
Aircraft fuel expense as a percent of operating expenses	24%	31%	(7.0 pts)
Fuel consumption (litres)	1,278,079,174	1,214,001,002	5.3%
Fuel cost per litre (cents)	64	90	(28.9%)
Average market price for jet fuel in US dollars (per barrel)	67	117	(42.7%)
Average market price for jet fuel in Canadian dollars (per barrel)	86	129	(33.3%)

Fuel remains a significant cost representing 24 per cent of total operating expenses for the year ended December 31, 2015 (2014 – 31 per cent). Fuel prices continued to be volatile due to global economic and geopolitical factors which we can neither control nor accurately predict. For the year ended December 31, 2015, aircraft fuel expense decreased by 25.3 per cent to \$814.5 million from \$1,090.3 million, primarily due to the year-over-year decrease in the Canadian market price for jet fuel.

Fuel costs per ASM for the year ended December 31, 2015, were 3.03 cents, compared to 4.26 cents in 2014, a decrease of 28.9 per cent year over year. Excluding the VAT recovery in the year ended December 31, 2014, fuel costs per ASM would have been 4.40 cents, a decrease of 31.1 per cent year over year. This decrease was driven by the overall decrease in the Canadian market price of jet fuel.

Our fuel costs per litre for the year ended December 31, 2015 decreased by 28.9 per cent to 64 cents per litre. The market price for jet fuel was US \$67 per barrel for the year ended December 31, 2015 versus US \$117 per barrel in the same period of the prior year, a decrease of approximately 42.7 per cent. The benefit from the lower market price of US-dollar jet fuel on a year-over-year basis was partially offset by the weaker Canadian dollar as the average market price for jet fuel in Canadian dollars decreased by only 33.3 per cent to \$86 per barrel from \$129 per barrel in the fourth quarter of 2014.

For 2016, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US \$8.8 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity to changes in fuel pricing to be approximately \$14.1 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 \$4.3 million on fuel costs.

As at December 31, 2015, we have no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

Salaries and benefits

Our compensation philosophy is designed to align corporate and personal success. We have created a compensation program whereby a portion of our 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. The following table shows the major items included in salaries and benefits expense:

(\$ in thousands)	2015	2014	Change
Salaries and benefits plans	697,685	626,373	11.4%
Employee share purchase plan	86,776	79,942	8.5%
Share-based payment plans	17,254	18,626	(7.4%)
Total salaries and benefits	801,715	724,941	10.6%
Full-time equivalent employees (FTE)	9,211	8,698	5.9%

Salaries and benefits expense for the year ended December 31, 2015 was \$801.7 million, a \$76.8 million or 10.6 per cent increase from \$724.9 million in 2014. Salaries and benefits expense per ASM was 2.98 cents in 2015, representing a 5.3 per cent increase from 2.83 cents in the prior year.

Salaries and benefits plans

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During the twelve months ended December 31, 2015, salaries and benefits increased by 11.4 per cent to \$697.7 million, from \$626.4 million in 2014. This increase is primarily due to the 5.9 per cent increase in our total number of full-time equivalent employees to 9,211 employees at December 31, 2015 (December 31, 2014 – 8,698 employees), and our annual market and merit increases. In addition, 2015 includes a \$5.1 million lump-sum payment associated with the new flight attendant agreement reached in May 2015 and a \$1.1 million lump-sum payment associated with the new WestJet Encore pilot agreement reached in December 2015.

Employee share purchase plan (ESPP)

The ESPP encourages employees to become owners of WestJet and provides employees with the opportunity to significantly enhance their earnings. Under the terms of the ESPP, WestJetters may, dependent on their employment agreement, contribute up to a maximum of between 10 per cent and 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, 2015, approximately 84.6 per cent of our eligible active employees participated in the ESPP, contributing an average of 14.2 per cent of their gross salaries, which remains relatively unchanged from the prior year. Under the terms of the ESPP, we acquire voting shares on behalf of employees through open market purchases. For the year ended December 31, 2015, our matching expense was \$86.8 million, an 8.5 per cent increase from \$79.9 million in 2014, driven largely by the increased number of eligible employees compared to the prior year as well as the overall increase in salaries, as discussed above under the heading *Salaries and benefits plan*.

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, 2015, share-based payment expense totaled \$17.2 million, representing a decrease of 7.4 per cent over the \$18.6 million recognized in the prior year. This decrease relates to fewer eligible executives for the majority of the year as well as a change in the number of options and RSUs elected by pilots in the most recent grant versus the prior year. This was slightly offset by increases made to the estimate of the number of PSU's expected to vest in 2016.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2015 was \$264.9 million, a \$38.2 million or 16.8 per cent increase from \$226.7 million in 2014. Amortization expense per ASM was 0.98 cents in 2015, representing a 10.1 per cent increase from 0.89 cents in the prior year. This year-over-year increase is driven by the overall growth in our fleet, the changing fleet mix and the impact of the devaluation of the Canadian dollar as our aircraft purchases are denominated in US dollars. Also, an adjustment recorded in the third quarter of 2015 associated with Q400 engine overhauls increased the expense in 2015 by approximately \$2.7 million. In the third quarter of 2014, we classified 10 Boeing 737 aircraft, sold to Southwest Airlines, as held-for-sale assets. Therefore while these aircraft generated ASMs prior to their scheduled deliveries, amortization had ceased in accordance with IFRS 5 – Non-current assets held for sale, thus reducing our comparative depreciation expense per ASM.

Maintenance

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

	Expense (\$ in thousands)			CASM (cents)		
	2015	2014	Change	2015	2014	Change
Technical maintenance	101,738	88,328	15.2%	0.38	0.35	8.6%
Maintenance provision	62,567	38,433	62.8%	0.23	0.15	53.3%
Total maintenance	164,305	126,761	29.6%	0.61	0.50	22.0%

Maintenance expense for the year ended December 31, 2015 was \$164.3 million, which represents a \$37.5 million or 29.6 per cent increase from \$126.8 million in 2014. Our maintenance cost per ASM was 0.61 cents in 2015, representing an increase of 22.0 per cent from 0.50 cents in the prior year.

Technical maintenance expense for the year ended December 31, 2015 was \$101.7 million, which represents a \$13.4 million or 15.2 per cent increase from \$88.3 million in 2014. Our technical maintenance cost per ASM was 0.38 cents in 2015, representing an increase of 8.6 per cent from 0.35 cents in the prior year. These year-over-year increases were mainly attributable to the impact of foreign exchange as most of our maintenance costs are denominated in US dollars. As our fleet grows we also have increased the number of maintenance events performed compared to the prior year.

Maintenance provision expense for the year ended December 31, 2015 was \$62.6 million, which represents a \$24.2 million or 62.8 per cent increase from \$38.4 million in 2014. The increase was primarily driven by changes in the projected timing and scope of maintenance activities mainly as a result of lease extension activity throughout 2015 as well as the devaluation of the Canadian dollar. Our provision is calculated based on the best information available to us and includes estimates of the cost and timing of future maintenance activities on leased aircraft, as well as discount rates.

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 in less profitable periods. Our profit share expense for the twelve months ended December 31, 2015, was \$101.0 million, representing a 46.8 per cent increase from \$68.8 million in the prior year. This year-over-year increase is directly attributable to both higher earnings eligible for profit share and to expanded margins eligible for profit share.

Foreign exchange

The gain or loss on foreign exchange included in our consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary assets and liabilities. Monetary assets consist mainly of US-dollar cash 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. As part of our Foreign Currency Risk Management Policy we hold US-dollar-denominated cash and short-term investments and enter into US-dollar foreign exchange forward contracts to protect our balance sheet, operating margins and cash flows. At December 31, 2015, US-dollar-denominated net monetary liabilities totaled approximately US \$24.0 million compared to net monetary assets of US \$6.1 million at December 31, 2014. The decrease in US-dollar-denominated net monetary assets compared to 2014 year

end is largely due to an increase in US-dollar-denominated payables and maintenance provisions, while US-dollar-denominated assets remained relatively stable. We reported a foreign exchange loss of \$10.3 million for the twelve months ended December 31, 2015 on the revaluation of our US-dollar-denominated monetary assets and liabilities (December 31, 2014 – loss of \$2.1 million).

We periodically use financial derivatives to manage our exposure to foreign exchange risk. In September 2015, we expanded our foreign exchange hedging program to include a portion of our future US-dollar hotel costs associated with vacation packages in addition to our existing program covering certain US-dollar aircraft lease payments. A significant portion of vacation package costs relate to hotels, which are predominantly denominated and payable in US dollars. At December 31, 2015, to fix the exchange rate on a portion of our US-dollar-denominated hotel costs and aircraft lease payments, we have foreign exchange forward contracts for an average of US \$19.0 million per month for the period of January 2016 to December 2016, for a total of US \$228.1 million, at a weighted average contract price of 1.3069 Canadian dollars to one US dollar. We have designated certain contracts under our foreign exchange hedging program for cash flow hedge accounting, while other contracts do not qualify for hedge accounting. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in hedge reserves, while any ineffective portion is recorded directly to net earnings as a non-operating gain or loss. Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves are recorded in net earnings as a component of the expenditure to which they relate. Those contracts not designated under cash flow hedge accounting have the change in fair value recorded directly in net earnings as a non-operating gain or loss. At December 31, 2015, no portion of the forward contracts designated under cash flow hedge accounting 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 at December 31, 2015 and 2014 and on the consolidated statement of earnings for the years ended December 31, 2015 and 2014.

(\$ in thousands)	Statement presentation	2015	2014
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	17,409	6,409
Fair value	Accounts payable and accrued liabilities	(51)	(49)
Unrealized gain	Hedge reserves (before tax)	15,770	6,360

(\$ in thousands)	Statement presentation	2015	2014
Statement of Earnings:			
Realized gain	Aircraft leasing	21,515	9,498
Realized gain	Other revenue	608	—
Realized and unrealized gain	Gain on derivatives	1,765	—

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 rate obtained from the counterparty, which can be observed and corroborated in the marketplace.

For 2016, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$7.5 million on our annual unhedged operating costs (approximately \$4.3 million for fuel expense and \$3.2 million related to other US-dollar-denominated operating expenses).

We also have a significant amount of our future purchase obligations, including certain aircraft, exposed to foreign exchange risk. At December 31, 2015, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar would have an approximate impact of \$35.0 million on our future US-dollar-denominated purchase obligations.

Income taxes

Our effective consolidated income tax rate for both the three and twelve months ended December 31, 2015 was 32 per cent and 29 per cent respectively, as compared to 27 per cent for the same periods in 2014. The year-over-year increase in our effective rate for both the three and twelve months ended December 31, 2015, was due to a 20 per cent increase to the general corporate income tax rate in Alberta to 12 per cent, from 10 per cent, effective July 1, 2015, which resulted in an increase to deferred income taxes of \$2.6 million in 2015.

For 2016, we anticipate that our annual effective tax rate will fall within in the range of 28 to 30 per cent.

2015 Fourth Quarter Results of Operations

Our 2015 fourth quarter financial results represent our 43rd consecutive quarter of reported profitability with net earnings of \$63.4 million and diluted earnings per share of \$0.51 representing year-over-year declines of 30.1 per cent and 27.1 per cent, respectively. During the quarter, our revenue decreased by 3.6 per cent as compared to the fourth quarter of 2014 while RASM decreased 5.8 per cent year over year.

Fourth quarter overview

- Recognized total revenue of \$958.7 million, a decrease of 3.6 per cent from \$994.4 million in the fourth quarter of 2014.
- Increased capacity, measured in ASMs, by 2.3 per cent over the fourth quarter of 2014.
- Increased traffic, measured in RPMs, by 0.6 per cent over the fourth quarter of 2014.
- Realized yield of 18.75 cents, down 4.2 per cent from 19.57 in the fourth quarter of 2014.
- Realized RASM of 14.69 cents, down 5.8 per cent from 15.59 cents in the fourth quarter of 2014.
- Realized CASM of 12.97 cents, down 3.2 per cent from 13.40 cents in the fourth quarter of 2014.
- Realized CASM, excluding fuel and employee profit share, of 10.04 cents, up 9.0 per cent from 9.21 cents in the fourth quarter of 2014.
- Recorded an operating margin of 11.8 per cent, down 2.2 percentage points from 14.0 per cent in the fourth quarter of 2014.
- Recorded an EBT margin of 9.7 per cent, down 2.9 percentage points from 12.6 per cent in the fourth quarter of 2014.
- Realized net earnings of \$63.4 million, a decrease of 30.1 per cent from \$90.7 million in the fourth quarter of 2014.
- Reported diluted earnings per share of \$0.51, down 27.1 per cent from \$0.70 in the fourth quarter of 2014.

The following table presents our fourth quarter 2015 financial and operational summary:

(\$ in thousands, unless otherwise noted)	Three months ended December 31		
	2015	2014	Change
Financial summary			
Revenue	958,715	994,394	(3.6%)
Operating expenses	846,028	854,787	(1.0%)
Earnings from operations	112,687	139,607	(19.3%)
Operating margin (per cent) ⁽ⁱ⁾	11.8%	14.0%	(2.2 pts)
Earnings before tax	92,628	124,816	(25.8%)
EBT margin (per cent) ⁽ⁱ⁾	9.7%	12.6%	(2.9 pts)
Net earnings	63,436	90,713	(30.1%)
Earnings per share:			
Basic	0.51	0.71	(28.2%)
Diluted	0.51	0.70	(27.1%)
Cash dividends declared per share	0.14	0.12	16.7%
Operational summary			
ASMs	6,524,788,975	6,378,247,018	2.3%
RPMS	5,114,188,857	5,081,440,294	0.6%
Load factor	78.4%	79.7%	(1.3pts)
Yield (cents)	18.75	19.57	(4.2%)
RASM (cents)	14.69	15.59	(5.8%)
CASM (cents)	12.97	13.40	(3.2%)
CASM, excluding fuel and employee profit share (cents) ⁽ⁱ⁾	10.04	9.21	9.0%
Fuel consumption (litres)	317,477,003	300,254,948	5.7%
Fuel costs per litre (cents)	57	81	(29.6%)
Segment guests	4,893,020	4,826,149	1.4%
Average stage length (miles)	887	925	(4.1%)
Departures	53,284	48,676	9.5%
Utilization (hours)	11.2	11.6	(3.4%)
Full-time equivalent employees at period end	9,211	8,698	5.9%

(i) Please refer to page 55 and 56 of this MD&A for definitions of key operating indicators and a reconciliation of the non-GAAP measures and additional GAAP measures.

Capacity

For the three months ended December 31, 2015, our overall capacity increased by 2.3 per cent over the same periods in 2014. This increase is a result of taking aircraft deliveries (please refer to the *Fleet* section of this MD&A, on page 34) and the substitution of larger gauge Boeing 737 NG 800s for the 10 Boeing 737 NG 700s, which were sold to Southwest, partially offset by the impact of our new enhanced Plus product. This capacity increase was outside our previously disclosed guidance for the fourth quarter of 2015, of up 1.5 to 2.0 per cent, primarily driven by the redeployment of our Boeing 767 on domestic routes and the increased frequency in which we flew the Boeing 767, in order to achieve extended-range twin-engine operations (ETOP) certification.

The following tables depict our capacity allocation between our domestic, transborder and international markets for the three months ended December 31, 2015:

	Three months ended December 31				
	2015		2014		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	3,421,179,189	52.4%	3,141,759,184	49.3%	8.9%
Transborder and international	3,103,609,786	47.6%	3,236,487,834	50.7%	(4.1%)
Total	6,524,788,975	100.0%	6,378,247,018	100.0%	2.3%

Our domestic to transborder and international capacity mix slightly shifted as we experienced a capacity reduction in our transborder and international markets in the fourth quarter of 2015 compared to the same period of 2014. The majority of domestic capacity growth in the quarter was driven by increased frequencies and new destinations serviced by our growing Bombardier Q400 fleet and our first two Boeing 767s.

For the three months ended December 31, 2015, our domestic traffic, measured in RPMs, increased by 2.0 per cent year over year as compared to the 8.9 per cent increase in capacity. The increases in RPMs were lower than the increases in capacity, which is partially a result of industry capacity running ahead of demand in certain markets and the severe downturn in the energy sector.

With regard to our transborder and international markets, RPMs decreased by 0.7 per cent over the fourth quarter of 2014 while capacity decreased 4.1 per cent.

