

2016 Annual Report

Strengthening our brand

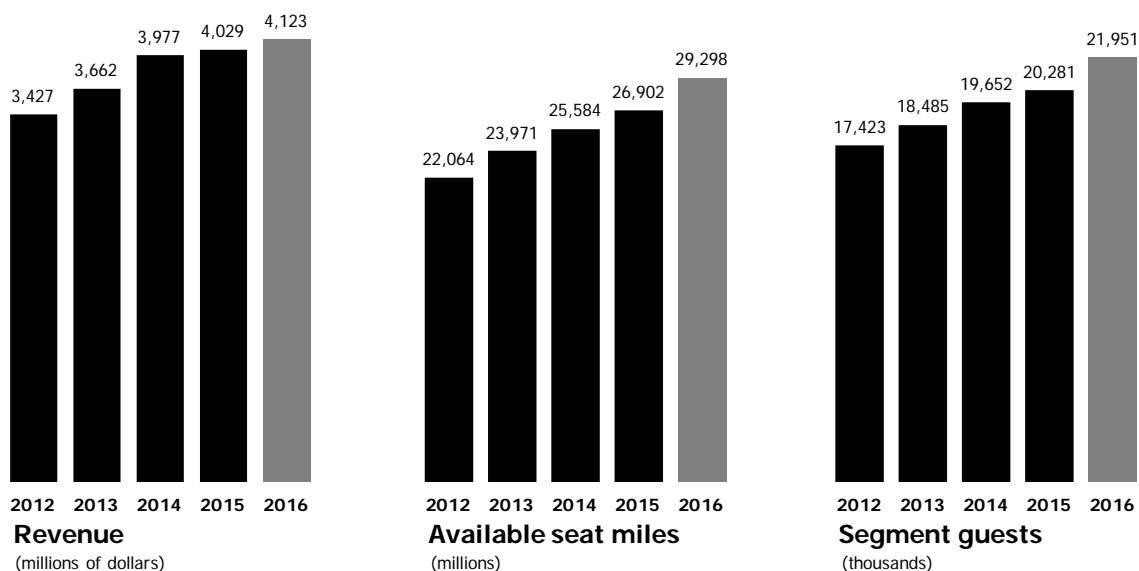




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Financial Overview ⁽ⁱ⁾



(\$ in thousands, except per share data)	2016	2015	2014	2013	2012
Consolidated financial information					
Revenue	\$ 4,122,859	\$ 4,029,265	\$ 3,976,552	\$ 3,662,197	\$ 3,427,409
Earnings before income taxes	\$ 416,233	\$ 520,258	\$ 390,307	\$ 372,085	\$ 340,229
Net earnings	\$ 295,458	\$ 367,530	\$ 283,957	\$ 268,722	\$ 242,392
Adjusted net earnings	\$ 295,458	\$ 367,530	\$ 317,188	\$ 268,722	\$ 242,392
Cash and cash equivalents	\$ 1,520,822	\$ 1,183,797	\$ 1,358,071	\$ 1,256,005	\$ 1,408,199
Earnings per share					
Basic	\$ 2.46	\$ 2.94	\$ 2.22	\$ 2.05	\$ 1.79
Diluted	\$ 2.45	\$ 2.92	\$ 2.20	\$ 2.03	\$ 1.78
Adjusted diluted earnings per share	\$ 2.45	\$ 2.92	\$ 2.46	\$ 2.03	\$ 1.78
Operational highlights*					
Available seat miles (ASM)	29,298,340,363	26,902,227,359	25,584,033,077	23,970,921,260	22,063,583,754
Revenue passenger miles (RPM)	23,967,614,295	21,525,979,116	20,828,992,613	19,591,173,039	18,262,554,881
Load factor	81.8%	80.0%	81.4%	81.7%	82.8%
Yield (cents)	17.20	18.72	19.09	18.69	18.77
Revenue per ASM (cents)	14.07	14.98	15.54	15.28	15.53
Cost per ASM (cents)	12.57	12.86	13.68	13.61	13.83
Cost per ASM, excluding fuel and employee profit share (cents)	9.75	9.46	9.15	9.06	9.12

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

President's message to shareholders

2016 was an exciting year for WestJet, as we celebrated 20 years of offering Canadians a lower cost alternative for air travel and making it possible for almost 22 million guests to fly to exciting destinations across our growing network. Our long track record of profitability continued in 2016 as we closed the year by reporting 12 consecutive years of profitability. Despite enduring a second year of an economic downturn in Alberta of unprecedented proportion, we delivered top-line revenue growth, double-digit traffic growth, flew a record number of guests and achieved our second-highest annual load factor at 81.8 per cent. Clearly, this speaks to the resiliency of our time-tested business model and our ability to adapt in tougher economic environments. Ultimately, the foundation of this success is rooted deeply in the more than 12,000 WestJetters who are both passionate and dedicated to safely providing our guests with WestJet's award-winning brand of friendly, caring service.

In 2016, we reported net earnings of \$295.5 million or \$2.45 cents per diluted share. Our full-year diluted 2016 earnings per share was one penny shy of our second best ever year in 2014, when we reported adjusted diluted earnings per share of \$2.46 cents. In the fourth quarter of 2016, we achieved our 47th consecutive profitable quarter by reporting net earnings of \$55.2 million or \$0.47 cents per diluted share.

On February 29, 2016, we celebrated two decades of successful operations. As part of our 20th birthday celebration, we rolled out a new logo featuring a stylized blue and teal maple leaf. The logo denotes our proud Canadian heritage as we continue our international expansion. The new logo was first unveiled on our Boeing 767-300ERW aircraft delivered in 2015 and appeared on new aircraft delivered in 2016 as well as on westjet.com, airport signage, boarding passes and other branded items.

During the second quarter of 2016, we also celebrated two operational milestones: WestJet Encore celebrated its third year and WestJet Vacations celebrated its 10th year of successful operations. Since its launch in 2013, WestJet Encore has grown from two aircraft to 34 aircraft with more than 200 daily departures serving 35 Canadian communities, and now those communities have improved connectivity, lower fares and more competitive air service. WestJet Vacations has provided guests with affordable, reliable and flexible vacation packages and as a result has experienced strong growth over the last 10 years.

In 2016, we continued to strategically grow our airline through new and increased service across our scheduled network. We announced new domestic, transborder and international destinations, including service to WestJet Encore's first transborder destination as well as our first transatlantic destination for our wide-body Boeing 767-300ERW aircraft.

We continued to expand our fleet in 2016 with the addition of four new Boeing 737-800NGs, 10 new Bombardier Q400s and two used Boeing 767-300ERWs while returning three leased Boeing 737-700NGs as part of our strategy to optimize and modernize our fleet. As our fleet continues to grow, including the future deliveries of Boeing 737 MAX aircraft, we expect to continue expanding our profitable route network in Canada, the U.S. and internationally. Our evolving aircraft mix allows us to provide increased route frequency, more non-stop routes and improved schedule utility to both our leisure and business guests.

In terms of our wide-body operations, we began our transatlantic service to London Gatwick in May last year from five Canadian cities. Though we had some early teething pains with the introduction of these aircraft, we are pleased to report that both our completion rate and on time performance (OTP) has improved from the second quarter of 2016 with wide-body reliability coming in at 97.4 per cent for the year while OTP for the fourth quarter was up almost 20 percentage points from the second quarter.

Late last year, our pilots voted in favour of expanding our wide-body operations. We are currently analyzing all options with respect to the make, model and number of aircraft and the pace of wide-body expansion, keeping in mind our financial targets and credit metrics.

We continued to advance our airline partnership strategy announcing new codeshare partnerships during the year with Emirates Airlines, TAM Linhas Aéreas, Hanain Airlines and LAN Airlines. As of February 6, 2017, we have a total of 42 airline partnership agreements. The success of our expanding airline partnership program enables our guests to access more than 170 destinations through WestJet.

We continued rolling out WestJet Connect through 2016, our new inflight entertainment system featuring wireless broadband Internet connectivity that provides free access to more than 700 hours of movies and television programs, news, weather and destination information, as well as five live-streaming channels of news and sports. Guests can access WestJet Connect using their laptops, or via the WestJet app downloaded onto their mobile devices. With the close of 2016, we have completed the installation of WestJet Connect on 84 of our Boeing 737s and all four of our Boeing 767s, with the majority of the remaining installations scheduled to be completed throughout 2017. Future Boeing aircraft deliveries will include WestJet Connect as their default configuration.