Revenue

(\$ in thousands)	Three months ended December 31		
	2015	2014	Change
Guest	842,546	884,771	(4.8%)
Other	116,169	109,623	6.0%
Total revenue	958,715	994,394	(3.6%)
Load factor	78.4%	79.7%	(1.3pts.)
Yield (cents)	18.75	19.57	(4.2%)
RASM (cents)	14.69	15.59	(5.8%)

During the fourth quarter of 2015, total revenue decreased by 3.6 per cent to \$958.7 million compared to \$994.4 million in the same quarter of 2014. For the three months ended December 31, 2015, revenue on an ASM basis decreased by 5.8 per cent to 14.69 cents from 15.59 cents in the same quarter of 2014. These year-over-year decreases were due to a decline in guest revenue resulting from downward pressure on our fares and a lower load factor driven by industry capacity continuing to run ahead of demand in certain markets and the severe downturn in the energy sector. Partially offsetting these declines was the increase in ancillary revenue included in other revenue.

Other revenue

Other revenue increased by 6.0 per cent to \$116.2 million for the fourth quarter of 2015, from \$109.6 million in the same period of the prior year. This increase was driven mainly by an increase in ancillary revenue. The following table presents ancillary revenue and ancillary revenue on a per guest basis for the three months ended December 31, 2015:

	Three months ended December 31		
	2015	2014	Change
Ancillary revenue (\$ in thousands)	79,832	66,971	19.2%
Ancillary revenue per guest	16.39	13.89	18.0%

For the three months ended December 31, 2015 ancillary revenue was \$79.8 million, an increase of 19.2 per cent from \$67.0 million in the same quarter of 2014. On a per guest basis, ancillary fees for the quarter increased by 18.0 per cent to \$16.39 per guest, from \$13.89 per guest during the fourth quarter of 2014. These increases are mainly attributable to the introduction of the first bag fee in October 2014. Other areas contributing to the increase include higher fees associated with the enhanced Plus product that we introduced in mid-September 2015 and the continued penetration of our WestJet RBC® MasterCard⁺ program.

Expenses

On December 31, 2015, we transitioned from a functional-based presentation of operating expenses to a nature-based presentation of operating expenses. The transition to a nature-based presentation of operating expenses was done to align more closely with industry reporting practices and enhance comparability with industry peers. Total operating expenses remain unchanged. The following table provides our newly presented financial statement operating expense line items for the current and comparative period (please refer to page 26 under the heading *Nature-Based Reporting* for five years of historical annual operating expenses re-presented).

	Expense (\$ in thousands)			CASM (cents)		
	Three months ended Dec 31			Three months ended Dec 31		
	2015	2014	Change	2015	2014	Change
Aircraft fuel	182,181	243,816	(25.3%)	2.79	3.82	(27.0%)
Salaries and benefits	198,310	184,210	7.7%	3.04	2.89	5.2%
Rates and fees	139,534	128,289	8.8%	2.14	2.01	6.5%
Sales and marketing	84,009	85,852	(2.1%)	1.29	1.35	(4.4%)
Depreciation and amortization	75,237	54,696	37.6%	1.15	0.86	33.7%
Aircraft leasing	41,881	45,546	(8.0%)	0.64	0.71	(9.9%)
Maintenance	47,160	24,927	89.2%	0.72	0.39	84.6%
Other	68,847	64,052	7.5%	1.06	1.00	6.0%
Employee profit share	8,869	23,399	(62.1%)	0.14	0.37	(62.2%)
Total operating expenses	846,028	854,787	(1.0%)	12.97	13.40	(3.2%)
Total, excluding fuel and profit share	654,978	587,572	11.5%	10.04	9.21	9.0%

During the three months ended December 31, 2015, operating expenses decreased by 1.0 per cent compared to the same period in 2014. On an ASM basis, operating expenses decreased by 3.2 per cent to 12.97 cents from 13.40 cents in the same period in 2014. This decrease was largely driven by decreases in aircraft fuel expense and our employee profit share expense, partially offset by the increase in maintenance expense and depreciation and amortization expense.

Aircraft fuel

	Three months ended December 31		
	2015	2014	Change
Aircraft fuel expense (\$ in thousands)	182,181	243,816	(25.3%)
Aircraft fuel expense as a percent of operating expenses	22%	29%	(7.0 pts)
Fuel consumption (litres)	317,477,003	300,254,948	5.7%
Fuel cost per litre (cents)	57	81	(29.6%)
Average market price for jet fuel in US dollars (per barrel)	57	101	(43.6%)
Average market price for jet fuel in Canadian dollars (per barrel)	76	114	(33.3%)

Fuel remains a significant cost representing 22 per cent of total operating expenses for the three months ended December 31, 2015 (three months ended December 31, 2014 – 29 per cent). For the three months ended December 31, 2015, aircraft fuel expense decreased by 25.3 per cent to \$182.2 million from \$243.8 million primarily due to the year-over-year decrease in the Canadian market price for jet fuel. Fuel costs per ASM for the three months ended December 31, 2015, were 2.79 cents compared to 3.82 cents for the comparable period of 2014, a decrease of 27 per cent year over year.

Our fuel costs per litre for the three months ended December 31, 2015 decreased by 29.6 per cent to 57 cents per litre. On average, the market price for jet fuel was US \$57 per barrel in the fourth quarter of 2015 versus US \$101 per barrel in the fourth quarter of 2014, a decrease of approximately 43.6 per cent. The benefit from the lower market price of US-dollar jet fuel on a year-over-year basis was partially offset by the weaker Canadian dollar as the average market price for jet fuel in Canadian dollars decreased by only 33.3 per cent to \$76 per barrel from \$114 per barrel in the fourth quarter of 2014.

Depreciation and amortization

Depreciation and amortization expense for the three months ended December 31, 2015 was \$75.2 million, a \$20.5 million or 37.6 per cent increase from \$54.7 million in the comparable period of 2014. Amortization expense per ASM was 1.15 cents in the fourth quarter of 2015, representing a 33.7 per cent increase from 0.86 cents in the same period of the prior year. These year-over-year increases are due to the overall growth in our fleet, the changing fleet mix and the impact of the devaluation of the Canadian dollar as our aircraft purchases are denominated in US dollars. In the third quarter of 2014, we classified 10 Boeing 737 aircraft, sold to Southwest Airlines, as held-for-sale assets. Therefore while these aircraft generated ASMs prior to their scheduled deliveries, amortization had ceased in accordance with IFRS 5 – Non-current assets held for sale, thus reducing our comparative depreciation expense per ASM.

Maintenance

(\$ in thousands)	Three months ended December 31					
	Expense (\$ in thousands)			CASM (cents)		
	2015	2014	Change	2015	2014	Change
Technical maintenance	28,016	17,958	56.0%	0.43	0.28	53.6%
Maintenance provision	19,144	6,969	174.7%	0.29	0.11	163.6%
Total maintenance	47,160	24,927	89.2%	0.72	0.39	84.6%

Maintenance expense for the three months ended December 31, 2015, was \$47.2 million, which represents a \$22.2 million or 89.2 per cent increase from \$24.9 million in the comparable period of 2014. Our maintenance cost per ASM was 0.72 cents in the fourth quarter of 2015, representing an increase of 84.6 per cent from 0.39 cents in the comparable period of the prior year. These year-over-year increases are mainly due to the devaluation of the Canadian dollar as most maintenance costs are denominated in US dollars and increased the number of maintenance events performed compared to the prior year. In addition, our maintenance provision for leased aircraft increased due to changes in the projected timing and scope of maintenance activities mainly as a result of lease extension activity throughout 2015, a write-off of approximately \$4.3 million related to certain maintenance reserves that are no longer deemed to be recoverable and the lower comparable period which included vendor credits applied against 2014 maintenance activities as well as a maintenance reserve recovery of \$1.6 million.

Summary of Quarterly Results

(\$ in thousands, except per share data)	Three months ended			
	Dec. 31 2015	Sep. 30 2015	Jun. 30 2015	Mar. 31 2015
Total revenue	958,715	1,045,055	941,998	1,083,497
Net earnings	63,436	101,803	61,554	140,737
Basic earnings per share	0.51	0.82	0.49	1.11
Diluted earnings per share	0.51	0.82	0.49	1.09

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

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

Nature-based reporting

IFRS requires a presentation choice for the statement of comprehensive income regarding the classification of operating expenses based on either their nature or their function within the entity. On December 31, 2015, we transitioned from a functional-based presentation of operating expenses to a nature-based presentation of operating expenses. Our functional-based presentation of operating expenses was aligned with the internal corporate organization for accountability and decision-making. The transition to a nature-based presentation of operating expenses was done to externally align more closely with industry reporting practices and enhance comparability with industry peers.

Under the new nature-based presentation for operating expenses, there have been no changes to the presentation of aircraft fuel expense, depreciation and amortization expense, aircraft leasing expense or employee profit share expense line items as these expenses items were already presented by their nature. Total operating expenses also remain unchanged and no other statement of comprehensive income line items nor any other financial statements were affected by this transition. There was no impact to profitability, net earnings or net earnings per share.

The following summarizes the operating expenses that transitioned from a functional-based presentation to a nature-based presentation:

Airport operations – Airport operations was previously a combination of salaries and benefits, airport rates and fees and deicing costs. Salaries and benefits are now presented as total Salaries and benefits in one line item while airport rates and fees are presented in Rates and fees and de-icing related costs are now presented in Other expenses.

Flight operations – Flight operations was previously a combination of salaries and benefits, flight and navigation fees and costs related to irregular operations. Salaries and benefits are now presented as total Salaries and benefits in one line item while flight and navigation fees are presented as Rates and fees and costs related to irregular operations are now presented in Other expenses.

Inflight – Inflight was previously a combination of salaries and benefits and flight attendant travel and training costs. Salaries and benefits are now presented as total Salaries and benefits in one line item while flight attendant travel and training are now presented in Other expenses.

Maintenance – Maintenance was previously a combination of salaries and benefits and operating maintenance expenditures for aircraft, including the Corporation's maintenance provision expenses related to aircraft operating leases. Salaries and benefits are now presented as total Salaries and benefits in one line item while operating maintenance expenditures and the maintenance provision for aircraft will continue to be presented as Maintenance.

Sales and distribution – Sales and distribution was previously a combination of salaries and benefits and selling and distribution costs related to our global distribution systems. Salaries and benefits are now presented as total Salaries and benefits in one line item while selling and distribution costs are now presented as Sales and marketing.

Marketing, general and administration – Marketing, general and administration was previously a combination of salaries and benefits, advertising and sponsorship costs, professional fees and insurance costs. Salaries and benefits are now presented as total Salaries and benefits in one line item, advertising and sponsorship costs are now presented in Sales and marketing and professional fees and insurance costs are now presented in Other expenses.

The table below presents the first, second and third quarters of 2015 and 2014 summary of nature-based operating expenses:

	Three months ended				
(\$ in thousands, unless otherwise noted)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Dec. 31, 2015
Operating expenses:					
Aircraft fuel	210,445	214,948	206,924	182,181	814,498
Salaries and benefits	203,081	202,513	197,811	198,310	801,715
Rates and fees	134,190	138,516	150,505	139,534	562,745
Sales and marketing	82,723	74,376	84,019	84,009	325,127
Depreciation and amortization	57,179	62,766	69,739	75,237	264,921
Aircraft leasing	47,655	43,981	40,572	41,881	174,089
Maintenance	35,477	37,009	44,659	47,160	164,305
Other	65,824	58,142	58,334	68,847	251,147
Employee profit share	49,763	9,359	32,974	8,869	100,965
Total operating expenses	886,337	841,610	885,537	846,028	3,459,512

	Three months ended				
(\$ in thousands, unless otherwise noted)	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Dec. 31, 2014
Operating expenses:					
Aircraft fuel	284,836	274,861	286,817	243,816	1,090,330
Salaries and benefits	183,834	179,438	177,459	184,210	724,941
Rates and fees	126,643	127,980	137,428	128,289	520,340
Sales and marketing	83,803	73,770	81,945	85,852	325,370
Depreciation and amortization	61,022	54,402	56,620	54,696	226,740
Aircraft leasing	49,108	44,714	43,082	45,546	182,450
Maintenance	36,038	33,959	31,837	24,927	126,761
Other	64,216	57,423	49,671	64,052	235,362
Employee profit share	20,998	5,351	19,039	23,399	68,787
Total operating expenses	910,498	851,898	883,898	854,787	3,501,081

The table below presents a five year annual summary of nature-based operating expenses:

(\$ in thousands, unless otherwise noted)	2015	2014	2013	2012	2011
Operating expenses:					
Aircraft fuel	814,498	1,090,330	1,039,448	992,787	915,878
Salaries and benefits	801,715	724,941	669,767	617,171	552,446
Rates and fees	562,745	520,340	477,674	446,104	428,122
Sales and marketing	325,127	325,370	316,437	296,081	280,620
Depreciation and amortization	264,921	226,740	200,840	185,401	174,751
Aircraft leasing	174,089	182,450	175,646	173,412	165,571
Maintenance	164,305	126,761	110,591	101,606	100,890
Other	251,147	235,362	220,707	192,542	172,907
Employee profit share	100,965	68,787	51,577	46,585	23,804
Total operating expenses	3,459,512	3,501,081	3,262,687	3,051,689	2,814,989

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 US 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 of the flights originally scheduled. Our bag ratio represents the number of delayed, lost, damaged or pilfered baggage claims made per 1,000 guests.

	Three months ended December 31			Twelve months ended December 31		
	2015	2014	Change	2015	2014	Change
On-time performance	85.4%	80.6%	4.8 pts.	85.3%	78.9%	6.4 pts.
Completion rate	99.0%	98.7%	0.3 pts.	98.6%	98.6%	—
Bag ratio	3.53	4.03	(12.4%)	3.75	4.66	(19.5%)

For the three and twelve months ended December 31, 2015, our on-time performance increased by 4.8 and 6.4 percentage points, respectively, compared to the same periods of 2014. These increases are a result of our continued focus on improving on-time performance leading to an overall decrease in departure delay occurrences as compared to the same periods in the prior year. This also contributed to our bag ratio improvement of 12.4 per cent and 19.5 per cent for the three and twelve months ended December 31, 2015 on a year-over-year basis. For 2015, WestJet placed second overall for on-time performance among North American airlines and WestJet Encore, as a regional airline, placed first overall. Our on-time performance for the fourth quarter of 2015 marks the tenth consecutive quarter of improved year over year on-time performance for WestJet. We continue to place our internal focus and efforts on safely performing on time.

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 the fourth quarter of 2015 with a cash and cash equivalents balance of \$1,183.8 million, compared to \$1,358.1 million at December 31, 2014. The decrease in our cash position is primarily the result of significant aircraft acquisitions and a larger share buy-back program during the year. These cash outflows are partially offset by strong operating cash inflows, which were up year over year.

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, 2015, was \$620.2 million, an increase of 7.7 per cent from \$575.8 million at December 31, 2014. 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, 2015, we had cash on hand of 1.91 (December 31, 2014 – 2.36) times our advance ticket sales balance.

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

	December 31 2015	December 31 2014	Change
Cash to trailing 12 months revenue (TTM) ⁽ⁱ⁾⁽ⁱⁱ⁾	29.4%	34.2%	(4.8 pts)
Adjusted debt-to-equity ratio ⁽ⁱ⁾	1.27	1.44	(11.8%)
Adjusted net debt to EBITDAR ⁽ⁱ⁾	1.29	1.43	(9.8%)
Adjusted net debt to adjusted EBITDAR ⁽ⁱ⁾⁽ⁱⁱⁱ⁾	1.29	1.36 ⁽ⁱⁱⁱ⁾	(5.1)

(i) Please refer to page 56 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

(ii) In addition to our cash and cash equivalents, as of December 31, 2015, we have available our entire \$300.0 million revolving credit facility that expires in June 2018 (please refer to the section *Financing* found on page 31 of this MD&A).

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

As of December 31, 2015, our cash to TTM revenue ratio was 29.4 per cent, compared to 34.2 per cent at December 31, 2014, representing a decrease of 4.8 percentage points due to a decrease in our cash and cash equivalents balance. At December 31, 2015 our adjusted debt-to-equity ratio of 1.27 improved from 1.44 at December 31, 2014. Our adjusted net debt to EBITDAR and our adjusted net debt to adjusted EBITDAR ratios of 1.29, have both improved from 1.43 and 1.36, respectively, at December 31, 2014. These improvements are in line with our expectations and are a result of our strong earnings.