In 2016, we announced numerous enhancements to our WestJet Rewards Program, including a reciprocal frequent flyer agreement with Qantas Airways. This agreement allows members of both airlines' respective frequent flyer programs to earn their choice of either WestJet dollars or Qantas Points when travelling on flights of either airline. This expands on the existing code-share relationship between Qantas and WestJet announced in 2014.

We continued to see very positive trends in terms of growth in our rewards program, managed corporate business revenues and the number of guests who hold our WestJet RBC® MasterCard⁺. Specifically in terms of fourth quarter year-over-year growth:

- our active rewards members were up approximately 11 per cent,
- our managed corporate business revenues was up over 15 per cent and
- our credit card holders were up by over 35 per cent.

In the fourth quarter of 2016, our premium economy, which we call Plus, revenue was up almost 30 per cent year over year ahead of the 22 per cent increase we experienced in the third quarter. This is creating some very positive momentum heading into 2017.

The penetration into the business traveller segment and the growth of our rewards membership base creates a great foundation for future revenue growth from both ticket sales and ancillary revenue.

Throughout 2016, 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. We were:

- recognized as one of Canada's Best Brands by Canadian Business magazine.
- named the most reputable Canadian company for corporate social responsibility by the Reputation Institute, a leading research and advisory firm for reputation.
- named Canada's most trusted airline by the Gustavson School of Business at the University of Victoria.

We were also pleased that for the fourth consecutive year, the WestJet RBC® World Elite MasterCard⁺ was rated number one 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.

These accomplishments are a reflection of WestJetters' willingness to continually go above and beyond not only to provide our guests with the best possible travel experience, but also by giving back to the communities we serve. WestJetters' eagerness to positively impact our guests and communities is evident by their ongoing participation in various charitable programs, and as seen this year in the actions taken to assist with the evacuations from Fort McMurray, Alberta during the 2016 wildfires.

We remain committed to returning value to shareholders and in 2016 we repurchased and cancelled 5,954,949 shares under our normal course issuer bids. Combined with our dividend, we returned almost \$200 million to shareholders under these programs in 2016. As of December 31, 2016, the combined effect of these two distributions since we initiated in November 2010 has resulted in WestJet returning almost \$950 million to our shareholders.

With the Alberta economy seemingly having bottomed out, and success with our premium economy product and performance in the business traveler market segment, we are increasingly optimistic that unit-revenue performance will be positive in the first half of 2017 after eight quarters of year-over-year declines. Our 2017 plan positions us extremely well for sustainable profitability as we run the business to achieve our long-term financial, operational, and guest satisfaction targets. We are focused on managing the business responsibly for our shareholders and our long-term return on invested capital (ROIC) target of 13 to 16 per cent over the cycle, while maintaining the only investment-grade credit in the Canadian airline industry.

The fundamentals of our business remain very strong, and the strategic initiatives we have been undertaking *strengthen our brand* and will help us meet the needs of a changing market.

On behalf of the Board of Directors, the Executive leadership team, and our more than 12,000 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 prominent initial "G" and a long, sweeping underline.

Gregg Saretsky

President and Chief Executive Officer

March 22, 2017

Caution regarding forward-looking statements

This president's message to shareholders contains "forward-looking information" as defined under applicable Canadian securities legislation, including without limitation our expectation that as our fleet expands we will continue expanding our profitable route network in Canada, the U.S. and internationally; the pace of any wide-body expansion including the make, model and number of aircraft; our plans that future Boeing aircraft deliveries will include WestJet Connect as their default configuration; our belief that the penetration into the business traveller segment and the growth of our Rewards membership base creates a great foundation for future revenue growth from both ticket sales and ancillary revenue; our expectation that unit revenue performance will be positive in the first half of 2017; and our long-term ROIC target of 13 to 16 per cent. By its nature, forward-looking information is subject to numerous risks and uncertainties, some of which are beyond WestJet's control. The forward-looking information is based on our existing strategies, our long-term strategic plan, our financial targets and credit metrics, 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 information as actual results may vary materially from the forward-looking information. WestJet does not undertake to update, correct or revise any forward-looking information as a result of any new information, future events or otherwise, except as may be required by applicable law.

Non-GAAP measures

This president's message to shareholders contains disclosure respecting non-GAAP measures including, without limitation, adjusted diluted earnings per share and ROIC. Non-GAAP measures are included to enhance the overall understanding of our financial performance or current financial condition. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations, and to provide a more consistent basis for comparison between reporting periods. These measures are not calculated in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures provided by other entities. Readers are urged to review the section entitled "Reconciliation of non-GAAP and additional GAAP measures" in WestJet's management's discussion and analysis of financial condition and operating results for the years ended December 31, 2016 and 2015.

Management's Discussion and Analysis

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

For the years ended December 31, 2016 and 2015

WestJet Airlines Ltd.
Annual 2016 MD&A
February 6, 2017



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Advisories

The following Management's Discussion and Analysis of Financial Condition and Operating Results (MD&A), dated February 6, 2017, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as our audited consolidated financial statements and notes thereto, for the years ended December 31, 2016 and 2015. The consolidated financial statements for each of the two years ended December 31 2016 and 2015 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 consolidated subsidiaries and structured entities, unless the context otherwise requires. Additional information relating to WestJet, including periodic quarterly and annual reports and Annual Information Forms (AIF), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at westjet.com.

Cautionary statement regarding forward-looking information

This MD&A contains "forward-looking information" as defined under applicable Canadian securities legislation. This forward-looking information typically contains the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should," "potential," "plan," "project" or other similar terms. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information. We can give no assurance that any of the events anticipated will transpire or occur or, if any of them do, what benefits or costs we will derive from them. By its nature, forward-looking information is subject to numerous risks and uncertainties including, but not limited to, the impact of general economic conditions, changing domestic and international airline industry conditions, volatility of fuel prices, terrorism, pandemics, currency fluctuations, interest rates, competition from other airline industry participants (including new entrants, capacity fluctuations and changes to the pricing environment), labour matters, government regulations, stock market volatility, the ability to access sufficient capital from internal and external sources, and additional risk factors discussed in the documents we file from time to time with securities regulatory authorities, which are available on SEDAR at sedar.com or, upon request, without charge from us. Readers are urged to consult the disclosures provided below for important information respecting material risks and uncertainties applicable to our forward-looking statements.

The disclosure found under the heading *Outlook* in this MD&A, including the guidance summary for the three months ended March 31, 2017 and the year ended December 31, 2017 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 52 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 54 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 54 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 the United States. As of December 31, 2016, our airline offered scheduled service to 104 destinations in North America, Central America, the Caribbean and Europe with our fleet of 115 Boeing 737 Next Generation (Boeing 737 NG) aircraft, 34 Bombardier Q400 (Q400) aircraft and four wide-body, Boeing 767-300ERW (Boeing 767) aircraft. When including connectivity provided through our airline partners, we serve 176 destinations. We plan to continue adding new destinations and additional frequencies to our existing markets through the growth of our regional Q400 fleet, our narrow-body Boeing 737 NG fleet, our wide-body Boeing 767 fleet and beginning in 2017, new fuel efficient Boeing 737 Max aircraft.

WestJet's mission is to enrich the lives of everyone in WestJet's world. We believe that focusing on metrics such as safety, on-time performance, profitability, guest satisfaction and employee engagement will lead us toward this goal.

Guiding us every day towards accomplishing our mission 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)		2016	2015	2014	2013	2012
Financial highlights	Revenue	4,122,859	4,029,265	3,976,552	3,662,197	3,427,409
	Operating expenses	3,682,762	3,459,512	3,501,081	3,262,687	3,051,689
	Earnings from operations	440,097	569,752	475,471	399,510	375,720
	Operating margin	10.7%	14.1%	12.0%	10.9%	11.0%
	Earnings before income taxes (EBT)	416,233	520,258	390,307	372,085	340,229
	Adjusted EBT ⁽ⁱ⁾	416,233	520,258	435,766	372,085	340,229
	EBT margin ⁽ⁱ⁾	10.1%	12.9%	9.8%	10.2%	9.9%
	Adjusted EBT margin ⁽ⁱ⁾	10.1%	12.9%	11.0%	10.2%	9.9%
	Net earnings	295,458	367,530	283,957	268,722	242,392
	Adjusted net earnings ⁽ⁱ⁾	295,458	367,530	317,188	268,722	242,392
	Earnings per share:					
	Basic	2.46	2.94	2.22	2.05	1.79
	Diluted	2.45	2.92	2.20	2.03	1.78
	Adjusted diluted ⁽ⁱ⁾	2.45	2.92	2.46	2.03	1.78
	ROIC ⁽ⁱ⁾	11.3%	15.3%	14.3%	13.9%	13.7%
	Cash and cash equivalents	1,520,822	1,183,797	1,358,071	1,256,005	1,408,199
	Total assets	6,164,296	5,129,024	4,646,433	4,143,463	3,746,615
	Total long-term liabilities	2,482,261	1,617,106	1,530,630	1,147,163	1,086,457
	Cash dividends declared per share ⁽ⁱⁱ⁾	0.56	0.56	0.48	0.40	0.28

		2016	2015	2014	2013	2012
Operational highlights	ASMs	29,298,340,363	26,902,227,359	25,584,033,077	23,970,921,260	22,063,583,754
	RPMS	23,967,614,295	21,525,979,116	20,828,992,613	19,591,173,039	18,262,554,881
	Load factor	81.8%	80.0%	81.4%	81.7%	82.8%
	Yield (cents)	17.20	18.72	19.09	18.69	18.77
	RASM (cents)	14.07	14.98	15.54	15.28	15.53
	CASM (cents)	12.57	12.86	13.68	13.61	13.83
	CASM, excluding fuel and employee profit share (cents) ⁽ⁱ⁾	9.75	9.46	9.15	9.06	9.12
	Fuel consumption (litres)	1,405,488,934	1,278,079,174	1,214,001,002	1,144,937,872	1,079,108,614
	Fuel costs per litre (cents)	54	64	90	91	92
	Segment guests	21,951,463	20,281,376	19,651,977	18,485,144	17,423,352
	Average stage length (miles)	911	910	936	976	978
	Departures	227,866	209,770	192,858	171,436	160,244
	Utilization (hours)	11.2	11.6	11.8	12.0	11.9
	Full-time equivalent employees at period end	9,988	9,211	8,698	8,000	7,742
	Fleet size at period end	153	140	122	113	100

(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 2016 financial results represent our 12th consecutive year of reported profitability with net earnings of \$295.5 million and annual diluted earnings per share of \$2.45. During the year, our operating margin was 10.7 per cent. Total revenue increased by 2.3 per cent year over year, driven by the increase in ancillary revenue which was partially offset by lower guest revenue resulting from downward pressure on our fares due to the economic downturn of the energy sector.

We returned approximately \$193.2 million to our shareholders through our dividend and share buy-back programs in 2016. Since these programs began in 2010, we have returned over \$942.5 million to our shareholders. At December 31, 2016, our annual ROIC was 11.3 per cent, which represents a decrease of 4.0 percentage points compared to our 2015 annual ROIC of 15.3 per cent. Our targeted long-term ROIC remains within the range of 13.0 to 16.0 per cent.

2016 Summary

- Earned total revenue of \$4,122.9 million, an increase of 2.3 per cent from \$4,029.3 million in 2015.
- Increased capacity, measured in available seat miles (ASMs), by 8.9 per cent over 2015.
- Increased traffic, measured in revenue passenger miles (RPMs), by 11.3 per cent over 2015.
- Realized yield of 17.20 cents, down 8.1 per cent from 2015.
- Realized RASM of 14.07 cents, down 6.1 per cent from 14.98 cents in 2015.
- Realized CASM of 12.57 cents, down 2.3 per cent from 12.86 cents in 2015.
- Realized CASM, excluding fuel and employee profit share, of 9.75 cents, up 3.1 per cent from 9.46 cents in 2015.
- Recorded an operating margin of 10.7 per cent, down 3.4 percentage points from 14.1 per cent in 2015.
- Recorded EBT margin of 10.1 per cent, down 2.8 percentage points from 12.9 per cent in 2015.
- Reported net earnings of \$295.5 million, a decrease of 19.6 per cent from \$367.5 million in 2015.
- Reported diluted earnings per share of \$2.45, a decrease of 16.1 per cent from \$2.92 per share in 2015.

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

WestJetters

2016 was an exciting year for WestJet, celebrating 20 years of offering Canadians a lower cost alternative for air travel and making it possible for almost 22 million guests to fly to exciting destinations across our growing network. We believe our strong caring culture, demonstrated by the dedication of over 12,000 WestJetters, is key to our airline's success. We sincerely thank all WestJetters for the work they do each and every day to enrich the lives of everyone in WestJet's world, and look forward to many more successful years to come.

On February 29, 2016, we celebrated two decades of successful operations. As part of our 20th birthday celebration, we rolled out a new logo featuring a stylized blue and teal maple leaf. The logo denotes our proud Canadian heritage as we continue our international expansion. The new logo was first unveiled on our Boeing 767 aircraft in 2015 and appeared on new aircraft delivered in 2016 as well as on westjet.com, airport signage, boarding passes and other branded items. The logo will be updated on our remaining aircraft fleet during normal maintenance cycles.

During the second quarter of 2016, we also celebrated two operational milestones: WestJet Encore celebrated its third year and WestJet Vacations celebrated its 10th year of successful operations. Since its launch in 2013, WestJet Encore has been embraced by more than 30 Canadian communities seeking improved connectivity, lower fares and competitive air service. It remains committed to evolving its network offering and guest experience and, in 2016, WestJet Encore launched its first transborder route. In addition, WestJet Vacations has provided guests with affordable, reliable and flexible vacation packages and as a result has experienced strong growth over the last 10 years.

2016 also marked a year of change for our executive team and Board of Directors. We were pleased to announce that Barbara Munroe was promoted to Executive Vice President, Corporate Services and General Counsel. Additionally, we welcomed Christopher Burley as Vice Chair and Karen Sheriff as an independent member to our Board of Directors, while bidding farewell to Larry Pollock who retired. Also in 2016, Ferio Pugliese, former President WestJet Encore, and Rocky Wiggins, former Executive Vice-President and Chief Information Officer, left WestJet. Effective February 6, 2017, Brad Armitage succeeded Antonio Faiola as Chair of the WestJet Employee Association and employee representative on the Board of Directors.

Throughout 2016, 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 July 4, 2016, Alberta Venture magazine named our President and Chief Executive Officer, Gregg Saretsky, one of Alberta's 50 Most Influential People for 2016.
- On October 12, 2016, we were recognized as one of Canada's Best Brands by Canadian Business magazine.
- On October 13, 2016, we were named the most reputable Canadian company for corporate social responsibility by the Reputation Institute, a leading research and advisory firm for reputation.
- On October 28, 2016, we were named Canada's most trusted airline by the Gustavson School of Business at the University of Victoria.

These accomplishments are a reflection of WestJetters' willingness to continually go above and beyond not only to provide our guests with the best possible travel experience, but also by giving back to the communities we serve. WestJetters' eagerness to positively impact our guests and communities is evident by their ongoing participation in various charitable programs, and as seen this year in the actions taken to assist with the evacuations from Fort McMurray, Alberta during the 2016 wildfires.

On December 23, 2016, our pilots voted in favour to expand the Company's wide-body operations to include additional aircraft to service new international destinations. The approval from our pilot group was required under our agreement with the WestJet Pilots Association and is evidence of the continued alignment between our WestJetters and management with respect to the future growth and direction of the airline.

Guest experience and service enhancements

In 2016 we focused on expanding our international destination offerings through our re-deployed 737 aircraft and new wide-body operations which commenced earlier in the year. Through these achievements, we realized record traffic growth while continuing to differentiate ourselves by providing a remarkable guest experience. 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.

We continued rolling out WestJet Connect through 2016, our new inflight entertainment system featuring wireless broadband internet connectivity that provides free access to over 700 hours of movies and television programs, news, weather and destination information, as well as five live streaming channels of news and sports. Guests can access WestJet Connect using their laptops, or via the WestJet app downloaded onto their mobile devices. With the close of 2016, we have completed the installation of WestJet Connect on 84 of our Boeing 737s and all four of our Boeing 767s, with the majority of the remaining installations scheduled to be completed throughout 2017. Future Boeing aircraft deliveries will include WestJet Connect as their default configuration.