Our current ratio, defined as current assets over current liabilities, was 0.97 at December 31, 2015 as compared to 1.29 at December 31, 2014, a decrease of 24.8 per cent due primarily to increases in accounts payable and accrued liabilities, our liabilities related to our WestJet Rewards Program, and the current portion of our aircraft maintenance provision as well as a decrease in our cash and cash equivalents and the absence of an assets held for sale balance that was present in the prior year.

Select cash flow information

(\$ in thousands)	2015	2014	Change
Cash provided by operating activities	876,441	576,633	299,808
Cash used by investing activities	(822,932)	(665,131)	(157,801)
Cash (used) provided by financing activities	(259,030)	170,008	(429,038)
Cash flow from operating, investing and financing activities	(205,521)	81,510	(287,031)
Effect of foreign exchange on cash and cash equivalents	31,247	20,556	10,691
Net change in cash and cash equivalents	(174,274)	102,066	(276,340)
Cash and cash equivalents, beginning of period	1,358,071	1,256,005	102,066
Cash and cash equivalents, end of period	1,183,797	1,358,071	(174,274)

Operating cash flows

For the year ended December 31, 2015, our cash flow from operations increased 52.0 per cent to \$876.4 million compared to \$576.6 million in the prior year. Similarly, on a per share basis, for the year ended December 31, 2015, our cash flow from operations increased 55.7 per cent to \$6.96 per share compared to \$4.47 per share in the prior year (please refer to page 56 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures). This year-over-year increase was primarily the result of stronger earnings and contributions from working capital.

At December 31, 2015, restricted cash consisted of \$53.6 million (December 31, 2014 – \$47.8 million) for cash held in trust by WestJet Vacations; \$13.4 million (December 31, 2014 – \$9.5 million) for security on letters of guarantee; and, in accordance with U.S. regulatory requirements, \$1.6 million (December 31, 2014 – \$0.8 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

For the year ended December 31, 2015, cash flow used for investing activities totaled \$822.9 million compared to \$665.1 million in the prior year. Our investing activities during 2015 related primarily to the delivery of 12 Boeing 737 aircraft, nine Q400 aircraft, two Boeing 767 aircraft and additional deposits for future Boeing 737 and Q400 aircraft as well as overhauls of owned engines, installation of new inflight entertainment and slim-line seats with power.

Financing cash flows

For the year ended December 31, 2015, our financing cash outflows totaled \$259.0 million as compared to financing cash inflows of \$170.0 million in the prior year. Our financing activities in 2015 consisted primarily of cash outflows of \$123.8 million related to shares repurchased pursuant to our normal course issuer bid, dividends paid of \$69.7 million and debt repayments of principal and interest of \$218.8 million. In contrast, the prior year had financing cash inflows, primarily due to proceeds from our \$400 million Senior Unsecured Notes.

Free cash flow

Free cash flow is a non-GAAP measure that represents the cash that a company is able to generate after meeting its requirements to maintain or expand its asset base. It is a calculation of operating cash flow, less the amount of cash used in investing activities related to property and equipment. Our free cash flow for the year ended December 31, 2015, was positive \$53.5 million compared to negative \$88.5 million in the prior year. On a per share basis, this equated to \$0.42 per share for the year ended December 31, 2015, compared to negative \$0.69 per share in the prior year. These improvements are a result of increased operating cash flow year over year due primarily to stronger earnings and contributions from working capital.

Please refer to page 56 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

Financing

We have grown through acquisitions of Boeing 737 NG, Boeing 767 and Bombardier Q400 aircraft. During 2015, all nine of our Q400 aircraft deliveries were financed by individual secured term loans with EDC for approximately 80 per cent of the purchase price of the aircraft. We also took delivery of 12 Boeing 737 NG 800 series aircraft and two Boeing 767 aircraft in 2015, funded with cash. At December 31, 2015, we had secured loans financing 44 Boeing 737 NG aircraft and 24 Q400 aircraft with a remaining debt balance of \$776.9 million, net of transaction costs. This debt is financed in Canadian dollars and has no financial covenants associated with it. Including our Senior Unsecured Notes, our total outstanding debt balance at December 31, 2015 is \$1,174.8 million, net of transaction costs.

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 these loans. Upon proper qualification, we designated the interest rate swap contracts as effective cash flow hedges for accounting purposes. At December 31, 2015, no portion of the interest rate swap agreements designated as cash flow hedges 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, 2015 and December 31, 2014 and on the consolidated statement of earnings for the years ended December 31, 2015 and 2014.

(\$ in thousands)	Statement presentation	2015	2014
Statement of Financial Position:			
Fair value	Accounts payable and accrued liabilities	4,475	2,809
Fair value	Other liabilities	8,489	4,845
Unrealized loss	Hedge reserves (before tax impact)	12,026	7,654

(\$ in thousands)	Statement presentation	2015	2014
Statement of Earnings:			
Realized loss	Finance costs	3,515	3,225
Unrealized loss	Loss on derivatives	938	—

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.

We currently have an \$820 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. Under the terms of the agreement, availability of any undrawn amount will expire at the end of 2018. The expected amount available as financing support 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 installments. At December 31, 2015, we have \$422.0 million undrawn under the loan agreement.

In March 2015, we increased our syndicated revolving credit facility to \$300 million from \$250 million and extended the maturity to June 2018 from June 2017, with an option to extend the three year term on an annual basis. The credit facility is available for general corporate purposes, including the funding of future aircraft acquisitions. Funds from the revolving credit facility can be drawn by way of: (i) Canadian dollar prime loans, (ii) US dollar base rate loans, (iii) US dollar LIBOR loans, (iv) Canadian dollar bankers' acceptances, and (v) Canadian or US dollar fronted letters of credit. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on the Corporation's debt rating. At December 31, 2015, we have not drawn on our revolving credit facility and therefore the undisbursed portion of the credit facility was \$300 million. We pay a standby fee for the undisbursed portion of the credit facility. Our revolving credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. At December 31, 2015, the Corporation was in compliance with both ratios.

On January 5, 2016, we entered into an unsecured, non-revolving \$300 million 4-year term credit facility with a syndicate of banks. The credit facility is available for general corporate purposes, including the funding of future aircraft acquisitions. Funds from the credit facility can be drawn by way of Canadian dollar prime loans or Canadian dollar bankers' acceptances. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on our corporate BBB-debt rating. On January 7, 2016, we drew the full \$300 million available under the term facility using Canadian dollar bankers' acceptances. The credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. On December 11, 2015 we entered into an interest rate swap agreement to fix the interest rate at 2.757% over the 4-year term of the facility.

At December 31, 2015, we have not made any commitments for future aircraft financing, except our loan agreement with EDC and our term credit facility described above. Our credit rating, originally received in the first quarter of 2014, remains in good standing and is an important factor that is expected to provide WestJet with a range of public and private debt financing options in the future. We continue to evaluate the optimum balance and sources of financing available to us based on our internal requirements and capital structure as well as the external environment for aircraft financing.

Contractual obligations and commitments

At December 31, 2015, our contractual obligations and commitments are indicated in the following table. In the table, all US-dollar amounts have been converted at the December 31, 2015 foreign exchange rate and presented in Canadian dollars.

(\$ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years
Long-term debt repayments ⁽ⁱ⁾	1,342,203	182,182	275,159	564,331	320,531
Leases and commitments ⁽ⁱⁱ⁾	1,087,660	317,041	418,144	227,798	124,677
Purchase obligations ⁽ⁱⁱⁱ⁾	5,103,236	614,303	1,136,713	988,923	2,363,297
Total contractual obligations	7,533,099	1,113,526	1,830,016	1,781,052	2,808,505

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

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

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

Our future US-dollar-denominated purchase commitments, including certain aircraft, are exposed to foreign exchange risk (please refer to the heading called *Foreign exchange* found on page 19 of this MD&A). We plan to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of financing. We continuously monitor the capital markets and assess financing alternatives available to us for our future aircraft deliveries. At this time, we are not aware of, nor do we reasonably expect, adverse changes to our future ability to access similar or other generally available sources of liquidity.

Contingencies

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

Fleet

During 2015, we took delivery of nine Bombardier Q400 aircraft, 12 Boeing 737 NG 800 series aircraft and two Boeing 767 aircraft to end the year with a registered fleet of 140 aircraft with an average age of 6.7 years.

In addition to our aircraft deliveries in 2015, we completed the last five deliveries of our oldest Boeing 737 NG 700 series aircraft sold to Southwest. Overall for the year we recognized a gain of \$4.9 million on assets held for sale. We also extended a total of nine aircraft leases (six Boeing 737 NG 700 series and three Boeing 737 NG 800 series aircraft) in 2015. This includes five previously scheduled to expire in 2015 and four previously scheduled to expire in 2016, where one was extended within 2016. Finally, we converted six of our purchase options with Bombardier to firm orders for Bombardier Q400 aircraft, expected to be delivered in 2016 and 2017.

As we continue to increase the proportion of Q400s in our fleet, our combined average stage length, calculated using a departures based methodology in line with industry standards, will be negatively impacted until such time that the aircraft mix in our fleet is stable. Our Q400s are used for short-haul flying which results in an increase in the number of departures compared to our Boeing 737 NG aircraft. For the three and twelve months ended December 31, 2015, our combined average stage length of 887 and 910 miles decreased by 4.1 per cent and 2.8 per cent, respectively, compared to the combined average stage length of 925 miles and 936 miles for the same periods in 2014. On a fleet basis, for the three and twelve months ended December 31, 2015, our Bombardier Q400 average stage length increased by 5.7 per cent and 8.4 per cent and our Boeing 737 NG stage length increased by 0.2 per cent and 2.4 per cent, respectively.

The combination of our firm commitments and our lease renewal options help us to optimize the size and age of our fleet. This provides us with the flexibility within our firm commitments to end 2027 with a fleet size between 181 and 225 aircraft, depending on future decisions to exercise options to purchase and to renew leases.

The following table illustrates our Boeing NG 737, Boeing 767 and Bombardier Q400 fleet as at December 31, 2015 and 2014 as well as our firm commitments through to 2027.

	Total		Future Deliveries							Total
	Dec. 31, 2014	Dec. 31, 2015	2016	2017	2018	2019-20	2021-23	2024-27	Total	2027
Boeing narrow body										
737-600 NG	13	13	—	—	—	—	—	—	—	13
737-700 NG ⁽ⁱ⁾	64	59	—	—	—	—	—	—	—	59
737-800 NG ⁽ⁱⁱ⁾	30	42	5	1	—	—	—	—	6	48
737 MAX 7 ^{(iii)(iv)}	—	—	—	—	—	6	4	15	25	25
737 MAX 8 ^{(iii)(iv)}	—	—	—	4	7	12	11	6	40	40
Boeing wide body										
767-300 ERW	—	2	2	—	—	—	—	—	2	4
Boeing aircraft	107	116	7	5	7	18	15	21	73	189
Lease expiries	—	—	(3)	(6)	(9)	(12)	(14)	—	(44)	(44)
Boeing aircraft after lease expiries	107	116	4	(1)	(2)	6	1	21	29	145
Bombardier										
Q400 NextGen ^(v)	15	24	10	2	—	—	—	—	12	36
Fleet	122	140	17	7	7	18	15	21	85	225
Fleet after lease expiries	122	140	14	1	(2)	6	1	21	41	181

(i) At December 31, 2015, of the 59 Boeing 737 NG 700 aircraft in our fleet, 30 are leased (Dec. 31, 2014 – 30) and 29 are owned (Dec. 31, 2014 – 34). The reduction from 64 to 59 represents the delivery of five Boeing 737 NG 700 series aircraft to Southwest Airlines.

(ii) At December 31, 2015, of the 42 Boeing 737 NG 800 aircraft in our fleet, 14 are leased (Dec. 31, 2014 – 14) and 28 are owned (Dec. 31, 2014 – 16).

(iii) We have options to purchase an additional 10 Boeing 737 MAX aircraft between the years 2020 and 2021.

(iv) 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.

(v) We have options to purchase an additional 9 Bombardier Q400 aircraft for delivery between the years 2017 to 2018.

Off-Balance Sheet Arrangements and Related-Party Transactions

Aircraft operating leases

We currently have 44 Boeing 737 aircraft under operating leases. Future cash flow commitments in connection with these aircraft totaled US \$466.6 million at December 31, 2015 (December 31, 2014 – US \$542.7 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 under the heading “*Liquidity*”.

Fuel and de-icing facility corporations

We are a contracted party to 15 fuel facility arrangements and two 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 15 fuel facility corporations and the two de-icing facilities 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, 2015, the fuel facility corporations have combined total assets of approximately \$626.3 million and liabilities of approximately \$595.9 million.

Effective January 1, 2016, WestJet Encore joined the arrangements for four Canadian fuel facilities: Edmonton, Calgary, Toronto and Vancouver.

Related-party transactions

At December 31, 2015, we had no transactions with related parties as defined in *International Accounting Standard (IAS) 24 – Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

Share Capital

Outstanding share data

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

	January 31 2016	December 31 2015
Issued and outstanding:		
Common voting shares	109,315,014	109,089,643
Variable voting shares	13,774,935	13,996,834
Total voting shares issued and outstanding	123,089,949	123,086,477
Total voting shares potentially issuable	6,487,005	6,510,293
Total outstanding and potentially issuable voting shares	129,576,954	129,596,770
Stock options	5,683,259	5,706,547
RSUs – Key employee plan	278,139	278,139
RSUs – Executive share unit plan	222,720	222,720
PSUs – Executive share unit plan	302,887	302,887

Quarterly dividend policy

Our dividend is reviewed against the Corporation's dividend policy on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On February 1, 2016, the Board of Directors declared our 2016 first quarter dividend of \$0.14 per common voting share and variable voting share payable on March 31, 2016 to shareholders of record on March 16, 2016, which remains consistent with the \$0.14 per common voting share declared and paid quarterly throughout 2015. 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 May 8, 2015, as previously disclosed, the Toronto Stock Exchange (TSX) accepted our notice to make a normal course issuer bid to purchase up to 2,000,000 Common Voting Shares and Variable Voting Share (the Shares) on the open market in accordance with TSX rules (representing approximately 1.6 per cent of our then issued and outstanding Shares) during the period of May 13, 2015 to May 12, 2016 or until such time as the bid is completed or terminated at our option. On July 28, 2015, the TSX approved an amendment to the 2015 bid to increase the maximum number of Shares authorized for repurchase from 2,000,000 to 4,000,000 Shares (representing approximately 3.2 per cent of our issued and outstanding Shares at the time of the original notice). Subsequent to December 31, 2015, on February 1, 2016, the TSX approved another amendment to the 2015 bid to increase the maximum number of Shares authorized for repurchase from 4,000,000 to 6,000,000 Shares (representing approximately 4.8 per cent of our issued and outstanding Shares at the time of the original notice) (collectively, the 2015 bid). Any Shares purchased under the 2015 bid will be 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 2015 bid will be cancelled. In the three months ended December 31, 2015, we repurchased and cancelled 200,000 Shares under the 2015 bid, for total consideration of \$4.0 million.

During 2015, we repurchased and cancelled a total of 3,200,000 Shares, equal to 53.3 per cent of the maximum number of shares we are authorized to repurchase under the 2015 bid, for total consideration of \$78.7 million. This is in addition to repurchasing and cancelling 1,519,690 Shares under a 2014 normal course issuer bid, which expired on May 7, 2015, for total consideration of \$45.1 million. These Shares were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. As of the date of this MD&A, there are 2,800,000 Shares remaining for purchase under the 2015 bid.

A shareholder of WestJet may obtain a copy of the notice filed with the TSX in relation to the 2015 bid, free of charge, by contacting the Corporate Secretary of WestJet at 22 Aerial Place N.E., Calgary, Alberta T2E 3J1.

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, aircraft 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, 2015, aircraft fuel expense represented approximately 24 per cent (2014 – 31 per cent) of our total operating expenses.

Under our fuel price risk management policy, we are permitted to hedge a portion of our future anticipated jet fuel purchases for up to 36 months. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant. As at and for the year ended December 31, 2015, we are not party to any fuel hedging contracts.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate as a result of changes in foreign exchange rates. We are exposed to foreign exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated monetary assets and liabilities and our contractual commitments, and our US-dollar-denominated operating expenditures, mainly aircraft fuel, aircraft leasing expense, the land component of vacations packages and certain maintenance and airport operation costs. To manage our exposure, we periodically use financial derivative instruments, such as US-dollar foreign exchange forward contracts. Upon proper qualification, we designate our foreign exchange forward contracts as cash flow hedges for accounting purposes.