In 2016 we announced numerous enhancements to our WestJet Rewards Program, including the announcement of a reciprocal frequent flyer agreement with Qantas Airways. This agreement allows members of both airlines' respective frequent flyer programs to earn their choice of either WestJet dollars or Qantas Points when travelling on flights of either airline. This expands on the existing codeshare relationship between Qantas and WestJet announced in 2014. During the third quarter of the year we offered a limited time status match offer whereby members of any airline or travel rewards program would be eligible to obtain Gold status in the WestJet Rewards Program, which includes the benefits of two free checked bags, airport lounge vouchers, advance boarding and priority security screening at select airports, in addition to numerous other benefits. This is the third time that we have offered a matching program to Canadian frequent flyers and the first time a WestJet Rewards Program status match has been offered to travel reward program members from all other airlines.

Additionally, on August 30, 2016, the WestJet RBC® World Elite Mastercard® was named the top rated travel rewards card for the fourth year in a row by *MoneySense* magazine. Rankings are based on each card's rewards program offerings and this recognition continues to reflect our ability to provide our guests with premium benefits and rewards.

During 2016, we announced that eligible guests departing from U.S. airports can receive the TSA PreCheck designation using web, mobile and kiosk check-in, which offers a less-intrusive search when departing from U.S. airports. Prior to this, only eligible guests who received their boarding passes at WestJet counters could take advantage of the program. This service enhancement will make the security experience much more efficient, especially for those guests travelling for business and our WestJet Rewards members.

We celebrated the official opening of our new bilingual contact centre located in Moncton, New Brunswick on September 13, 2016. The opening of the new contact centre marked the one year anniversary of WestJet Encore's announcement of new routes throughout the Maritime region, and further demonstrates our airline's continued expansion into the Eastern regions of the country, with routes spanning coast-to-coast. The contact centre is expected to provide increasing local job opportunities and enhance WestJet's ability to service our French-speaking guests.

In the fourth quarter of 2016, we announced our new partnership with McDonald's® Canada and, starting December 1, 2016, we began offering complimentary McCafé Premium Roast coffee on all flights across our fleet of Boeing 737 NG and Boeing 767 aircraft, with WestJet Encore flights to follow.

Network expansion and fleet

We continue to strategically grow our airline through new and increased service across our scheduled network. In 2016 we announced new domestic, transborder and international destinations, including service to WestJet Encore's first transborder destination, as well as our first transatlantic destination for our wide-body Boeing 767 aircraft. 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.

We announced four new destinations during the year; London (Gatwick), United Kingdom, Belize City, Belize, Sudbury, Ontario, and Mesa, Arizona. In May 2016 we began offering seasonal non-stop service to London Gatwick airport from six Canadian cities, which was extended to year-round service from Calgary and Toronto. In October 2016 WestJet became the only Canadian airline to offer direct non-stop flights to Belize City, adding to WestJet's sun destinations. We announced that WestJet Encore will begin daily service in the first quarter of 2017 between Sudbury and Toronto. Our final new destination announced in 2016, with service commencing in 2017, was Mesa, Arizona, our second destination in Arizona.

During 2016 WestJet Encore commenced service to its first transborder destination, Boston, Massachusetts, and subsequently added Nashville, Tennessee to our list of U.S. destinations within the year. In only three years WestJet Encore has grown from two aircraft to 34 aircraft with over 200 daily departures serving 35 cities.

Additionally, in an effort to mitigate the impact of the economic downturn in much of Western Canada, we expanded our domestic and transborder routes servicing the Eastern provinces of Canada throughout the year, continuing to grow our Toronto hub with further expansion to Atlantic Canada, including New Brunswick. We added non-stop service from Toronto to Nashville and Los Angeles as part of our 2016 summer schedule, as well as announcing additional service between Toronto, Ottawa and Montreal to offer greater flexibility to our business travelers.

On September 20, 2016, WestJet announced a multi-year agreement with Canadian based company, Suncor Energy, as the primary charter provider to fly employees and contractors to and from its oil sands operations in Northern Alberta, which commenced in early November. WestJet will use a combination our Boeing 737 NG and Q400 aircraft to fly more than 100 weekly flights between the Canadian cities of Edmonton, Calgary, Vancouver, Kelowna, Saskatoon, Fort McMurray and Suncor's operations in the Regional Municipality of Wood Buffalo, Alberta.

We announced new codeshare partnerships during the year with Emirates Airlines, TAM Linhas Aéreas, Hanain Airlines and LAN Airlines. As of the date of this MD&A we have a total of 42 airline partnership agreements. The success of our expanding airline partnership program contributes to our ability to enable our guests to access over 170 destinations through WestJet.

In the fourth quarter of 2016 we added two new Q400 aircraft to our fleet to end the year with a total of 34 Q400s. We also added three Boeing 737-800 series aircraft to our fleet for a total of 115 Boeing 737 NG aircraft at December 31, 2016. We took delivery of our final two Boeing 767 aircraft in the first quarter of 2016. We also returned three leased Boeing 737-700 NG aircraft during the year. Subsequent to the end of the year, we completed lease extensions for one 737-700 NG aircraft and one 737-800 NG aircraft initially scheduled to expire in 2017, in order to maintain capacity until we receive our future deliveries of Boeing MAX aircraft.

As our fleet, including our future deliveries of Boeing 737 MAX aircraft, 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.

Outlook

For the first quarter of 2017, we expect system-wide capacity to grow between 6.0 and 6.5 per cent year over year, and domestic capacity to grow between 8.0 and 8.5 per cent year over year. In terms of the full-year 2017, we anticipate system-wide capacity growth between 3.5 and 5.5 per cent year over year and domestic capacity growth between 7.5 and 8.5 per cent year over year. A majority of the domestic capacity growth is attributable to WestJet Encore and our expanding charter business.

For the first quarter of 2017, we expect strong traffic and revenue growth to continue and anticipate a return to positive year over year RASM growth of up 1.0 to 3.0 per cent.

For the first quarter of 2017, we expect CASM, excluding fuel and employee profit share to be up 1.5 to 2.0 per cent year over year. In terms of the full-year 2017, we continue to expect CASM, excluding fuel and profit share to be up 2.5 to 3.5 per cent year over year.

For the first quarter of 2017, we expect fuel costs to range between 64 and 66 cents per litre, representing a year-over-year increase of approximately 36 to 40 per cent. The first quarter 2017 expected fuel costs are based on current forecasted jet fuel prices of US \$66 per barrel and an average foreign exchange rate of approximately 1.35 Canadian dollars to one US dollar.

For the full-year 2017, we now forecast capital expenditures between \$900 million and \$920 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. This compares with our previous full-year 2017 guidance of approximately \$880 million to \$900 million, with the difference driven primarily by a weaker Canadian dollar to one US dollar exchange rate forecast. For the first quarter of 2017, we expect our capital expenditures to be between \$180 million and \$190 million.

We anticipate that our annual effective consolidated income tax rate will remain in the range of 28.0 to 30.0 percent.

The first quarter and full-year 2017 expected CASM, excluding fuel and employee profit share and capital expenditures are based on an average forecasted foreign exchange rate of approximately 1.35 Canadian dollars to one US dollar.

Guidance summary

		Three months ended March 31, 2017	Year ended December 31, 2017
Guidance summary	RASM	Up 1.0% to 3.0%	
	Fuel cost per litre	64 to 66 cents	
	CASM, excluding fuel and profit share	Up 1.5% to 2.0%	Up 2.5% to 3.5%
	System capacity	Up 6.0% to 6.5%	Up 3.5% to 5.5%
	Domestic capacity	Up 8.0% to 8.5%	Up 7.5% to 8.5%
	Effective tax rate		28.0% to 30.0%
	Capital expenditures	\$180 to \$190 million	\$900 to \$920 million

2016 Results of Operations

Capacity

For the year ended December 31, 2016, our overall capacity increased by 8.9 per cent from 2015. This increase is a result of taking further deliveries of Boeing 737 800s (please refer to the *Fleet* section of this MD&A, on page 33) and delivery of our final two Boeing 767s in the first half of the year which were used to service our new London Gatwick route.