For a discussion of the nature and extent of our use of US-dollar foreign exchange derivatives, including the business purposes they serve, the financial statement classification and amount of income, expense, gain and loss associated with these instruments and the significant assumptions made in determining their fair value, please refer to *2015 Results of operations – Foreign exchange* on page 19 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, 2015 (2014 – \$4.7 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, 2015, totaled \$26.7 million (2014 – \$25.2 million). A change of 50 basis points in market interest rates at December 31, 2015, 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, 2015, would not impact net earnings.

We are exposed to interest rate fluctuations on our variable-rate long-term debt, which, at December 31, 2015 totaled \$207.0 million or 17.0 per cent of our total long-term debt. To manage this exposure, we entered into interest rate swap agreements

to fix the interest rates over the term of all such debt. The swap agreements were designated as cash flow hedges for accounting purposes.

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2015, our credit exposure consisted primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, operating deposits, aircraft deposits and the fair value of derivative financial assets.

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

(\$ in thousands)	2015	2014
Cash and cash equivalents ⁽ⁱ⁾	1,183,797	1,358,071
Restricted cash ⁽ⁱ⁾	68,573	58,149
Accounts receivable ⁽ⁱⁱ⁾	82,136	54,950
Other deposits ⁽ⁱⁱⁱ⁾	26,675	25,204
Aircraft deposits ^(iv)	319,019	509,684
Derivative financial assets ^(v)	17,409	6,409

- (i) Consist of bank balances and short-term investments with terms of up to 31 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 processes. The Corporation does not hold any collateral as security, however, in some cases the Corporation requires guaranteed letters of credit with certain of its counterparties. Trade receivables are generally settled within 30 to 60 days. Industry receivables are generally settled in less than 30 days.
- (iii) The Corporation is not exposed to counterparty credit risk on certain deposits related to aircraft financing, 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) The Corporation is exposed to counterparty credit risk on aircraft deposits with aircraft manufacturers. The Corporation considers this risk to be remote given the size and credit quality of the manufacturers.
- (v) 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, 2015. 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⁾	545,438	545,438	–	–	–
Derivative financial liabilities ⁽ⁱⁱ⁾	13,015	4,526	8,489	–	–
Long-term debt	1,342,203	182,182	275,159	564,331	320,531
Total	1,900,656	732,146	283,648	564,331	320,531

(i) Excludes foreign exchange derivative liabilities of \$51 and interest rate derivative liabilities of \$4,475.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$51 and interest rate derivative contracts of \$12,964. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2015, net long-term interest rate derivative liabilities were \$8,490.

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, 2015, the fair value of our long-term debt was approximately \$1,124.8 million (2014 – \$1,110.0 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, 2015, the weighted average rate used in determining the fair value was 3.95 per cent (2014 – 4.61 per cent). The increase in the fair value of our long-term debt is due to the decrease to the rate used to discount our debt. The fair value of our variable-rate long-term debt approximates its carrying value, as it is at a floating market rate of interest. Please refer to *2015 Results of Operations – Foreign exchange* and *Liquidity and Capital Resources – Financing* on page 19 and page 31, respectively, of this MD&A for a discussion of the significant assumptions made in determining fair value of derivatives designated in an effective hedging relationship at December 31, 2015.

Risks and Uncertainties

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

Risks relating to the business

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

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

As of the date of this MD&A, we are also exposed to fluctuations in the US-dollar exchange rate relating to 18 Boeing 737 NG aircraft purchase commitments and 65 Boeing MAX aircraft purchase commitments. The purchase of our Boeing aircraft are financed by funds drawn in Canadian dollars while the aircraft are paid for in U.S. funds at the date of each aircraft deposit. As a result, we are exposed to foreign currency fluctuations prior to each deposit date.

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

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

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

Jet fuel pricing represents a significant risk, as our fuel costs constitute our largest single expense category, representing 24.0 and 31.1 per cent of operating costs in 2015 and 2014, respectively. Fuel prices are affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity and global demand and supply. A small change in the price of fuel can significantly affect our fuel costs and ultimately our earnings.

The ability to protect and grow our earnings in a volatile and rising fuel price environment is affected by our ability to manage fuel costs through key cost initiatives such as investments in fuel efficient aircraft as well as cost effective fuel management IT systems and fuel purchasing and dispensing services. These cost initiatives can only partially mitigate volatile and rising fuel prices, require long lead times to implement, and may or may not create a competitive cost advantage compared to the effectiveness of our competitors' fuel savings investments and technologies at a given point in time. We discontinued our fuel hedging program in 2012 but may re-visit the program as changing markets and competitive conditions warrant. There is no assurance that any new fuel hedging program will be effective in offsetting volatile or rising fuel prices or create a competitive advantage compared to our competitors.

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

There is no guarantee that our fuel cost initiatives and revenue management practices will be effective in offsetting volatile or increasing fuel prices. If we are unable to mitigate volatile or increasing fuel prices, this would have an adverse effect on our

earnings and our low cost operation, which significantly contributes to our growth strategy. In turn, this could affect the timing and nature of our growth strategy and initiatives and could also result in the curtailment of scheduled service.

The airline industry is labour intensive and subject to increasing labour costs and potential unionization.

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

We have a non-union workforce that we believe gives us a competitive advantage and helps foster our unique corporate culture. From time to time, certain groups of our employees have been subjected to unionization drives and may be subjected to further unionization drives in the future that could result in these classes of employees having a collective voice to bargain terms and conditions of employment outside of the scope of our existing employee association. The Canada Labour Code provides that a union can be automatically certified where more than 50 per cent of a group of employees sign membership cards. In the event an employee group were to unionize, we would be required to bargain in good faith with the trade union regarding the implementation of a collective agreement. Depending on the ability to reach a collective agreement and the final terms of that agreement, we are subject to potential disruption in scheduled service, changes to our current work rules and processes and increases to our labour costs. Unionization could also fundamentally change the dynamic of our relationship with our employees and may diminish our employee-friendly corporate culture and reputation, which could ultimately have a negative impact on our earnings.

We believe our employee association has played a key role in balancing the interests of the business with the interests of WestJetters through a pro-active approach to identifying and resolving issues that have important implications for our business, our employees and our culture.

Inability to retain key personnel could harm our business.

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

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

Our maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2015, was 6.7 years. Our maintenance costs will increase as our fleet ages and our aircraft warranties expire. Since we began acquiring our Boeing 737 aircraft, 92 aircraft have come off warranty, with an additional three coming off warranty in 2016. None of our Bombardier Q400 aircraft have come off warranty since we began acquiring them in 2013 and our Boeing 767s are not under warranty. Our repair and maintenance programs include larger overhauls to engines, landing gear and airframes in addition to smaller ongoing maintenance requirements. Overhaul costs on owned components are separately capitalized and amortized over the period until the next overhaul whereas smaller ongoing maintenance activities are expensed when incurred. Overhaul costs for leased aircraft are accrued for in our maintenance provision expense and liability until the date of expected overhaul. Certain leased engines also require maintenance reserve payments to the lessor, which we expect to reclaim upon performing eligible engine overhaul activities. Unanticipated maintenance events outside our scheduled programs due to mechanical failures or mandatory aircraft directives from manufacturers or regulators would increase our maintenance costs and could potentially affect our scheduled flying by taking our aircraft out of service, both of which would negatively impact our earnings and guest experience.

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

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

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

We plan to continue adding new markets and additional frequencies to our existing markets through the growth of our regional Bombardier Q400 fleet, our narrow body Boeing 737 NG fleet and the addition of wide body Boeing 767 aircraft.

The continued expansion of our fleet through smaller regional Bombardier Q400 turboprop aircraft and larger wide body Boeing 767 jet aircraft create additional operational complexity, new costs and stronger competition not previously encountered with our single fleet of Boeing 737 NG aircraft. Since we are both a relatively new operator in the regional space and have only begun to operate wide body aircraft, we may encounter unforeseen or unexpected costs and operational complexities that may adversely affect our financial condition, results of operations and guest experience.

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

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

To efficiently serve our network of destinations we are increasingly dependent on the markets and airport operations at Toronto's Pearson International Airport, Calgary International Airport and Vancouver International Airport. A significant change in the demand environment in these markets, a significant change to airport rates and fees or significant operational disturbances due to weather or other acts outside our control would have an adverse impact to our operations and financial results.

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

We continue to expand our network through interline and codeshare partnerships with other airlines around the world. As our partnerships continue to mature and grow we expect to see a larger volume of traffic being exchanged between us and our partners resulting in a larger impact to our financial results and an increased reliance on our network and systems integration with our partners. Consequently, weaker traffic coming from our partners or unexpected costs or technical issues with our partner network and systems could have an increasingly adverse effect on our operations and financial results.

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

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

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

Portions of key technology systems, including our revenue accounting system and reservation systems, are outsourced to third parties on whom we are reliant for timely and accurate processing of information critical to our business. In the ordinary course of business, our systems will require modifications and refinements to address our growth and business requirements. We could be adversely affected if we are unable to modify our systems as necessary.

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

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

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

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

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

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

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

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

We are dependent on Boeing as supplier for our Boeing 737 NG aircraft, we are dependent on Bombardier as supplier for our Bombardier Q400 aircraft. If we were unable to acquire additional aircraft from these suppliers, or if they were unable or unwilling to provide adequate support for their products, our operations would be materially adversely affected. If either of the suppliers was unable to adhere to its contractual obligations in meeting scheduled delivery dates for our aircraft, we would be required to find another supplier of aircraft to fulfill our growth plans. Acquiring aircraft from another supplier would require significant transition costs and, additionally, aircraft may not be available at similar prices or received during the same scheduled delivery dates, which could adversely affect our business, operating results and financial condition. In addition, we would be materially adversely affected in the event of a mechanical or regulatory issue associated with the aircraft type, including negative perceptions from the travelling community.

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

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

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

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

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

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

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

Our significant fixed obligations include our working capital requirements, long-term debt, aircraft maintenance provisions, future tax liabilities and certain contractual lease payments for aircraft and other operating assets and services to maintain and expand our operations. We also have significant future firm commitments for new aircraft, engines and other operating assets and services to support our growth strategy. Our existing fixed obligations require significant funds to service interest, principal and other contractual operating obligations. Our future operating performance and cash flows as well as changes in the debt and equity markets will determine whether we are able to continue to successfully service our fixed obligations as

well as obtain suitable new sources of financing in the future. Adverse impacts to our future operating performance and cash flows or adverse changes in the debt and equity markets, including any adverse regulatory or government imposed changes, would negatively impact our ability to service our existing fixed obligations as well as obtain new sources of financing on reasonable terms. In turn, this could have adverse effects on our future operations and financial condition and prevent us from achieving our desired growth strategy.

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

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

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

Risks relating to the airline industry

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

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

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

We carry insurance similar to other scheduled airlines operating in the North American market. While we believe our insurance is adequate, there can be no assurance that such coverage will fully protect us against all losses that we might sustain, which could have a material adverse effect on our results of operations. There is no assurance that we will be able to obtain insurance on the same terms as we have in the past.

There is a possibility that a significant terrorist attack, pandemic or geological event could have a material impact on our operations, which could also negatively impact the insurance market and our ability to obtain coverage at current terms.

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

The airline industry is highly competitive and particularly susceptible to price discounting, since airlines incur only nominal costs to provide services to guests occupying otherwise unsold seats. We primarily compete with a small number of Canadian airlines in our domestic market and the same Canadian airlines and numerous U.S. and international carriers in the transborder and international markets. The emergence and growth of new low cost and ultra low cost carriers (ULCC) in the Canadian domestic market may result in additional competition and pricing pressures. On January 6, 2016 New Leaf, Canada's first ULCC based out of Winnipeg, Manitoba, announced the start of service on February 12, 2016. However, subsequently on January 19, 2016, New Leaf announced it has to postpone its plans to begin operations in February 2016 while it undergoes a review by the Canadian Transportation Agency. Other airlines regularly match or price their fares below ours, potentially preventing us from attaining a share of the guest traffic necessary to maintain profitable operations. Our ability to successfully mitigate competitive pricing depends on our ability to operate at costs lower than that of our competitors or potential competitors over the medium to long term. Should we not be able to do this, our financial results and financial condition would be adversely impacted.

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

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

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

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

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

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

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

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

Many aspects of airlines' operations are subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition of additional regulation particularly with respect to greenhouse gas

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

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

Governmental fee increases discourage air travel.

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

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

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

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

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

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

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

Accounting

Critical accounting judgments and estimates

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

Judgments

(i) Componentization

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

(ii) Depreciation and amortization

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

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (CGU) is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has assessed WestJet as one CGU and considered factors such as whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations to conclude that there is no impairment at December 31, 2015.

(iv) Lease classification

Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in IAS 17 – Leases. The most prevalent leases are those for aircraft. Management has determined that all of our leased aircraft are operating leases, as at December 31, 2015.

(v) Unconsolidated structured entities

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

(vi) Operating and reportable segments

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

Estimates

(i) Depreciation and amortization

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

Our aircraft are depreciated over a term of 15 to 20 years, with residual values ranging between \$2.5 million and \$6.0 million per aircraft. The cost to overhaul our engines, airframes and landing gear on owned aircraft is depreciated over a term of three to 12 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 calculate the present value of future cash flows and the lifespan of life-limited parts. These estimates are based on data and information obtained from various sources including the lessor, current maintenance schedules and fleet plans, contracted costs with maintenance service providers, other vendors and company-specific history and experience.

We recognize maintenance expense in the consolidated statement of earnings based on aircraft usage and the passage of time as well as changes to previously made judgments or estimates based on new information. The unwinding of the discounted present value is recorded as a finance cost. At December 31, 2015, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.0% (December 31, 2014 – 0.91%) to reflect the weighted average remaining term of approximately 27 months (December 31, 2014 – 30 months) until cash outflow.

(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. Our general corporate income tax rate for Alberta increased to 12 per cent, from 10 per cent, effective July 1, 2015. As a result, for the year ended December 31, 2015, WestJet reported an effective tax rate of 32 per cent which resulted in an increase to deferred income taxes of \$2.6 million in the quarter. We continue to closely monitor current and potential changes to tax law and base our estimate on the best available information at each reporting date.

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 part of salaries and benefits expense line item with a corresponding increase to equity reserves over the related service period.

(v) Fair value of derivative instruments

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

The fair value of derivative instruments is estimated using inputs, including forward prices, foreign exchange rates, interest rates and historical volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of our derivative instruments are subject to regular changes in fair value each reporting period. Please refer to *2015 Results of Operations – Foreign exchange* and *Liquidity and Capital Resources – Financing* on page 19 and page 31, 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, 2015.

Future accounting pronouncements

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards that have not been applied in preparing our consolidated financial statements and notes thereto, for the year ended December 31, 2015 as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date
IFRS 15 – Revenue from Contracts with Customers	A new standard on revenue recognition that contains a single model that applies to contracts with customers and two approaches to recognizing revenue; at a point in time or over time.	IAS 11 - Construction contracts; IAS 18 – Revenue; IFRIC 13 - Customer Loyalty Programmes; IFRIC 15 - Agreements for the Construction of Real Estate; IFRIC 18 - Transfers of Assets from Customers; SIC-31 - Revenue - Barter Transactions Involving Advertising Services	Effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRS 9 – Financial Instruments	A single financial instrument accounting standard addressing: classification and measurement (Phase 1), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – Financial Instruments: Recognition and Measurement; Presentation; Disclosures	Effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRS 16 - Leases	A new standard on lease accounting addressing the principles to apply to report useful information about the amount, timing and uncertainty of cash flows arising from a lease. All lease commitments will be recognized as a liability.	IAS 17 - Leases	Effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

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

Controls and Procedures

Disclosure controls and procedures (DC&P)

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

An evaluation of our DC&P was conducted, as at December 31, 2015, 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, 2015, our DC&P, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), was effective.