The following table depicts our capacity allocation between our domestic, transborder and international markets for the years ended December 31, 2016 and 2015:

	2016		2015		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	15,204,674,947	51.9%	14,883,384,477	55.3%	2.2%
Transborder and international	14,093,665,416	48.1%	12,018,842,882	44.7%	17.3%
Total	29,298,340,363	100.0%	26,902,227,359	100.0%	8.9%

The majority of domestic capacity growth in the year was driven by increased frequencies and new destinations serviced by our growing Q400 fleet as well as new and redeployed Boeing 737 NG. Throughout 2016, our transborder and international capacity growth outpaced our domestic capacity growth due primarily to the introduction of our third European destination in May 2016, London Gatwick, serviced by our Boeing 767 aircraft. We further expanded our transborder offerings adding major routes out of Toronto Pearson International Airport serviced by our Boeing 737 NG fleet, as well as introducing two U.S. destinations serviced by our Q400 fleet.

The following tables depict our traffic allocation between our domestic and transborder and international markets for the years ended December 31, 2016 and 2015:

	2016		2015		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	11,970,430,379	49.9%	11,505,296,662	53.4%	4.0%
Transborder and international	11,997,183,916	50.1%	10,020,682,454	46.6%	19.7%
Total	23,967,614,295	100.0%	21,525,979,116	100.0%	11.3%

For the year ended December 31, 2016, domestic traffic, measured in RPMs, increased 4.0 per cent year over year compared to the 2.2 per cent annual increase in capacity. The relative increase in RPMs compared to capacity was the result of focusing our expansion efforts on markets in Eastern Canada as well as an overall improvement in load factors over the course of the year.

With regard to our transborder and international markets, RPMs increased by 19.7 per cent over 2015 while capacity increased 17.3 per cent. This increase was primarily driven by high load factors on our new London Gatwick routes, U.S. destinations and international sun destinations.

Revenue

(\$ in thousands)	2016	2015	Change
Guest	3,556,941	3,557,222	(0.0%)
Other	565,918	472,043	19.9%
Total revenue	4,122,859	4,029,265	2.3%
Load factor	81.8%	80.0%	1.8 pts.
Yield (cents)	17.20	18.72	(8.1%)
RASM (cents)	14.07	14.98	(6.1%)

For the year ended December 31, 2016 total revenue increased by 2.3 per cent to \$4,122.9 million compared to \$4,029.3 million in 2015. The overall increase in total revenue was driven by an increase in ancillary revenue included in other revenue. On an ASM basis, total revenue decreased by 6.1 per cent to 14.07 cents from 14.98 cents compared to the prior year due to reduced yield.

Guest revenue

Guest revenue remained consistent with the prior year, decreasing slightly from \$3,557.2 in 2015, to \$3,556.9 in 2016, as a result of 1.8 per cent improvement in load factors compared to the prior year, predominantly due to the new London Gatwick routes, offset by the 8.1 per cent reduction in yield which we saw throughout our network driven by fare reductions as a result of the economic downturn in the energy sector and increased capacity in certain markets.

Other revenue

Included in other revenue are amounts related to ancillary revenue, WestJet Vacations' non-air revenue, cargo revenue and our newly expanded charter operations. For 2016, other revenue increased by 19.9 per cent to \$565.9 million from \$472.0 million in 2015. 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 sell higher-margin goods and services while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. The following table presents ancillary revenue and ancillary revenue on a per guest basis for the years ended December 31, 2016 and 2015:

	2016	2015	Change
Ancillary revenue (\$ in thousands)	389,888	336,326	15.9%
Ancillary revenue per guest (\$)	18.01	16.62	8.4%

For the year ended December 31, 2016, ancillary revenue was \$389.9 million, an increase of 15.9 per cent from \$336.3 million in the same period of the prior year. This increase was the result of an eight per cent increase in guests during the year as well as increased fees on certain services.

On a per guest basis, ancillary fees for the year increased by 8.4 per cent to \$18.01 per guest, from \$16.62 per guest for 2015. This increase is mainly attributable to an increase in Plus seating upgrade sales, first bag fees, pre-reserved seating and the continued success of our WestJet RBC® MasterCard+ program.

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, 2016, WestJet Vacations' non-air revenue component increased due to higher margins on our vacation packages, partially offset by the impact of a weaker Canadian dollar versus the US dollar compared to 2015. The devaluation of the Canadian dollar compared to the US dollar impacts the margin of our vacation packages as the majority of the land components are paid in US dollars, which is netted against the gross revenue collected in Canadian dollars.

Expenses

	Expense (\$ in thousands)			CASM (cents)		
	2016	2015	Change	2016	2015	Change
Salaries and benefits	854,056	801,715	6.5%	2.92	2.98	(2.0%)
Aircraft fuel	765,867	814,498	(6.0%)	2.61	3.03	(13.9%)
Rates and fees	617,573	562,745	9.7%	2.11	2.09	1.0%
Sales and marketing	356,745	325,127	9.7%	1.22	1.21	0.8%
Depreciation and amortization	350,484	264,921	32.3%	1.20	0.98	22.4%
Maintenance	209,226	164,305	27.3%	0.71	0.61	16.4%
Aircraft leasing	178,445	174,089	2.5%	0.61	0.65	(6.2%)
Other	291,024	251,147	15.9%	0.98	0.94	4.3%
Employee profit share	59,342	100,965	(41.2%)	0.20	0.37	(45.9%)
Total operating expenses	3,682,762	3,459,512	6.5%	12.57	12.86	(2.3%)
Total, excluding fuel and profit share	2,857,553	2,544,049	12.3%	9.75	9.46	3.1%

During the year ended December 31, 2016, operating expenses increased by 6.5 per cent to \$3,682.8 million as compared to \$3,459.5 million in 2015, primarily driven by the year over year ASM growth of 8.9 per cent, as well as increased depreciation and amortization and maintenance expenses, largely offset by a decrease in our employee profit share expense.

On an ASM basis, operating expenses for the year ended December 31, 2016 decreased by 2.3 per cent to 12.57 cents from 12.86 cents in 2015 due to a decrease in our employee profit share expense, largely offset by increases in depreciation and amortization expense and maintenance expense.

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.

(\$ in thousands)	2016	2015	Change
Salaries and benefits plans	743,340	697,685	6.5%
Employee share purchase plan	92,284	86,776	6.3%
Share-based payment plans	18,432	17,254	6.8%
Total salaries and benefits	854,056	801,715	6.5%
Full-time equivalent employees (FTE)	9,988	9,211	8.4%

Salaries and benefits expense for the year ended December 31, 2016 was \$854.1 million, a \$52.3 million or 6.5 per cent increase from \$801.7 million in 2015.

Salaries and benefits plans

Salaries and benefits plans are determined via a framework of job levels based on internal experience and external market data. During the year ended December 31, 2016, salaries and benefits plans increased by 6.5 per cent to \$743.3 million, from \$697.7 million in 2015. This increase is primarily due to the 8.4 per cent increase in our total number of full-time equivalent employees to 9,988 at December 31, 2016 (December 31, 2015 – 9,211) resulting from our expanded WestJet Encore operations as well as additional staffing required for the new terminal at the Calgary International Airport which opened in October 2016.

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 10 per cent, 15 per cent or 20 per cent of their gross salary to acquire voting shares of WestJet at the current fair market value. The contributions are matched by WestJet and are required to be held within the ESPP for a period of one year. At December 31, 2016, approximately 82.8 per cent of our eligible active employees participated in the ESPP, contributing an average of 14.6 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, 2016, our matching expense was \$92.3 million, a 6.3 per cent increase from \$86.8 million in 2015, driven largely by the increased number of eligible employees compared to the prior year.

Share-based payment plans

We have three equity-settled share-based payment plans whereby either stock options, restricted share units (RSUs) or performance share units (PSUs) may be awarded to pilots, senior executives and certain non-executive employees. Our equity-settled share-based payments are measured at the fair value of the instrument granted and recognized as compensation expense with a corresponding increase in equity reserves on a straight-line basis over the related service period based on the number of awards expected to vest. For the year ended December 31, 2016, share-based payment expense totaled \$18.4 million, representing an increase of 6.8 per cent over the \$17.3 million recognized in the prior year. This increase relates primarily to an overall increased number of eligible executives receiving grants in the year due to vacancies in 2015 as well as an increase in the number of stock options versus RSUs elected by pilots in the most recent grant compared to the prior year. This was slightly offset by a decrease made to the estimate of the number of PSU's that vested in 2016 as well as recaptured expense on equity forfeitures from senior employees who left WestJet in 2016.

Aircraft fuel

	2016	2015	Change
Aircraft fuel expense (\$ in thousands)	765,867	814,498	(6.0%)
Aircraft fuel expense as a percent of operating expenses	20.8%	23.5%	(2.7 pts.)
Fuel consumption (litres)	1,405,488,934	1,278,079,174	10.0%
Fuel cost per litre (cents)	54	64	(15.6%)
Average market price for jet fuel in US dollars (per barrel)	54	67	(19.4%)
Average market price for jet fuel in Canadian dollars (per barrel)	72	86	(16.3%)

Fuel remains a significant cost representing 20.8 per cent of total operating expenses for the year ended December 31, 2016 (2015 – 23.5 per cent). Fuel prices continue to be volatile due to global economic and geopolitical factors which we can neither control nor accurately predict. For the year ended December 31, 2016, aircraft fuel expense decreased by 6.0 per cent to \$765.9 million from \$814.5 million. This decrease was primarily due to a year over year decrease in the Canadian market price of jet fuel, partially offset by an increase in fuel consumption.

Our fuel costs per litre for the year ended December 31, 2016 decreased by 15.6 per cent to 54 cents per litre, from 64 cents per litre in the prior year. The average market price for jet fuel was US \$54 per barrel for the year ended December 31, 2016 versus US \$67 per barrel in the same period of the prior year, a decrease of approximately 19.4 per cent. The benefit from the lower average 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 16.3 per cent to \$72 per barrel from \$86 per barrel in 2015.

For 2017, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US \$9.1 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity of fuel costs to changes in fuel pricing to be approximately \$14.4 million for every one-cent change per litre of fuel. We estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$6.3 million on fuel costs.

As at December 31, 2016, we had no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

Depreciation and amortization

	Expense (\$ in thousands)			CASM (cents)		
	2016	2015	Change	2016	2015	Change
Depreciation and amortization	350,484	264,921	32.3%	1.20	0.98	22.4%
Total number of owned aircraft	112	96	16.7%	112	96	16.7%

Depreciation and amortization expense for the year ended December 31, 2016 was \$350.5 million, an \$85.6 million or 32.3 per cent increase from \$264.9 million in 2015. Amortization expense per ASM was 1.20 cents in 2016, representing a 22.4 per cent increase from 0.98 cents in the prior year. This year over year increase was 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.

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)		
	2016	2015	Change	2016	2015	Change
Technical maintenance	128,766	101,738	26.6%	0.44	0.38	15.8%
Maintenance provision	80,460	62,567	28.6%	0.27	0.23	17.4%
Total maintenance	209,226	164,305	27.3%	0.71	0.61	16.4%

Maintenance expense for the year ended December 31, 2016 was \$209.2 million, which represents a \$44.9 million or 27.3 per cent increase from \$164.3 million in 2015. Our maintenance cost per ASM was 0.71 cents in 2016, representing an increase of 16.4 per cent from 0.61 cents in the prior year.

Technical maintenance expense for the year ended December 31, 2016 was \$128.8 million, which represents a \$27.1 million or 26.6 per cent increase from \$101.7 million in 2015. Our technical maintenance cost per ASM was 0.44 cents in 2016, representing an increase of 15.8 per cent from 0.38 cents in the prior year. The year over year increases were mainly attributable to an increased number of maintenance events performed compared to the prior year as a result of our aging fleet, ongoing inflight entertainment modifications, as well as the impact of foreign exchange as most of our maintenance costs are denominated in US dollars.

Maintenance provision expense for the year ended December 31, 2016 was \$80.5 million, which represents a \$17.9 million or 28.6 per cent increase from \$62.6 million in 2015. The increase was primarily driven by changes in the projected timing, scope and cost of maintenance activities on our leased aircraft, change in discount rate, 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 year ended December 31, 2016, was \$59.3 million, representing a 41.2 per cent decrease from \$101.0 million in the prior year. This year-over-year decrease is directly attributable to lower earnings 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, accounts receivable, 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 mitigate a portion of the foreign currency exposure risk we experience on our balance sheet, operating margins and cash flows.

At December 31, 2016, US-dollar-denominated net monetary liabilities totaled approximately US \$19.4 million compared to monetary liabilities of US \$24.0 million at December 31, 2015. The decrease in US-dollar-denominated net monetary liabilities compared to 2015 year end is largely due to an increase in US dollar cash and accounts receivables partially offset by an increase in our US-dollar-denominated maintenance provisions. We reported a foreign exchange gain of \$7.4 million for the year ended December 31, 2016 on the revaluation of our US-dollar-denominated monetary assets and liabilities (December 31, 2015 – loss of \$10.3 million).

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At December 31, 2016, 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 \$21.1 million per month for the period of January 2017 to December 2017, for a total of US \$252.9 million, at a weighted average contract price of 1.3414 Canadian dollars to one US dollar.

We have designated certain contracts under our foreign exchange hedging program for cash flow hedge accounting, while other contracts do not qualify for hedge accounting. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in hedge reserves, while any ineffective portion is recorded directly to net earnings as a non-operating gain or loss. Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves are recorded in net earnings as a component of the expenditure to which they relate. Those contracts not designated under cash flow hedge accounting have the change in fair value recorded directly in net earnings as a non-operating gain or loss. The fair value of the foreign exchange forward contracts presented on the consolidated statement of financial position is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty, which can be observed and corroborated in the marketplace.

The following table presents the financial impact and statement presentation of our foreign exchange derivatives related to our US-dollar-denominated hotel costs and aircraft lease payments on the consolidated statement of financial position at December 31, 2016 and December 31, 2015 and on the consolidated statement of earnings for the years ended December 31, 2016 and 2015.

(\$ in thousands)	Statement presentation	2016	2015
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	7,725	17,409
Fair value	Accounts payable and accrued liabilities	(1,191)	(51)
Unrealized gain	Hedge reserves (before tax)	2,476	15,770
(\$ in thousands)	Statement presentation	2016	2015
Statement of Earnings:			
Realized gain	Aircraft leasing	5,534	21,515
Realized gain/(loss)	Other revenue	(500)	608
Realized and unrealized gain	Gain on derivatives	4,504	1,765

Additionally, we entered into fixed US dollar to fixed Canadian dollar uncollateralized cross-currency interest rate swap agreements (the cross-currency swaps) to mitigate our exposure to fluctuations in the Canadian to US dollar exchange rate on interest payments on the US-dollar-denominated notes (please refer to the section called *Financing* found on page 30 of this MD&A). The cross-currency swap terms are from June 16, 2016 to June 16, 2021, which matches the 5-year maturity of the US-Dollar Notes. We designated the cross-currency swap contracts as effective cash flow hedges for accounting purposes. The fair value of the cross-currency swap contracts were determined by discounting future cash flows over the remaining term of the swaps at market rates of interest and quoted foreign exchange rates.

The following table presents the financial impact and statement presentation of the cross-currency swaps on the consolidated statement of financial position at December 31, 2016 and December 31, 2015 and on the consolidated statement of earnings for the years ended December 31, 2016 and 2015.

(\$ in thousands)	Statement presentation	2016	2015
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	601	-
Fair value	Other Assets	14,557	-
Unrealized gain	Hedge reserves (before tax)	15,158	-

(\$ in thousands)	Statement presentation	2016	2015
Statement of Earnings:			
Realized gain	Finance costs	234	-

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 \$10.5 million on our annual unhedged operating costs (approximately \$6.3 million for fuel expense and \$4.2 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, 2016, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar would have an approximate impact of \$32.4 million on our future US-dollar-denominated purchase obligations.

Income taxes

Our effective consolidated income tax rate remained relatively unchanged at 29% between the years ended December 31 2016 and 2015.

2016 Fourth Quarter Results of Operations

Our 2016 fourth quarter financial results represent our 47th consecutive quarter of reported profitability with net earnings of \$55.2 million and diluted earnings per share of \$0.47 representing year over year declines of 13.0 per cent and 7.8 per cent, respectively. During the quarter, our revenue increased by 6.2 per cent, as compared to the fourth quarter of 2015, driven by increases to both guest revenue and ancillary revenue. RASM decreased 4.5 per cent year over year, due to downward pressure on fares.