Internal control over financial reporting (ICFR)

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

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

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

Management, under the supervision of the CEO and the CFO, has evaluated our ICFR using the framework and criteria established in the 2013 Internal Controls – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2015, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Forward Looking Information

This MD&A offers our assessment of WestJet's future plans, operations and outlook and contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation: our plan to continue adding new destinations and additional frequencies to our existing markets through the growth of our fleet, referred to under the heading *About WestJet* on page 8; our plan to continue the work that needs to take place to better understand some of the issues for our pilot group, referred to under the heading *WestJetters* on page 11; we now expect the majority of installations of our WestJet Connect systems on our Boeing 737 to be completed by the end of 2016 and the remaining two Boeing 767s to have WestJet Connect installed prior to being delivered to WestJet, which we expect to occur by mid-2016, referred to under the heading *Guest experience and service enhancements* on page 12; that the added features of our enhanced plus product is expected to support our ancillary revenues on a go-forward basis, referred to under the heading *Guest experience and service enhancements* on page 12; the continued process of upgrading the technology that supports our ancillary revenues, specifically expanding the distribution channels that can market and sell our Plus fare and pre-reserved seating functionality, referred to under the heading *Guest experience and service enhancements* on page 12; our expectation that London, United Kingdom will be serviced from six Canadian cities, through London Gatwick beginning in the spring of 2016, referred to under the heading *Network expansion and fleet* on page 12; that our business and leisure guests will have the opportunity to take advantage of our low fares, high value and remarkable guest experience on both sides of the Atlantic whenever it suits their schedule, referred to under the heading *Network expansion and fleet* on page 12; our newest destinations announced in 2015 and early 2016 with service scheduled to commence in winter 2015-2016 and summer 2016, referred to under the heading *Network expansion and fleet* on page 12; we anticipate two 767 aircraft will be delivered in early 2016, referred to under the heading *Network expansion and fleet* on page 12; future deliveries of Boeing 737 MAX aircraft and wide-body Boeing 767s and our expectation of establishing additional profitable routes in Canada, the U.S. and internationally, referred to under the heading *Network expansion and fleet* on page 12; that we anticipate year over year declines in RASM of 10.0 to 12.0 per cent versus the very strong first quarter 2015 and that we expect EBT margin roughly in line with our five-year average, excluding the 2015 high water mark, referred to under the heading *Outlook* on page 14; our expectation that system-wide capacity growth will be between 6.0 and 6.5 per cent for the first quarter of 2016, and will be between 7.0 and 10.0 per cent for the full-year 2016 and that effective mid-February we will be adjusting our schedules and redeploying capacity from softer Alberta markets to markets of greater strength, and the net effect of which is a drop in capacity of approximately 1.0 per cent from our prior plans, on an annualized basis, referred to under the heading *Outlook* on page 14; our expectation that domestic capacity will be between 10.0 and 10.5 per cent for the first quarter of 2016, and between 3.0 and 4.0 per cent for the full-year 2016, referred to under the heading *Outlook* on page 14; that we expect CASM, excluding fuel and employee profit share for the 2016 first-quarter to be up between 7.5 and 8.0 per cent, full-year 2016 to be flat to up 2.0 per cent, year over year, referred to under the heading *Outlook* on page 14; that we expect fuel costs to range between 47 and 49 cents per litre for the first quarter of 2016 referred to under the heading *Outlook* on page 14; that for the full-year 2016, we are forecasting capital expenditures to be between \$830 and \$850 million, referred to under the heading *Outlook* on page 14; that for the first quarter of 2016, we are forecasting capital expenditures to be between \$240 and \$250 million, as referred to under the heading *Outlook* on page 14; our expectation of an effective tax rate between 28.0 and 30.0 per cent for full-year 2016, referred to in the Guidance summary chart under the heading *Outlook* on page 14 and under the heading *Income taxes* on page 21; 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 17; our estimate of our sensitivity of fuel costs to changes in crude oil of approximately USD \$8.8 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 \$14.1 million for every one-cent change per litre of fuel, and our estimate of our sensitivity to fluctuations in foreign exchange rates to be approximately \$4.3 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 17; our estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$7.5 million on our annual unhedged operating costs, (approximately \$4.3 million for fuel and \$3.2 million related to other US-dollar-denominated operating expenses), referred to under the heading *Foreign exchange* on page 19; our estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$35.0 million on our future US-dollar-denominated purchase obligations, referred to under the heading *Foreign exchange* on page 19; that we expect to receive financing from EDC for up to 80 per cent of the net price for each Bombardier Q400 aircraft and availability of any undrawn amount will

expire at the end of 2018, referred to under the heading *Financing* on page 31; our expectation that our credit rating will provide WestJet with a range of public and private debt financing options in the future, referred to under the heading *Financing* on page 31; that we do not expect adverse changes to our future ability to access similar or other generally available sources of liquidity, referred to under the heading *Contractual obligations and commitments* on page 33; 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 33; our expectations with respect to future aircraft acquisitions and dispositions including our contractual expectations and plans related thereto, described under the heading *Fleet* on page 34; our expectation that we will fund future cash flow commitments connected to aircraft under operating leases through funds from operations, referred to under the heading *Off-balance sheet arrangements and related parties* on page 35; our confidence in delivering continued profitable results, as referred to under the heading *Quarterly dividend policy* on page 36; our normal course issuer bid to purchase up to 6,000,000 Shares during the period of May 13, 2015 to May 12, 2016 or until such time as the bid is completed or terminated at our option, where any Shares purchased will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction and any Shares acquired will be cancelled, described under the heading *Normal course issuer bid* on page 36; 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 *Fuel risk* on page 37; that we do not anticipate the early adoption of the new accounting standards, referred to under the heading *Future accounting pronouncements* on page 51; there were no changes in our ICFR during the year ended December 31, 2015 that are reasonably likely to materially affect our ICFR, referred to under the heading *Internal control over financial reporting* on page 52.

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 we will complete the installation of the new inflight entertainment system is based on the current installation schedule;
- Our expectation that we will continue to strategically grow our airline through new and increased frequency of service across our scheduled network is based on our current network and strategic plan;
- Our expectations of system-wide and domestic capacity for the first quarter of 2016 and full-year 2016, are based on our network plans and future aircraft deliveries;
- Our expectation of first quarter 2016 RASM is based on our current demand forecast;
- Our expectation of CASM, excluding fuel and employee profit share for the first quarter of 2016 and the full-year 2016 is based on our first quarter forecast and 2016 budget;
- Our expectation of fuel costs for the first quarter of 2016 is based on current forecasted jet fuel prices of US and an average foreign exchange rate;
- Our expectation of net capital expenditures for the full-year 2016 is based on our 2016 capital budget and contractual commitments;
- Our expectation that we will continue to mitigate the risk of movements in fuel prices is based on our risk management policies and ongoing cost monitoring;
- 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 assumption based on the current exchange rate;
- Our estimated sensitivity to the change in value of the Canadian dollar versus the US dollar is based on forecasted of unhedged US dollar operating expenses;
- Our expected annual effective tax rate for 2016 is based on current legislation, and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- Our belief that we will receive financing from EDC is based on the assumption that our agreement with EDC will remain active and that EDC will be able to provide that financing;
- Our expectation that we will meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing is based on the assumptions that we will successfully execute on our current strategic plan, our assessment of our financial position, our credit rating remains in

- good standing, and that our aircraft delivery schedule will proceed as expected;
- That the future outcome of our current legal proceedings and claims will not have a material effect upon our financial position, results of operations or cash flows is based on a review of current legal proceedings by management and legal counsel and our assumption that such proceedings and claims will be resolved in a manner consistent with such assessment;
 - Our expectations with respect to future aircraft acquisitions and dispositions are based on the terms of the applicable agreements.

Definition of Key Operating Indicators

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

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

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

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

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

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

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

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

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

Utilization: Operating hours per day per operating aircraft.

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

Non-GAAP and Additional-GAAP Measures

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

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

Adjusted earnings per share - diluted: We excluded the effect of the after-tax non-cash loss of \$33.2 million related to the 10 aircraft sold to Southwest being classified as held for sale in the third quarter of 2014 from net earnings to calculate an adjusted diluted earnings per share for the year ended December 31, 2014.

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

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

Adjusted EBT Margin: The adjusted EBT margin for the year ended September 30, 2014 excludes the effect of the pre-tax non-cash loss of \$45.5 million related to the 10 aircraft sold to Southwest.

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

Adjusted EBITDAR: Adjusted EBITDAR excludes the effect of the pre-tax non-cash loss of \$45.5 million recorded in the third quarter of 2014, related to the 10 aircraft sold to Southwest.

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

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

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

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

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

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

Reconciliation of non-GAAP and additional GAAP measures

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

CASM, excluding fuel and employee profit share

(\$ in thousands)	Three months ended December 31			Twelve months ended December 31		
	2015	2014	Change	2015	2014	Change
Operating expenses	846,028	854,787	(8,759)	3,459,512	3,501,081	(41,568)
Aircraft fuel expense	(182,181)	(243,816)	61,635	(814,498)	(1,090,330)	275,832
Employee profit share expense	(8,869)	(23,399)	14,530	(100,965)	(68,787)	(32,178)
Operating expenses, adjusted	654,978	587,572	67,406	2,544,049	2,341,964	202,086
ASMs	6,524,788,975	6,378,247,018	2.3%	26,902,227,359	25,584,033,077	5.2%
CASM, excluding above items (cents)	10.04	9.21	9.0%	9.46	9.15	3.4%

Adjusted debt-to-equity

(\$ in thousands)	December 31 2015	December 31 2014	Change
Long-term debt ⁽ⁱ⁾	1,174,833	1,188,663	(13,830)
Off-balance-sheet aircraft operating leases ⁽ⁱⁱ⁾	1,305,668	1,368,375	(62,707)
Adjusted debt	2,480,501	2,557,038	(76,537)
Total shareholders' equity	1,959,993	1,777,502	182,491
Add: Hedge reserves	(1,903)	3,179	(5,082)
Adjusted equity	1,958,090	1,780,681	177,409
Adjusted debt-to-equity	1.27	1.44	(11.8%)

(i) At December 31, 2015, long-term debt includes the current portion of long-term debt of \$141,572 (December 31, 2014 – \$159,843) and long-term debt of \$1,033,261 (December 31, 2014 – \$1,028,820).

(ii) Off-balance-sheet aircraft operating leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2015, the trailing 12 months of aircraft leasing expenses totaled \$174,089 (December 31, 2014 – \$182,450).

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

(\$ in thousands)	December 31 2015	December 31 2014	Change
Adjusted debt	2,480,501	2,557,038	(76,537)
Less: Cash and cash equivalents	(1,183,797)	(1,358,071)	174,274
Adjusted net debt	1,296,704	1,198,967	97,737
Net earnings	367,530	283,957	83,573
Add:			
Net finance costs ⁽ⁱ⁾	38,136	34,768	3,368
Taxes	152,728	106,350	46,378
Depreciation and amortization	264,921	226,740	38,181
Aircraft leasing	174,089	182,450	(8,361)
Other ⁽ⁱⁱ⁾	9,499	2,064	7,435
EBITDAR	1,006,903	836,329	170,574
Special Item ⁽ⁱⁱⁱ⁾	-	45,459	(45,459)
Adjusted EBITDAR	1,006,903	881,788	125,115
Adjusted net debt to EBITDAR^(iv)	1.29	1.43	(9.8%)
Adjusted net debt to adjusted EBITDAR	1.29	1.36	(5.1%)

(i) At December 31, 2015, net finance costs includes the trailing 12 months of finance income of \$15,529 (December 31, 2014 – \$17,070) and the trailing 12 months of finance cost of \$53,665 (December 31, 2014 – \$51,838).

(ii) At December 31, 2015, other includes the trailing 12 months foreign exchange loss of \$10,326 and a gain on derivatives of 827 (December 31, 2014 – loss of \$2,064 and \$nil).

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

(iv) At December 31, 2015 and December 31, 2014, the Corporation met its internal guideline of an adjusted net debt to EBITDAR measure of no more than 2.50.

Operating cash flow per share

(\$ in thousands, except share per share data)	Twelve months ended December 31		
	2015	2014	Change
Cash flow from operating activities	876,441	576,633	299,808
Weighted average number of shares outstanding - diluted	125,964,541	129,142,940	(3,178,399)
Diluted operating cash flow per share	6.96	4.47	55.7%

Adjusted EBT Margin

(\$ in thousands)	Twelve months ended December 31		
	2015	2014	Change
Revenue	4,029,265	3,976,552	52,713
EBT	520,258	390,307	129,951
Adjusted for:			
Special item ⁽ⁱ⁾	—	45,459	(45,459)
Adjusted EBT	520,258	435,766	84,492
Adjusted EBT margin	12.9%	11.0%	1.9 pts.

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

Free cash flow

(\$ in thousands, except per share data)	Twelve months ended December 31		
	2015	2014	Change
Cash flow from operating activities	876,441	576,633	299,808
Adjusted for:			
Aircraft additions	(758,143)	(618,545)	(139,598)
Other property and equipment and intangible additions	(64,789)	(46,586)	(18,203)
Free cash flow	53,509	(88,498)	142,007
Weighted average number of shares outstanding - diluted	125,964,541	129,142,940	(3,178,399)
Diluted free cash flow per share	0.42	(0.69)	160.9%

Cash to trailing 12 months revenue

(\$ in thousands)	December 31 2015	December 31 2014	Change
Cash and cash equivalents	1,183,797	1,358,071	(174,274)
Trailing 12 months revenue	4,029,265	3,976,552	52,713
Cash to trailing 12 months revenue ⁽ⁱ⁾	29.4%	34.2%	(4.8 pts.)

(i) At December 31, 2015 and December 31, 2014, the Corporation met its internal guideline of cash to trailing 12 months revenue of approximately 30 per cent.

Return on invested capital

(\$ in thousands)	December 31 2015	December 31 2014	Change
Earnings before income taxes (trailing twelve months)	520,258	390,307	129,951
Special item ⁽ⁱ⁾	—	45,459	(45,459)
Adjusted earnings before income taxes (trailing twelve months)	520,258	435,766	84,492
Add:			
Finance costs	53,665	51,838	1,827
Implicit interest in operating leases ⁽ⁱⁱ⁾	91,397	95,786	(4,389)
Return	665,320	583,390	81,930
Invested capital:			
Average long-term debt ⁽ⁱⁱⁱ⁾	1,181,748	1,033,529	148,219
Average shareholders' equity	1,868,748	1,683,671	185,077
Off-balance-sheet aircraft leases ^(iv)	1,305,668	1,368,375	(62,707)
Invested capital	4,356,164	4,085,575	270,589
Return on invested capital	15.3%	14.3%	1.0 pts.

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

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

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

(iv) Off-balance-sheet aircraft operating leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2015, the trailing 12 months of aircraft leasing expenses totaled \$174,089 (December 31, 2014 – \$182,450).

Adjusted net earnings/Adjusted diluted earnings per share

(\$ in thousands, except share and per share data)	Twelve months ended December 31		
	2015	2014	Change
Net earnings	367,530	283,957	83,573
Adjusted for:			
Special item ⁽ⁱ⁾	—	33,231	(33,231)
Adjusted net earnings	367,530	317,188	50,342
Weighted average number of shares outstanding - diluted	125,964,541	129,142,940	(3,178,399)
Adjusted diluted earnings per share	2.92	2.46	18.7%

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

Financial Statements and Notes



Consolidated Financial Statements and Notes

For the years ended December 31, 2015 and 2014

WestJet Airlines Ltd.
Annual 2015 Financial Statements and Notes
February 1, 2016





MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

The Board of Directors is responsible for the overall stewardship and governance of the Corporation, including 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.

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

Gregg Saretsky
President and
Chief Executive Officer

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

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

February 1, 2016
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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, 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 Professional Accountants

February 1, 2016
Calgary, Canada



Consolidated Statement of Earnings

For the years ended December 31

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

	Note	2015	2014
Revenue:			
Guest		3,557,222	3,599,157
Other		472,043	377,395
		4,029,265	3,976,552
Operating expenses:			
Aircraft fuel		814,498	1,090,330
Salaries and benefits		801,715	724,941
Rates and fees		562,745	520,340
Sales and marketing		325,127	325,370
Depreciation and amortization		264,921	226,740
Aircraft leasing		174,089	182,450
Maintenance		164,305	126,761
Other		251,147	235,362
Employee profit share		100,965	68,787
		3,459,512	3,501,081
Earnings from operations		569,753	475,471
Non-operating income (expense):			
Finance income		15,529	17,070
Finance cost		(53,665)	(51,838)
Loss on foreign exchange		(10,326)	(2,064)
Loss on disposal of property and equipment		(1,860)	(48,332)
Gain on derivatives		827	-
		(49,495)	(85,164)
Earnings before income tax		520,258	390,307
Income tax expense (recovery):			
Current	10	123,939	114,521
Deferred	10	28,789	(8,171)
		152,728	106,350
Net earnings		367,530	283,957
Earnings per share:			
Basic	13	2.94	2.22
Diluted	13	2.92	2.20

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	2015	2014
Assets			
Current assets:			
Cash and cash equivalents	4	1,183,797	1,358,071
Restricted cash	5	68,573	58,149
Accounts receivable	17	82,136	54,950
Prepaid expenses, deposits and other	17	131,747	144,192
Inventory	17	36,018	36,658
Assets held for sale		–	78,306
		1,502,271	1,730,326
Non-current assets:			
Property and equipment	6	3,473,262	2,793,194
Intangible assets	7	63,549	60,623
Other assets	17	89,942	62,290
Total assets		5,129,024	4,646,433
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	17	545,438	415,562
Advance ticket sales		620,216	575,781
Deferred rewards program		117,959	86,870
Non-refundable guest credits		40,921	45,434
Current portion of maintenance provisions	8	85,819	54,811
Current portion of long-term debt	9	141,572	159,843
		1,551,925	1,338,301
Non-current liabilities:			
Maintenance provisions	8	243,214	191,768
Long-term debt	9	1,033,261	1,028,820
Other liabilities	17	13,603	13,150
Deferred income tax	10	327,028	296,892
Total liabilities		3,169,031	2,868,931
Shareholders' equity:			
Share capital	11	582,796	603,287
Equity reserves		82,713	75,094
Hedge reserves		1,903	(3,179)
Retained earnings		1,292,581	1,102,300
Total shareholders' equity		1,959,993	1,777,502
Commitments	15		
Subsequent event	9		
Total liabilities and shareholders' equity		5,129,024	4,646,433

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	2015	2014
Operating activities:			
Net earnings		367,530	283,957
Items not involving cash:			
Depreciation and amortization		264,921	226,740
Change in maintenance provisions		35,786	8,413
Change in other liabilities		(3,192)	(529)
Amortization of transaction costs		4,503	5,015
Amortization of hedge settlements		1,390	1,400
Gain on derivatives		(827)	–
Loss on disposal of property and equipment		1,860	48,332
Share-based payment expense	11	17,254	18,626
Deferred income tax expense (recovery)		28,789	(8,171)
Unrealized foreign exchange gain		(938)	(10,634)
Change in non-cash working capital		199,706	21,349
Change in restricted cash		(10,424)	(43)
Change in other assets		(15,912)	(6,833)
Purchase of shares pursuant to compensation plans		(14,005)	(10,989)
		876,441	576,633
Investing activities:			
Aircraft additions		(841,491)	(694,200)
Aircraft disposals		83,348	75,655
Other property and equipment and intangible additions		(64,789)	(46,586)
		(822,932)	(665,131)
Financing activities:			
Increase in long-term debt		153,112	613,885
Repayment of long-term debt		(171,490)	(308,588)
Shares repurchased		(123,813)	(39,431)
Dividends paid	12	(69,711)	(61,313)
Issuance of shares pursuant to compensation plans		156	96
Cash interest paid		(47,305)	(39,507)
Change in non-cash working capital		21	4,866
		(259,030)	170,008
Cash flow from operating, investing and financing activities		(205,521)	81,510
Effect of foreign exchange on cash and cash equivalents		31,247	20,556
Net change in cash and cash equivalents		(174,274)	102,066
Cash and cash equivalents, beginning of period		1,358,071	1,256,005
Cash and cash equivalents, end of period		1,183,797	1,358,071
Supplemental disclosure of operating cash flows			
Cash interest received		16,349	17,243
Cash taxes paid, net		(114,752)	(204,489)

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	2015	2014
Share capital:			
Balance, beginning of period	11	603,287	603,861
Issuance of shares pursuant to compensation plans	11	1,833	6,177
Shares repurchased	11	(22,324)	(6,751)
		582,796	603,287
Equity reserves:			
Balance, beginning of period		75,094	69,079
Share-based payment expense	11	17,254	18,626
Issuance of shares pursuant to compensation plans		(9,635)	(12,611)
		82,713	75,094
Hedge reserves:			
Balance, beginning of period		(3,179)	105
Other comprehensive income		5,082	(3,284)
		1,903	(3,179)
Retained earnings:			
Balance, beginning of period		1,102,300	916,795
Dividends declared	12	(69,711)	(61,313)
Shares repurchased	11	(101,489)	(32,680)
Purchase of shares pursuant to compensation plans		(6,049)	(4,459)
Net earnings		367,530	283,957
		1,292,581	1,102,300
Total shareholders' equity		1,959,993	1,777,502

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)

	2015	2014
Net earnings	367,530	283,957
Items to be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Amortization of hedge settlements to aircraft leasing	1,390	1,400
Net unrealized gain on foreign exchange derivatives ⁽ⁱ⁾	23,078	8,652
Reclassification of net realized gain on foreign exchange derivatives ⁽ⁱⁱ⁾	(16,246)	(7,023)
Net unrealized loss on interest rate derivatives ⁽ⁱⁱⁱ⁾	(5,721)	(8,697)
Reclassification of net realized loss on interest rate derivatives ^(iv)	2,581	2,384
	5,082	(3,284)
Total comprehensive income	372,612	280,673

(i) Net of income taxes of \$(8,455) (2014 – \$(3,048)).

(ii) Net of income taxes of \$5,877 (2014 – \$2,475).

(iii) Net of income taxes of \$2,166 (2014 – \$3,065).

(iv) Net of income taxes of \$(934) (2014 – \$(841)).

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



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies

The annual consolidated financial statements of WestJet Airlines Ltd. (the Corporation) for the years ended December 31, 2015 and 2014, were authorized for issue by the Board of Directors on February 1, 2016. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline service and travel packages. The Corporation's shares are publicly traded on the Toronto Stock Exchange (TSX) under the symbols WJA and WJA.A. The principal business address is 22 Aerial Place N.E., Calgary, Alberta, T2E 3J1 and the registered office is Suite 2400, 525 - 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

(a) Basis of presentation

These annual consolidated financial statements and the notes hereto have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

On December 31, 2015, the Corporation transitioned from a functional-based presentation to a nature-based presentation for certain operating expenses on the consolidated statement of earnings. The functional-based presentation of operating expenses was aligned closely with the Corporation's internal corporate structure and organization. The transition to a nature-based presentation of operating expenses was done to align more closely with industry reporting practices and enhance comparability with industry peers. Refer to Note 18 for additional discussion and disclosure.

(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 16. All intercompany balances and transactions between the Corporation and its subsidiaries have been eliminated.

(c) Seasonality

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

(d) Revenue recognition

(i) Guest

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

(ii) Other

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

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

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

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(d) Revenue recognition (continued)

(iii) WestJet Rewards Program

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

The Corporation also has a co-branded MasterCard with the Royal Bank of Canada (RBC). RBC issues and funds reward credits to cardholders as a percentage of their total retail spend. The Corporation records a receivable and liability for reward credits issued and funded by RBC for cardholder retail spend. Revenue related to reward credits redeemed is deferred as unearned revenue at the time of booking and subsequently recognized in guest revenue at the time of travel. 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 when they are issued 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 and a corresponding liability when the credit is utilized through the purchase of a flight.

(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
Other 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. 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. The Corporation's own credit risk and the credit risk of the counterparty are taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative instruments.

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.

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities other than derivatives.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(e) Financial instruments (continued)

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 classified and accounted for as either cash flow hedges, fair value hedges or a hedge of a net investment. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

At 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 recognized asset or liability, an unrecognized firm commitment or a highly probable 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 as hedge reserves. The ineffective portion of the change in fair value is recognized in non-operating income (expense). Upon maturity of the derivative financial instrument, the effective gains and losses previously accumulated in hedge reserves 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 will remain in shareholders' equity until settlement, at which time, the amount is recorded in net earnings under the same caption as the hedged item. If the transaction is no longer expected to occur, amounts previously accumulated in hedge reserves 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 31 days.

(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.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(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	3 to 12 years
Ground property and equipment	Straight-line	3 to 25 years
Spare engines and rotables, net of estimated residual value	Straight-line	15 to 20 years
Buildings	Straight-line	40 years
Leasehold improvements	Straight-line	5 years/Term of lease

Estimated residual values of the Corporation's aircraft range between \$2,500 and \$6,000 per aircraft. Spare engines have an estimated residual value equal to 10% of the original purchase price. Residual values, where applicable, are reviewed annually against prevailing market rates at the consolidated statement of financial position date.

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

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

(k) Intangible assets

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

(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.

(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 US or Canadian government bond to the remaining term until cash outflow. Any difference between the provision recorded and the actual amount incurred at the time the maintenance activity is performed is recorded to maintenance expense.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(m) Maintenance (continued)

(ii) Reserves

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

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

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

(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) Income taxes

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

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

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

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

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(p) Share-based payment plans

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

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

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

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

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

(q) Earnings per share

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

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

(r) Critical accounting judgments and estimates

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

Judgments

(i) Componentization

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

(ii) Depreciation and amortization

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



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(r) Critical accounting judgments and estimates (continued)

Judgments (continued)

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate an asset or CGU is impaired. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has assessed WestJet as one CGU and considered factors such as whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Corporation's operations. Management has concluded there is no impairment at December 31, 2015.

(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), six US FFCs and two Canadian De-Icing Facility Corporations (DFCs) 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 16 for additional disclosures of the Corporation's interest in unconsolidated structured entities.

(vi) Operating and reportable segments

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

Estimates

(vii) Depreciation and amortization

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

(viii) Maintenance provisions

The Corporation has a legal obligation to adhere to certain maintenance conditions set out in its aircraft operating lease agreements relating to the condition of the aircraft at lease return. To fulfill these obligations, a provision is made during the lease term. Estimates related to the maintenance provision include the likely utilization of the aircraft, the expected future cost of the maintenance, the point in time at which maintenance is expected to occur, the discount rate used to present value the future cash flows 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.



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

1. Statement of significant accounting policies (continued)

(r) Critical accounting judgments and estimates (continued)

Estimates (continued)

(ix) 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.

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

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

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

(xii) Fair value of derivative instruments

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

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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
IFRS 15 – Revenue from Contracts with Customers	A new standard on revenue recognition that contains a single model that applies to contracts with customers and two approaches to recognizing revenue; at a point in time or over time.	IAS 11 - Construction contracts; IAS 18 – Revenue; IFRIC 13 - Customer Loyalty Programmes; IFRIC 15 - Agreements for the Construction of Real Estate; IFRIC 18 - Transfers of Assets from Customers; SIC-31 - Revenue - Barter Transactions Involving Advertising Services	Effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRS 9 – Financial Instruments	A single financial instrument accounting standard addressing: classification and measurement (Phase I), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – Financial Instruments: Recognition and Measurement; Presentation; Disclosures	Effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRS 16 - Leases	A new standard on lease accounting that results in substantially all lessee leases being recorded on the statement of financial position.	IAS 17 – Leases	Effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

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

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3. Capital management

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

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

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

The Corporation monitors its capital structure on a number of bases, including cash to trailing 12 months revenue, adjusted debt-to-equity and adjusted net debt to earnings before net finance cost, taxes, depreciation and amortization and aircraft leasing (EBITDAR). EBITDAR is a non-GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in tax jurisdictions and in the method an airline finances its aircraft. In addition, the Corporation will adjust EBITDAR for non-operating gains and losses on derivatives and foreign exchange. The calculation of EBITDAR is a measure that does not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other issuers. The Corporation adjusts debt to include its off-balance-sheet aircraft operating leases. To derive a present-value debt equivalent, common industry practice is to multiply the trailing 12 months of aircraft leasing expense by a multiplier. The Corporation uses a multiplier of 7.5. The Corporation defines adjusted net debt as adjusted debt less cash and cash equivalents. The Corporation defines equity as total shareholders' equity, excluding hedge reserves.

	2015	2014	Change
Cash to trailing 12 months revenue			
Cash and cash equivalents	1,183,797	1,358,071	(174,274)
Trailing 12 months revenue	4,029,265	3,976,552	52,713
Cash to trailing 12 months revenue ^(v)	29.4%	34.2%	(4.8 pts)
Adjusted debt-to-equity			
Long-term debt ⁽ⁱ⁾	1,174,833	1,188,663	(13,830)
Off-balance-sheet aircraft leases ⁽ⁱⁱ⁾	1,305,668	1,368,375	(62,707)
Adjusted debt	2,480,501	2,557,038	(76,537)
Total shareholders' equity	1,959,993	1,777,502	182,491
Add: Hedge reserves	(1,903)	3,179	(5,082)
Adjusted equity	1,958,090	1,780,681	177,409
Adjusted debt-to-equity ^(v)	1.27	1.44	(11.8%)
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	2,480,501	2,557,038	(76,537)
Less: Cash and cash equivalents	(1,183,797)	(1,358,071)	174,274
Adjusted net debt	1,296,704	1,198,967	97,737
Net earnings	367,530	283,957	83,573
Add:			
Net finance cost ⁽ⁱⁱⁱ⁾	38,136	34,768	3,368
Taxes	152,728	106,350	46,378
Depreciation and amortization	264,921	226,740	38,181
Aircraft leasing	174,089	182,450	(8,361)
Other ^(iv)	9,499	2,064	7,435
EBITDAR	1,006,903	836,329	170,574
Adjusted net debt to EBITDAR ^(v)	1.29	1.43	(9.8%)

(i) At December 31, 2015, long-term debt includes the current portion of long-term debt of \$ 141,572 (December 31, 2014 – \$159,843) and long-term debt of \$ 1,033,261 (December 31, 2014 – \$1,028,820).

(ii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2015, the trailing 12 months of aircraft leasing costs totaled \$174,089 (December 31, 2014 – \$182,450).

(iii) At December 31, 2015, net finance cost includes the trailing 12 months of finance income of \$15,529 (December 31, 2014 – \$17,070) and the trailing 12 months of finance cost of \$53,665 (December 31, 2014 – \$51,838).

(iv) At December 31, 2015, other includes the trailing 12 months foreign exchange loss of \$10,326 (December 31, 2014 – loss of \$2,064) and trailing 12 months non-operating gain on derivatives of \$827 (December 31, 2014 – \$nil).

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



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4. Cash and cash equivalents

	December 31 2015	December 31 2014
Bank balances ⁽ⁱ⁾	340,504	400,808
Short-term investments ⁽ⁱ⁾	843,293	957,263
	1,183,797	1,358,071

(i) Included in these balances, at December 31, 2015, the Corporation has US-dollar cash and cash equivalents totaling US \$170,216 (December 31, 2014 – US \$124,394).

5. Restricted cash

	December 31 2015	December 31 2014
Cash held in trust for WestJet Vacations Inc.	53,572	47,811
Security on facilities for letters of guarantee	13,366	9,515
Passenger facility charges	1,635	823
	68,573	58,149

6. Property and equipment

	January 1 2015	Net Additions	Depreciation	Transfers	December 31 2015
Aircraft ⁽ⁱ⁾	1,933,286	190,963	(216,287)	834,012	2,741,974
Ground property and equipment	60,152	20,283	(15,186)	6,927	72,176
Spare engines and rotables	144,035	38,421	(15,221)	211	167,446
Deposits on aircraft	509,684	554,482	-	(745,147)	319,019
Buildings	109,434	89	(3,511)	352	106,364
Leasehold improvements	10,460	2,378	(2,423)	(41)	10,374
Assets under development	26,143	126,080	-	(96,314)	55,909
	2,793,194	932,696	(252,628)	-	3,473,262

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

(i) Aircraft includes (a) aircraft (b) engine, airframe and landing gear core components (c) engine, airframe and landing gear overhaul components, and (d) inflight entertainment systems. For the year ended December 31, 2015, total aircraft depreciation expense for overhaul components was \$93,343 (December 31, 2014 – \$63,892).



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6. Property and equipment (continued)

December 31, 2015	Cost	Accumulated depreciation	Net book value
Aircraft	3,912,617	(1,170,643)	2,741,974
Ground property and equipment	183,828	(111,652)	72,176
Spare engines and rotables	240,893	(73,447)	167,446
Deposits on aircraft	319,019	-	319,019
Buildings	136,783	(30,419)	106,364
Leasehold improvements	22,104	(11,730)	10,374
Assets under development	55,909	-	55,909
	4,871,153	(1,397,891)	3,473,262

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

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was \$1,574,433 at December 31, 2015 (December 31, 2014 – \$1,536,616).