Fourth quarter overview

- Recognized total revenue of \$1,017.8 million, an increase of 6.2 per cent from \$958.7 million in the fourth quarter of 2015.
- Increased capacity, measured in ASMs, by 11.2 per cent over the fourth quarter of 2015.
- Increased traffic, measured in RPMs, by 13.7 per cent over the fourth quarter of 2015.
- Realized yield of 17.50 cents, down 6.7 per cent from 18.75 cents in the fourth quarter of 2015.
- Realized RASM of 14.03 cents, down 4.5 per cent from 14.69 cents in the fourth quarter of 2015.
- Realized CASM of 12.86 cents, down 0.8 per cent from 12.97 cents in the fourth quarter of 2015.
- Realized CASM, excluding fuel and employee profit share, of 9.87 cents, down 1.7 per cent from 10.04 cents in the fourth quarter of 2015.
- Recorded an operating margin of 8.4 per cent, down 3.4 percentage points from 11.8 per cent in the fourth quarter of 2015.
- Recorded an EBT margin of 7.6 per cent, down 2.1 percentage points from 9.7 per cent in the fourth quarter of 2015.
- Realized net earnings of \$55.2 million, a decrease of 13.0 per cent from \$63.4 million in the fourth quarter of 2015.
- Reported diluted earnings per share of \$0.47, down 7.8 per cent from \$0.51 in the fourth quarter of 2015.

The following table presents our fourth quarter 2016 and 2015 financial and operational summary:

(\$ in thousands, unless otherwise noted)		Three months ended December 31		
		2016	2015	Change
Financial highlights	Revenue	1,017,759	958,715	6.2%
	Operating expenses	932,492	846,028	10.2%
	Earnings from operations	85,267	112,687	(24.3%)
	Operating margin (per cent) ⁽ⁱ⁾	8.4%	11.8%	(3.4 pts.)
	Earnings before tax	77,762	92,628	(16.0%)
	EBT margin (per cent) ⁽ⁱ⁾	7.6%	9.7%	(2.1 pts.)
	Net earnings	55,189	63,436	(13.0%)
	Earnings per share:			
	Basic	0.47	0.51	(7.8%)
	Diluted	0.47	0.51	(7.8%)
	Cash dividends declared per share	0.14	0.14	-
Operational highlights	ASMs	7,253,281,603	6,524,788,975	11.2%
	RPMs	5,815,978,702	5,114,188,857	13.7%
	Load factor	80.2%	78.4%	1.8 pts.
	Yield (cents)	17.50	18.75	(6.7%)
	RASM (cents)	14.03	14.69	(4.5%)
	CASM (cents)	12.86	12.97	(0.8%)
	CASM, excluding fuel and employee profit share (cents) ⁽ⁱ⁾	9.87	10.04	(1.7%)
	Fuel consumption (litres)	348,899,256	317,477,003	9.9%
	Fuel costs per litre (cents)	60	57	5.3%
	Segment guests	5,424,052	4,893,020	10.9%
	Average stage length (miles)	895	887	0.9%
	Departures	57,658	53,284	8.2%
	Utilization (hours)	11.2	11.2	-
	Full-time equivalent employees at period end	9,988	9,211	8.4%

- (i) Please refer to page 54 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, 2016, our overall capacity increased by 11.2 per cent over the same period in 2015. This increase is primarily the result of our new year-round flying to London Gatwick serviced by our Boeing 767 aircraft, which commenced in May 2016.

The following tables depict our capacity allocation between our domestic, transborder and international markets for the three months ended December 31, 2016:

	Three months ended December 31				
	2016		2015		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	3,476,092,824	47.9%	3,421,179,189	52.4%	1.6%
Transborder and international	3,777,188,779	52.1%	3,103,609,786	47.6%	21.7%
Total	7,253,281,603	100.0%	6,524,788,975	100.0%	11.2%

Consistent with the annual capacity growth trends, our three months ended December 31, 2016 transborder and international capacity growth exceeded domestic capacity growth due to our addition of new transborder destinations and increased frequencies on existing routes, serviced by both our Boeing 737 NG and Bombardier Q400 fleet, as well as the year-round operation of our London Gatwick routes, serviced by our Boeing 767 aircraft.

The following tables depict our traffic allocation between our domestic and transborder and international markets for the three months ended December 31, 2016:

	Three months ended December 31				
	2016		2015		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	2,658,583,900	45.7%	2,544,062,625	49.7%	4.5%
Transborder and international	3,157,394,802	54.3%	2,570,126,232	50.3%	22.9%
Total	5,815,978,702	100.0%	5,114,188,857	100.0%	13.7%

For the three months ended December 31, 2016, our domestic traffic, measured in RPMs, increased by 4.5 per cent year over year, as compared to the 1.6 per cent increase in capacity, which is a result of improved load factors. With regard to our transborder and international traffic, the increase in RPMs was slightly higher than the increase in capacity, which is mainly due to our new year-round London Gatwick routes.

Revenue

(\$ in thousands)	Three months ended December 31		
	2016	2015	Change
Guest	867,990	842,546	3.0%
Other	149,769	116,169	28.9%
Total revenue	1,017,759	958,715	6.2%
Load factor	80.2%	78.4%	1.8 pts.
Yield (cents)	17.50	18.75	(6.7%)
RASM (cents)	14.03	14.69	(4.5%)

During the fourth quarter of 2016, total revenue increased by 6.2 per cent to \$1,017.8 million compared to \$958.7 million in the same quarter of 2015. The year over year increase in revenue is due to improved load factors in the domestic market, increased ancillary revenue, as well as the successful expansion of our charter program. For the three months ended December 31, 2016, revenue on an ASM basis decreased by 4.5 per cent to 14.03 cents from 14.69 cents in the same quarter of 2015 due to a decline in yield caused by downward pressure on our fares.

Guest revenue

Guest revenue increased by 3.0 per cent to \$868.0 million in the fourth quarter of 2016, from \$842.5 million in the same period of the prior year as a result of improved load factors, partially offset by the reduced yield caused by continuing downward pressure on our fares.

Other revenue

Other revenue increased by 28.9 per cent to \$149.8 million for the fourth quarter of 2016, from \$116.2 million in the same period of the prior year. This increase was driven mainly by an increase in ancillary revenue and expansion of our charter program. The following table presents ancillary revenue and ancillary revenue on a per guest basis for the three months ended December 31, 2016:

	Three months ended December 31		
	2016	2015	Change
Ancillary revenue (\$ in thousands)	95,003	79,832	19.0%
Ancillary revenue per guest (\$)	18.04	16.39	10.1%

For the three months ended December 31, 2016 ancillary revenue was \$95.0 million, an increase of 19.0 per cent from \$79.8 million in the same quarter of 2015. This increase was driven by increased guests and increased fees for certain services.

On a per guest basis, ancillary fees for the quarter increased by 10.1 per cent to \$18.04 per guest, from \$16.39 per guest during the fourth quarter of 2015. The increases to ancillary revenue were primarily due the increased first bag fees, pre-reserved seating, sales of Plus upgrades and the continued success of our WestJet RBC® MasterCard+ program.

Expenses

	Expense (\$ in thousands)			CASM (cents)		
	Three months ended Dec 31			Three months ended Dec 31		
	2016	2015	Change	2016	2015	Change
Aircraft fuel	210,489	182,181	15.5%	2.91	2.79	4.3%
Salaries and benefits	204,679	198,310	3.2%	2.82	3.04	(7.2%)
Rates and fees	150,770	139,534	8.1%	2.08	2.14	(2.8%)
Depreciation and amortization	93,722	75,237	24.6%	1.29	1.15	12.2%
Sales and marketing	91,521	84,009	8.9%	1.26	1.29	(2.3%)
Maintenance	54,985	47,160	16.6%	0.76	0.72	5.6%
Aircraft leasing	41,987	41,881	0.3%	0.58	0.64	(9.4%)
Other	77,885	68,847	13.1%	1.07	1.06	0.9%
Employee profit share	6,454	8,869	(27.2%)	0.09	0.14	(35.7%)
Total operating expenses	932,492	846,028	10.2%	12.86	12.97	(0.8%)
Total, excluding fuel and profit share	715,549	654,978	9.2%	9.86	10.04	(1.7%)

During the three months ended December 31, 2016, operating expenses increased by 10.2 per cent compared to the same period in 2015, driven by our ASM growth of 11.2 per cent and increased depreciation and amortization expense, partially offset by lower employee profit share expense.