7. Intangible assets

	January 1 2015	Net additions	Amortization	Transfers	December 31 2015
Software	26,995	1,826	(11,317)	12,137	29,641
Landing rights	15,483	-	(888)	-	14,595
Other	5,697	-	(88)	-	5,609
Assets under development	12,448	13,393	-	(12,137)	13,704
	60,623	15,219	(12,293)	-	63,549

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

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7. Intangible assets (continued)

December 31, 2015	Cost	Accumulated amortization	Net book value
Software	85,348	(55,707)	29,641
Landing rights	17,781	(3,186)	14,595
Other	5,836	(227)	5,609
Assets under development	13,704	-	13,704
	122,669	(59,120)	63,549

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

8. Maintenance provisions and reserves

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

	December 31 2015	December 31 2014
Opening balance	246,579	218,516
Additions	59,061	34,863
Change in estimate ⁽ⁱ⁾	3,677	3,281
Foreign exchange	46,667	20,052
Accretion ⁽ⁱⁱ⁾	1,667	2,246
Settled	(28,618)	(32,379)
Ending balance	329,033	246,579
Current portion	(85,819)	(54,811)
Long-term portion	243,214	191,768

(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, 2015, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.0% (December 31, 2014 – 0.91%) to reflect the weighted average remaining term of approximately 27 months (December 31, 2014 – 30 months) until cash outflow.

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

At December 31, 2015, the current portion of maintenance reserves included in prepaid expenses, deposits and other is \$15,190 (December 31, 2014 – \$54,466) and the long-term portion of maintenance reserves included in other assets is \$19,261 (December 31, 2014 – \$8,110).

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9. Long-term debt

	December 31 2015	December 31 2014
Term loans – purchased aircraft ⁽ⁱ⁾	220,458	343,056
Term loans – purchased aircraft ⁽ⁱⁱ⁾	198,041	218,425
Term loans – purchased aircraft ⁽ⁱⁱⁱ⁾	358,415	229,270
Senior unsecured notes ^(iv)	397,919	397,912
Ending balance	1,174,833	1,188,663
Current portion	(141,572)	(159,843)
Long-term portion	1,033,261	1,028,820

- (i) 37 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$27,539, at an effective weighted average fixed rate of 5.92%, maturing between 2016 and 2020. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by 37 Boeing 737 Next Generation aircraft. There are no financial covenants related to these term loans.
- (ii) Seven individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$5,576, in addition to a floating rate of interest at the three month Canadian Dealer Offered Rate plus a basis point spread, with an effective weighted average floating interest rate of 2.40% at December 31, 2015, maturing between 2024 and 2025. The Corporation has fixed the rate of interest on these seven term loans, at a weighted-average rate of 3.20%, using interest rate swaps. These facilities are guaranteed by Ex-Im Bank and secured by seven Boeing 737 Next Generation aircraft. No changes from December 31, 2014, other than the weighted average floating interest rate of 2.87%. There are no financial covenants related to these term loans.
- (iii) 24 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$7,245, at an effective weighted average fixed rate of 3.46%, maturing between 2025 and 2027. Each term loan is secured by one Q400 aircraft. At December 31, 2014 – 15 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$4,269, at an effective weighted average fixed rate of 3.87%, maturing in 2025 and 2026. There are no financial covenants related to these term loans.
- (iv) 3.287% Senior Unsecured Notes with semi-annual interest payments and an effective interest rate of 3.31% at December 31, 2015, with principal due upon maturity in July 2019. The notes rank equally in right of payment with all other existing and future unsubordinated debt of the Corporation, but are effectively subordinate to all of the Corporation's existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenants related to these senior unsecured notes.

Future scheduled principal repayments of long-term debt at December 31, 2015 are as follows:

Within 1 year	144,829
1 – 3 years	216,240
3 – 5 years	531,063
Over 5 years	297,990
	1,190,122

Future repayments in the table above exclude transaction costs of \$15,289 which are offset against long-term debt in the consolidated statement of financial position.

In March 2015, the Corporation amended its credit agreement increasing the unsecured, revolving syndicated credit facility from \$250,000 to \$300,000 and extending the maturity date to June 2018. The credit facility is available for general corporate purposes, including the funding of future aircraft acquisitions, and matures in June 2018 with an option to extend the three year term on an annual basis. Funds from the revolving credit facility can be drawn by way of: (i) Canadian dollar prime loans, (ii) US dollar base rate loans, (iii) US dollar LIBOR loans, (iv) Canadian dollar bankers' acceptances, and (v) Canadian or US dollar fronted letters of credit. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on the Corporation's debt rating. The Corporation also pays a standby fee for the undisbursed portion of the revolving credit facility. At December 31, 2015, the Corporation has \$nil (December 31, 2014 – \$nil) drawn on the facility. The credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. At December 31, 2015, the Corporation has met both covenants.

The Corporation has an \$820,000 loan agreement with Export Development Canada for the future purchase of Bombardier Q400 NextGen aircraft. The Corporation is charged a non-refundable commitment fee of 0.2 per cent per annum on the undisbursed portion of the loan. The undisbursed portion of the loan at December 31, 2015, is \$421,975 (December 31, 2014 – \$575,088). 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.

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9. Long-term debt (continued)

On January 5, 2016, the Corporation entered into an unsecured, non-revolving \$300,000 4-year term credit facility with a syndicate of banks. The credit facility is available for general corporate purposes, including the funding of future aircraft acquisitions. Funds from the credit facility can be drawn by way of Canadian dollar prime loans or Canadian dollar bankers' acceptances. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on the Corporation's debt rating. On January 7, 2016, the Corporation received the \$300,000 funds flow from the term facility using Canadian dollar bankers' acceptances. The credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. The Corporation has fixed the interest rate over the 4-year term of the facility at 2.757% using an interest rate swap.

10. 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:

	2015	2014
Earnings before income tax	520,258	390,307
Combined Canadian federal and provincial income tax rate	26.44%	25.96%
Expected income tax provision	137,556	101,324
Add (deduct):		
Non-deductible expenses	4,611	3,931
Non-deductible share-based payment expense	859	1,985
Effect of tax rate changes	9,671	-
Other	31	(890)
Actual income tax provision	152,728	106,350
Effective tax rate	29.36%	27.25%

The increase in the effective tax rate is due to an increase to the general corporate income tax rate in Alberta to 12% from 10% effective July 1, 2015. The tax rate increase became substantively enacted under IFRS on June 18, 2015.

(b) Deferred tax

Components of the net deferred tax liability are as follows:

	2015	2014
Deferred tax liability:		
Property and equipment	(269,880)	(251,444)
Deferred partnership income	(56,139)	(45,785)
Net unrealized gain on derivatives designated in a hedging relationship	(1,009)	-
Deferred tax asset:		
Net unrealized loss on derivatives designated in a hedging relationship	-	337
	(327,028)	(296,892)

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11. Share capital

(a) Authorized

Unlimited number of common voting shares

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

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

Unlimited number of variable voting shares

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

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

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

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

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

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11. Share capital (continued)

(b) Issued and outstanding

	2015		2014	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of period	127,690,868	603,287	128,625,420	603,861
Issuance of shares pursuant to compensation plans	115,299	1,833	500,598	6,177
Shares repurchased	(4,719,690)	(22,324)	(1,435,150)	(6,751)
Balance, end of period	123,086,477	582,796	127,690,868	603,287

At December 31, 2015, the number of common voting shares outstanding was 109,089,643 (December 31, 2014 – 107,998,929) and the number of variable voting shares was 13,996,834 (December 31, 2014 – 19,691,939).

On May 8, 2015, the Corporation filed a notice with the TSX to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation is authorized to purchase up to 2,000,000 common voting shares and variable voting shares (representing approximately 1.6 per cent of the Corporation's issued and outstanding shares at the time of the bid) during the period May 13, 2015 to May 12, 2016, or until such time as the bid is completed or terminated at the Corporation's option. The filing was subsequently amended to increase the maximum number of shares authorized for repurchase to 4,000,000 shares and was approved by the TSX on July 28, 2015 (collectively, the 2015 bid). Any shares purchased under this bid are purchased on the open market at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid are cancelled.

On May 5, 2014, the Corporation filed a notice with the TSX to make a normal course issuer bid to purchase outstanding shares on the open market. The bid expired on May 7, 2015, with the Corporation purchasing and cancelling all 2,000,000 of the shares it was authorized to purchase.

During the year ended December 31, 2015, the Corporation purchased and cancelled a total of 4,719,690 shares (December 31, 2014 – 1,435,150) for total consideration of \$123,813 (December 31, 2014 – \$39,431). The average book value of the shares repurchased was \$4.73 per share (December 31, 2014 – \$4.70) and was charged to share capital. The excess of the market price over the average book value, including transaction costs, was \$101,489 (December 31, 2014 – \$32,680) and was charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2015, 9,109,276 (2014 – 9,224,575) voting shares were reserved for issuance to officers and employees of the Corporation, subject to the following limitations:

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

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

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

	2015	2014
Weighted average fair value per option	4.83	4.55
Weighted average risk-free interest rate	0.95%	1.5%
Weighted average expected volatility	27%	27%
Expected life of options (years)	3.8	3.8
Weighted average dividend yield	1.7%	1.6%

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11. Share capital (continued)

(c) Stock option plan (continued)

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

	2015		2014	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of period	3,738,714	22.33	2,834,639	19.20
Granted	2,477,323	26.63	2,353,474	23.94
Exercised	(371,169)	19.04	(1,447,250)	18.82
Forfeited	(111,736)	23.65	(2,149)	22.90
Expired	(26,585)	20.89	-	-
Stock options outstanding, end of period	5,706,547	24.40	3,738,714	22.33
Exercisable, end of period	2,785,374	22.44	912,772	19.38

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, 2015, option holders exercised 363,734 options (2014 – 1,442,006 options) on a cashless basis and received 107,864 shares (2014 – 495,354 shares). For the year ended December 31, 2015, 7,435 options were exercised on a cash basis (2014 – 5,244 options) and option holders received 7,435 shares (2014 – 5,244 shares).

Options outstanding and exercisable at December 31, 2015:

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
13.85-20.00	314,129	2.14	14.94	314,129	14.94
20.01-23.00	768,638	2.64	21.94	627,569	21.93
23.01-26.00	2,328,440	3.33	23.83	1,833,539	23.87
26.01-31.16	2,295,340	4.08	26.94	10,137	28.63
	5,706,547	3.47	24.40	2,785,374	22.44

(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, 2015, 944,738 (2014 – 944,738) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2015, the Corporation settled nil RSUs with shares issued from treasury and 216,107 RSUs through the open market (December 31, 2014 – nil and 217,623, respectively).

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

	2015		2014	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	391,030	20.99	476,103	17.39
Granted	96,686	26.32	126,759	23.93
Units, in lieu of dividends	6,846	25.00	7,207	27.38
Settled	(216,107)	19.51	(217,623)	15.05
Forfeited	(315)	23.98	(1,416)	19.34
Units outstanding, end of period	278,140	24.09	391,030	20.99

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

11. Share capital (continued)

(e) Executive share unit plan

The Corporation has an equity-based executive share unit (ESU) plan, whereby RSUs and performance share units (PSU) may be issued to senior executive officers. At December 31, 2015, 1,011,927 (2014 – 1,011,927) voting shares of the Corporation were reserved for issuance under the ESU plan.

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

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

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

The Corporation intends to settle all RSUs and PSUs with shares either through the purchase of voting shares on the open market or the issuance of new shares from treasury; however, wholly at its own discretion, the Corporation may settle the units in cash. For the year ended December 31, 2015, the Corporation settled 77,318 RSUs and 107,658 PSUs through the purchase of shares on the open market and nil through the issuance from treasury (December 31, 2014 – 74,221 and 69,713 and nil, respectively).

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

	2015				2014			
	RSUs		PSUs		RSUs		PSUs	
	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	179,890	19.85	321,620	20.88	192,084	17.35	243,567	17.18
Granted	144,636	24.41	142,092	26.12	60,338	24.34	144,559	24.33
Units, in lieu of dividends	3,332	23.65	6,032	24.28	1,689	28.17	3,207	28.54
Settled	(77,318)	15.23	(107,658)	15.61	(74,221)	17.22	(69,713)	15.44
Forfeited	(27,820)	23.28	(59,199)	23.41	-	-	-	-
Units outstanding, end of period	222,720	24.04	302,887	24.79	179,890	19.85	321,620	20.88

(f) Share-based payment expense

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

	2015	2014
Stock option plan	10,955	11,449
Key employee plan	2,700	3,039
Executive share unit plan	3,599	4,138
Total share-based payment expense	17,254	18,626



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11. Share capital (continued)

(g) Deferred share units

The Corporation has a cash-settled deferred share unit (DSU) plan as an alternative form of compensation for independent members of the Corporation's Board of Directors. Each DSU entitles a participant to receive cash 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, 2015, 27,110 (2014 – 18,913) DSUs were granted, with \$844 (2014 – \$1,782) of recaptured expense included in salaries and benefits. During the year ended December 31, 2015, the Corporation settled 12,533 DSUs (2014 – nil). The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the cash-settled DSUs at December 31, 2015 is \$3,275 (2014 – \$4,874). At December 31, 2015, 160,872 (2014 – 146,096) 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 between 10% and 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 2015 amounted to \$86,776 (2014 – \$79,942) and is recorded as compensation expense within salaries and benefits.

12. Dividends

During the year ended December 31, 2015, the Corporation's Board of Directors declared quarterly cash dividends of \$0.14 per common voting share and variable voting share. For the year ended December 31, 2015, the Corporation paid dividends totaling \$69,711 (2014 – \$61,313).

13. Earnings per share

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

	2015	2014
Weighted average number of shares outstanding – basic	125,101,235	127,858,259
Employee stock options	469,217	680,507
Key employee-RSUs	212,080	320,162
Executive-RSUs	87,982	118,449
Executive-PSUs	94,027	165,563
Weighted average number of shares outstanding – diluted	125,964,541	129,142,940

For the year ended December 31, 2015, 2,489,570 employee stock options (2014 – 36,499 options) were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

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14. 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, other 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, 2015 and 2014:

December 31, 2015	Fair value		Amortized cost		Total	
	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents ⁽ⁱ⁾	1,252,370	–	–	–	1,252,370	1,252,370
Accounts receivable	–	–	82,136	–	82,136	82,136
Foreign exchange derivatives ⁽ⁱⁱ⁾	–	17,358	–	–	17,358	17,358
Interest rate derivatives ⁽ⁱⁱⁱ⁾	–	(12,964)	–	–	(12,964)	(12,964)
Other deposits ^(iv)	26,675	–	–	–	26,675	26,675
Accounts payable and accrued liabilities ^(v)	–	–	–	(540,912)	(540,912)	(540,912)
Long-term debt ^(vi)	–	–	–	(1,174,833)	(1,174,833)	(1,124,849)
	1,279,045	4,394	82,136	(1,715,745)	(350,170)	(300,186)

December 31, 2014	Fair value		Amortized cost		Total	
	Through profit or loss	Derivatives	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Asset (liability):						
Cash and cash equivalents ⁽ⁱ⁾	1,416,220	–	–	–	1,416,220	1,416,220
Accounts receivable	–	–	54,950	–	54,950	54,950
Foreign exchange derivatives ⁽ⁱⁱ⁾	–	6,360	–	–	6,360	6,360
Interest rate derivatives ⁽ⁱⁱⁱ⁾	–	(7,654)	–	–	(7,654)	(7,654)
Other deposits ^(iv)	25,204	–	–	–	25,204	25,204
Accounts payable and accrued liabilities ^(v)	–	–	–	(412,704)	(412,704)	(412,704)
Long-term debt ^(vi)	–	–	–	(1,188,663)	(1,188,663)	(1,109,970)
	1,441,424	(1,294)	54,950	(1,601,367)	(106,287)	(27,594)

(i) Includes restricted cash of \$68,573 (December 31, 2014 – \$58,149).

(ii) Includes \$17,409 (December 31, 2014 – \$6,409) classified in prepaid expenses, deposits and other, and \$51 (December 31, 2014 – \$49) classified in accounts payable and accrued liabilities.

(iii) Includes \$4,475 (December 31, 2014 – \$2,809) classified in accounts payable and accrued liabilities and \$8,489 classified in other long-term liabilities (December 31, 2014 – \$4,845).

(iv) Includes \$21,275 (December 31, 2014 – \$17,585) classified in prepaid expenses, deposits and other, and \$5,400 (December 31, 2014 – \$7,619) classified in other long-term assets.

(v) Excludes foreign exchange derivative liabilities of \$51 (December 31, 2014 – \$49), and interest rate derivative liabilities of \$4,475 (December 31, 2014 – \$2,809).

(vi) Includes current portion of long-term debt of \$141,572 (December 31, 2014 – \$159,843) and long-term debt of \$1,033,261 (December 31, 2014 – \$1,028,820).

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

14. Financial instruments and risk management (continued)

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

The following items shown in the consolidated statement of financial position at December 31, 2015 and 2014, are measured at fair value on a recurring basis using level 1 or level 2 inputs. There are no financial assets or liabilities classified as level 3 in the fair value hierarchy.

December 31, 2015	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	1,252,370	–	1,252,370
Foreign exchange derivatives	–	17,358	17,358
Interest rate derivatives	–	(12,964)	(12,964)
Other deposits	26,675	–	26,675
	1,279,045	4,394	1,283,439

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

During the years ended December 31, 2015 and 2014, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

Cash and cash equivalents: Consist of bank balances and short-term investments, primarily highly liquid instruments, with terms up to 31 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 its short-term nature, the carrying value of cash and cash equivalents approximates its 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. Classified in level 2 as the significant measurement inputs used in the valuation models are observable in active markets.

At December 31, 2015, the weighted average contracted rate on the forward contracts was 1.3069 (December 31, 2014 – 1.1187) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.3830 (December 31, 2014 – 1.1640) 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. Classified in level 2 as the significant measurement inputs used in the valuation models are observable in active markets. At December 31, 2015, the Corporation's swap contracts have a weighted average fixed interest rate of 1.69% (December 31, 2014 – 2.60%). The December 31, 2015, weighted average floating forward interest rate was 1.14% (December 31, 2014 – 1.96%).

Other deposits: Consist of security deposits related to aircraft financing and airport operations deposits that 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 long-term debt is determined by discounting the future contractual cash flows of principal and interest under the current financing arrangements using the Corporation's December 31, 2015 implied Corporate BBB- rate of 3.95% (December 31, 2014 – 4.61%) for a 6.44 year term (December 31, 2014 – 6.48 year term), equal to the weighted average remaining term of the Corporation's long-term debt at December 31, 2015. The fair value measurements are classified in level 1 as the measurement inputs are unadjusted, observable inputs in active markets.



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14. Financial instruments and risk management (continued)

(b) Risk management related to financial instruments

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

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

Market risk

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

(i) Fuel price risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, the Corporation is exposed to the risk of volatile fuel prices. Fuel prices are impacted by a host of factors outside the Corporation's control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. For the year ended December 31, 2015, aircraft fuel expense represented approximately 24% (2014 – 31%) of the Corporation's total operating expenses.

(ii) Foreign exchange risk

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

US dollar monetary assets and liabilities

The gain or loss on foreign exchange included in the Corporation's consolidated statement of earnings is mainly attributable to the changes and settlements in the value of the Corporation's US-dollar-denominated monetary assets and liabilities. At December 31, 2015, US-dollar-denominated net monetary liabilities totaled approximately US \$24,039 (2014 – US \$6,073 net assets).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar at December 31, 2015, would have increased or decreased net earnings for the year ended December 31, 2015, by \$170 (2014 – \$44), as a result of the Corporation's US-dollar-denominated net monetary asset balance.

US-dollar aircraft leasing and vacation package hotel costs

In September 2015, the Corporation entered into additional foreign exchange forward contracts to fix the foreign exchange rate on a portion of US-dollar hotel costs that form part of the Corporation's vacation packages. These contracts were in addition to the existing foreign exchange forward contracts used by the Corporation to fix the US-dollar cost of aircraft leasing. All foreign exchange forward contracts are governed by the Corporation's Foreign Currency Risk Management Policy.

At December 31, 2015, the Corporation has entered into foreign exchange forward contracts for an average of US \$19,011 (2014 – US \$11,689) per month for the period of January to December 2016 for a total of US \$228,127 (2014 – US \$140,273) at a weighted average contract price of 1.3069 (2014 – 1.1187) Canadian dollars to one US dollar. The Corporation applies cash flow hedge accounting for certain foreign exchange hedges.

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14. Financial instruments and risk management (continued)

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

Market risk (continued)

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

	Statement presentation	2015	2014
Fair value	Prepaid expenses, deposits and other	17,409	6,409
Fair value	Accounts payable and accrued liabilities	(51)	(49)
Unrealized gain	Hedge reserves (before tax)	15,770	6,360

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	2015	2014
Realized gain	Aircraft leasing	21,515	9,498
Realized gain	Other revenue	608	–
Realized and unrealized gain	Gain on derivatives	1,765	–

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2015, would impact hedge reserves, net of taxes, by \$1,349 (2014 – \$1,037) and gain on derivatives, net of taxes, by \$261 (2014 – \$nil) as a result of the Corporation's foreign exchange derivatives.

(iii) Interest rate risk

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

Cash 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 (2014 – \$4,673) as a result of the Corporation's short-term investment activities.

Deposits

The Corporation is exposed to interest rate fluctuations on deposits related to aircraft financing and airport operations, which, at December 31, 2015, totaled \$26,675 (2014 – \$25,204). A reasonable change in market interest rates at December 31, 2015, 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 debt and interest rate swaps on the Corporation's long-term debt mitigate the impact of interest rate fluctuations over the term of the outstanding debt and therefore a change in interest rates at December 31, 2015, would not impact net earnings.

At December 31, 2015, the Corporation has entered into interest rate swaps with a weighted-average term of 7.2 years and a weighted-average fixed contracted rate was 1.69%, inclusive of a basis point spread. The Corporation applies cash flow hedge accounting to certain interest rate swaps.

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14. Financial instruments and risk management (continued)

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

Market risk (continued)

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

	Statement presentation	2015	2014
Fair value	Accounts payable and accrued liabilities	4,475	2,809
Fair value	Other liabilities	8,489	4,845
Unrealized loss	Hedge reserves (before tax)	12,026	7,654

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	2015	2014
Realized loss	Finance cost	3,515	3,225
Unrealized loss	Loss on derivatives	938	–

A change of 50 basis points in market interest rates at December 31, 2015, would impact hedge reserves, net of taxes, by \$3,372 (2014 – \$4,214) and gain on derivatives, net of taxes, by \$3,829 (2014 – \$nil) as a result of the Corporation's interest rate derivatives.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. At December 31, 2015, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other deposits, aircraft 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:

	2015	2014
Cash and cash equivalents ⁽ⁱ⁾	1,183,797	1,358,071
Restricted cash ⁽ⁱ⁾	68,573	58,149
Accounts receivable ⁽ⁱⁱ⁾	82,136	54,950
Other deposits ⁽ⁱⁱⁱ⁾	26,675	25,204
Aircraft deposits ^(iv)	319,019	509,684
Derivative financial assets ^(v)	17,409	6,409

- (i) Consist of bank balances and short-term investments with terms of up to 31 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 processes. The Corporation does not hold any collateral as security, however, in some cases the Corporation requires guaranteed letters of credit with certain of its counterparties. Trade receivables are generally settled within 30 to 60 days. Industry receivables are generally settled in less than 30 days.
- (iii) The Corporation is not exposed to counterparty credit risk on deposits related to aircraft financing, 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) The Corporation is exposed to counterparty credit risk on aircraft deposits with aircraft manufacturers. The Corporation considers this risk to be remote given the size and credit quality of the manufacturers.
- (v) Derivative financial assets consist of foreign exchange forward contracts. The Corporation reviews the size and credit rating of both current and any new counterparties in addition to limiting the total exposure to any one counterparty.

There were no new bad debts recorded for the year ended December 31, 2015 (2014 – \$nil).

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14. Financial instruments and risk management (continued)

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

Liquidity risk

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

The table below presents a maturity analysis of the Corporation's undiscounted contractual cash flows for its non-derivative and derivative financial liabilities at December 31, 2015. 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⁾	545,438	545,438	–	–	–
Derivative financial liabilities ⁽ⁱⁱ⁾	13,015	4,526	8,489	–	–
Long-term debt and interest	1,342,203	182,182	275,159	564,331	320,531
	1,900,656	732,146	283,648	564,331	320,531

(i) Excludes foreign exchange derivative liabilities of \$51 and interest rate derivative liabilities of \$4,475.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$51 and interest rate derivative contracts of \$12,964. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2015, net long-term interest rate derivative liabilities were \$8,489.

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, 2015, was \$620,216 (2014 – \$575,781). 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.

The Corporation aims to maintain a current ratio, defined as current assets over current liabilities, of approximately 1.00 or greater with the understanding that point-in-time fluctuations may periodically bring the ratio below 1.00. At December 31, 2015, the Corporation's current ratio was 0.97 (2014 – 1.29).

At December 31, 2015, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.



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15. Commitments

(a) Purchased aircraft and spare engines

At December 31, 2015, the Corporation is committed to purchase six 737 Next Generation aircraft for delivery between 2016 and 2017, 65 737 MAX aircraft for delivery between 2017 and 2027 and two 767 aircraft for delivery in 2016. The Corporation is also committed to purchase 12 Q400 NextGen aircraft for delivery between 2016 and 2017 and a total of 11 Boeing and Bombardier spare engines for delivery between 2016 and 2026.

The remaining estimated deposits and delivery payments for the 85 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	614,303
1 – 3 years	1,136,713
3 – 5 years	988,923
Over 5 years	2,363,297
	<u>5,103,236</u>

(b) Leases and contractual commitments

The Corporation has entered into leases and other contractual commitments for aircraft, land, buildings, equipment, computer hardware, software licenses and inflight entertainment. At December 31, 2015, 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	317,041
1 – 3 years	418,144
3 – 5 years	227,798
Over 5 years	124,677
	<u>1,087,660</u>

(c) Letters of guarantee

At December 31, 2015, the Corporation has a revolving letter of credit facility totaling \$30,000 (December 31, 2014 – \$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, 2015, \$13,366 (December 31, 2014 – \$9,515) letters of guarantee were issued under the facility by assigning restricted cash.



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

16. 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 15 Fuel Facility Corporations (FFCs) and two De-Icing Facility Corporations (DFCs) for the purpose of obtaining cost effective into-plane fuel services and aircraft de-icing services at select Canadian and US airports. These operating costs are recorded in aircraft fuel and other expenses, respectively, on the consolidated statement of earnings. At December 31, 2015, the Corporation has \$1,992 in operating deposits with the FFCs and DFCs classified in prepaids, deposits and other on the consolidated statement of financial position. The Corporation has no equity ownership and no control or significant influence in the FFCs or DFCs. The financing and operating costs of these entities are shared amongst numerous contracting airlines based on a variety of contractual terms including fuel volume consumption and qualifying flights. The Corporation classifies its monthly operating cost obligations to the FFCs and DFCs as other financial liabilities and these obligations are included in accounts payable and accrued liabilities on the consolidated statement of financial position. At November 30, 2015, the 15 FFCs and two DFCs have combined total assets of approximately \$626,272 and liabilities of \$595,855. In the event any or all contracting airlines default and withdraw from the FFCs and DFCs and no amounts are recovered through legal recourse, the Corporation and any remaining contracting airlines are liable for the outstanding obligations of the FFCs and DFCs. These obligations represent the Corporation's maximum exposure to loss from the FFCs and DFCs.

(d) Key management personnel

The Corporation has defined key management personnel as Senior Executive Officers and the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The following table outlines the total compensation expense for key management personnel for the years ended December 31, 2015 and 2014.

	2015	2014
Salaries, benefits and other compensation ⁽ⁱ⁾	10,754	5,845
Share-based payment expense ⁽ⁱⁱ⁾	3,284	6,835
	14,038	12,680

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

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



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

17. Additional financial information

(a) Assets

	Note	2015	2014
Accounts receivable:			
Trade and industry ⁽ⁱ⁾		75,423	43,454
Other		9,081	13,864
Allowance		(2,368)	(2,368)
		82,136	54,950
Prepaid expenses, deposits and other:			
Prepaid expenses ⁽ⁱⁱ⁾		58,322	48,533
Short-term deposits ⁽ⁱⁱⁱ⁾		40,411	34,472
Maintenance reserves – current portion	8	15,190	54,466
Derivatives	14	17,409	6,409
Other		415	312
		131,747	144,192
Inventory:			
Fuel		16,700	21,309
Aircraft expendables		15,106	12,539
De-icing fluid		597	454
Other		3,615	2,356
		36,018	36,658
Other Assets:			
Aircraft deposits ^(iv)		50,881	45,740
Maintenance reserves – long term	8	19,261	8,110
Other ^(v)		19,800	8,440
		89,942	62,290

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

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

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

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

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

(b) Liabilities

	Note	2015	2014
Accounts payable and accrued liabilities:			
Trade and industry		449,766	337,458
Taxes payable		40,269	20,431
Derivatives	14	4,526	2,858
Other		50,877	54,815
		545,438	415,562
Other liabilities:			
Deferred contract incentives ⁽ⁱ⁾		5,114	8,305
Derivatives	14	8,489	4,845
		13,603	13,150

(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 recognized on a straight-line basis over the terms of the related contracts.



Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2015 and 2014

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

18. Nature-Based Reporting

On December 31, 2015, the Corporation transitioned from a functional-based presentation of operating expenses to a nature-based presentation of operating expenses on the consolidated statement of earnings. The Corporation's functional-based presentation of operating expenses was aligned with the internal corporate organization for accountability and decision-making. The transition to a nature-based presentation of operating expenses was done to align more closely with industry reporting practices and enhance comparability with industry peers.

Under the new nature-based presentation for operating expenses, there have been no changes to the presentation of aircraft fuel, depreciation and amortization, aircraft leasing or the employee profit share line items as these items were already presented by nature. Total operating expenses remain unchanged and no other line items and no other financial statements were affected by this transition.

The following captions summarize the operating expenses that transitioned from a functional-based presentation to a nature-based presentation:

Airport operations – Airport operations was previously a combination of salaries and benefits, airport rates and fees and deicing costs. Salaries and benefits are now presented as total *Salaries and benefits* in one line item while airport rates and fees are presented in *Rates and fees* and deicing costs are now presented in *Other*.

Flight operations – Flight operations was previously a combination of salaries and benefits, flight and navigation fees and costs related to irregular operations. Salaries and benefits are now presented as total *Salaries and benefits* in one line item while flight and navigation fees are presented in *Rates and fees* and costs related to irregular operations are now presented in *Other*.

Inflight – Inflight was previously a combination of salaries and benefits and flight attendant travel and training costs. Salaries and benefits are now presented as total *Salaries and benefits* in one line item while flight attendant travel and training expenses are now presented in *Other*.

Maintenance – Maintenance was previously a combination of salaries and benefits and operating maintenance expenditures for aircraft, including the Corporation's maintenance provision expenses related to aircraft operating leases. Salaries and benefits are now presented as total *Salaries and benefits* in one line item while operating maintenance expenditures for aircraft will continue to be presented in *Maintenance*.

Sales and distribution – Sales and distribution was previously a combination of salaries and benefits and selling and distribution costs related to our global distribution systems. Salaries and benefits are now presented as total *Salaries and benefits* in one line item while selling and distribution costs are now presented in *Sales and marketing*.

Marketing, general and administration – Marketing, general and administration was previously a combination of salaries and benefits, advertising and sponsorship costs, professional fees and insurance costs. Salaries and benefits are now presented as total *Salaries and benefits* in one line item, advertising and sponsorship costs are now presented in *Sales and marketing* and professional fees and insurance costs are now presented in *Other*.

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Corporate information

Board of Directors

Clive Beddoe,
Chair of the Board

Hugh Bolton,
Director

Ron Brenneman,
Director

Christopher Burley,
Director

Antonio Faiola,
PACT Chair

Brett Godfrey,
Director

Allan Jackson,
Director

S. Barry Jackson,
Director

L. Jacques Ménard,
Director

Larry Pollock,
Director

Janice Rennie,
Director

Karen Sheriff,
Director

Gregg Saretsky,
President and Chief Executive Officer

Executive team

Gregg Saretsky,
President and Chief Executive Officer

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

Bob Cummings,
Executive Vice-President, Commercial

Cameron Kenyon,
Executive Vice-President, Operations

Mark Porter,
Executive Vice-President, People and Culture

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

Rocky Wiggins,
Executive Vice-President and Chief Information Officer

Stock exchange listing

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

Investor relations contact information

Phone: 1-877-493-7853

Email: investor_relations@westjet.com

WestJet headquarters

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

Annual general meeting (AGM)

WestJet Airlines Ltd.'s AGM will be held at 10 a.m. (MDT) on Tuesday, May 3, 2016, at WestJet's Campus, 22 Aerial Place NE, Calgary, Alta. T2E 3J1

Auditors

KPMG LLP, Calgary, Alberta

Transfer agent and registrar

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