On an ASM basis, operating expenses decreased by 0.8 per cent to 12.86 cents from 12.97 cents in the same period in 2015. This decrease was primarily driven by the decrease in employee profit share expense, largely offset by the increase in depreciation and amortization expense.

Aircraft fuel

	Three months ended December 31		
	2016	2015	Change
Aircraft fuel expense (\$ in thousands)	210,489	182,181	15.5%
Aircraft fuel expense as a percent of operating expenses	22.6%	21.5%	1.1 pts.
Fuel consumption (litres)	348,899,256	317,477,003	9.9%
Fuel cost per litre (cents)	60	57	5.3%
Average market price for jet fuel in US dollars (per barrel)	60	57	5.3%
Average market price for jet fuel in Canadian dollars (per barrel)	81	76	6.6%

Fuel remains a significant cost representing 22.6 per cent of total operating expenses for the three months ended December 31, 2016 (three months ended December 31, 2015 – 21.5 per cent). For the three months ended December 31, 2016, aircraft fuel expense increased by 15.5 per cent to \$210.5 million from \$182.2 million primarily due to increased fuel consumption combined with a small increase in the Canadian dollar market price for jet fuel.

Our fuel costs per litre for the three months ended December 31, 2016 increased by 5.3 per cent to 60 cents per litre. On average, the market price for jet fuel was US \$60 per barrel in the fourth quarter of 2016 versus US \$57 per barrel in the fourth quarter of 2015, an increase of approximately 5.3 per cent. In Canadian dollars, the market price for jet fuel was \$81 per barrel in the fourth quarter of 2016 as compared to \$76 per barrel in 2015. The additional fuel costs were the result of the increased market price of Canadian dollar jet fuel on a year over year basis.

Depreciation and amortization

	Three months ended December 31		
	2016	2015	Change
Depreciation and amortization (\$ in thousands)	93,722	75,237	24.6%
CASM (cents)	1.29	1.15	12.2%

Depreciation and amortization expense for the three months ended December 31, 2016 was \$93.7 million, an \$18.5 million or 24.6 per cent increase from \$75.2 million in the comparable period of 2015. Depreciation and amortization expense per ASM was 1.29 cents in the fourth quarter of 2016, representing a 12.2 per cent increase from 1.15 cents in the same period of the prior year. These year over year increases are due to the overall growth in our fleet and the changing fleet mix.

Summary of Quarterly Results

(\$ in thousands, except per share data)	Three months ended			
	Dec. 31 2016	Sep. 30 2016	Jun. 30 2016	Mar. 31 2016
Total revenue	1,017,759	1,124,342	949,313	1,031,444
Net earnings	55,189	115,971	36,654	87,644
Basic earnings per share	0.47	0.97	0.30	0.71
Diluted earnings per share	0.47	0.97	0.30	0.71

(\$ 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

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).

Compared to our strong results in the first nine months of 2015, we experienced a notable decrease to total revenue, net earnings and earnings per share beginning in the fourth quarter of 2015. These results were impacted by the economic downturn in Western Canada resulting in softer demand. In the third quarter of 2016 we experienced an increase in total revenue, net earnings and earnings per share due to our successful expansion into new transborder and international markets, the introduction of new routes and increased frequencies to destinations in Eastern Canada, as well as generating incremental ancillary revenue while maintaining our focus on monitoring costs.

Guest Experience

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

Key performance indicators

On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring the quality of our guest experience. The completion rate indicator represents the percentage of flights completed of the flights originally scheduled. Our 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		
	2016	2015	Change	2016	2015	Change
On-time performance	77.2%	85.4%	(8.2 pts.)	82.7%	85.3%	(2.6 pts.)
Completion rate	98.0%	99.0%	(1.0 pts.)	98.2%	98.6%	(0.4 pts.)
Bag ratio	4.54	3.53	28.6%	4.06	3.75	8.3%

For the three and twelve months ended December 31, 2016, our on-time performance decreased by 8.2 and 2.6 percentage points, respectively, compared to the same periods of 2015. These decreases were the direct result of poor weather conditions causing an increased number of departure delays and cancellations during the periods, also impacting our completion rates and bag ratio. Year over year deterioration of our bag ratio for the three and twelve months ended December 31, 2016 to 98.0 per cent and 98.2 percent, respectively, from 99.0 per cent and 98.6 percent, compared to the same periods of 2015 was due to baggage equipment challenges at two major Canadian airport hubs.

In spite of the weather and other challenges experienced during the year with respect to the above performance indicators, we were recognized, for the second consecutive year, as being in the top five major North American airlines for on-time performance, demonstrating our continued 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 strong financial position. We completed the fourth quarter of 2016 with cash and cash equivalents balance of \$1,520.8 million, compared to \$1,183.8 million at December 31, 2015. The increase in our cash position is primarily the result of additional borrowings received from our non-revolving credit facility in January 2016 and our US-Dollar Notes issuance in June 2016 (please refer to the section called *Financing* found on page 30 of this MD&A).

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, 2016, was \$626.6 million, an increase of 1.0 per cent from \$620.2 million at December 31, 2015. 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, 2016, we had cash on hand of 2.43 (December 31, 2015 – 1.91) times our advance ticket sales balance.

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

	December 31 2016	December 31 2015	Change
Cash to trailing 12 months revenue (TTM) ⁽ⁱ⁾⁽ⁱⁱ⁾	36.9%	29.4%	7.5 pts
Adjusted debt-to-equity ⁽ⁱ⁾	1.63	1.27	28.3%
Adjusted net debt to EBITDAR ⁽ⁱ⁾	1.93	1.29	49.6%

(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, 2016, we have available our entire \$300.0 million revolving credit facility that expires in June 2019 (please refer to the section *Financing* found on page 30 of this MD&A).

As of December 31, 2016, our cash to TTM revenue ratio was 36.9 per cent, compared to 29.4 per cent at December 31, 2015, representing an increase of 7.5 percentage points. This temporarily exceeds our internal guideline of approximately 30 per cent due to significant future aircraft commitments in 2017 that require funding, and is the result of an increase in our cash and cash equivalents balance due to borrowings from the non-revolving, unsecured credit facility in January 2016 and the US-Dollar Notes issuance in June 2016. In addition to our cash and cash equivalents, as of December 31, 2016 we have available \$300.0 million as the undrawn portion of our revolving credit facility (please refer to the section called *Financing* found on page 30 of this MD&A).

At December 31, 2016 our adjusted debt-to-equity ratio of 1.63 and our adjusted net debt to EBITDAR ratio of 1.93 both increased from 1.27 and 1.29, respectively, at December 31, 2015, as a result of the increased borrowings discussed above. These ratios are well below our internal guideline of no more than 2.5.

Our current ratio, defined as current assets over current liabilities, was 1.21 at December 31, 2016 as compared to 0.97 at December 31, 2015, an increase of 24.7 per cent due primarily to increases in our cash and cash equivalents, restricted cash, and accounts receivables.

Select cash flow information

(\$ in thousands)	2016	2015	Change
Cash provided by operating activities	704,587	876,441	(171,854)
Less:			
Cash used by investing activities	(942,342)	(822,932)	(119,410)
Cash provided (used) by financing activities	578,331	(259,030)	837,361
Cash flow from operating, investing and financing activities	340,576	(205,521)	546,097
Effect of foreign exchange on cash and cash equivalents	(3,551)	31,247	(34,798)
Net change in cash and cash equivalents	337,025	(174,274)	511,299
Cash and cash equivalents, beginning of period	1,183,797	1,358,071	(174,274)
Cash and cash equivalents, end of period	1,520,822	1,183,797	337,025

Operating cash flows

For the year ended December 31, 2016, our cash flow from operations decreased 19.6 per cent to \$704.6 million compared to \$876.4 million in the prior year. Similarly, on a per share basis, for the year ended December 31, 2016, our cash flow from operations decreased 16.1 per cent to \$5.84 per share compared to \$6.96 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 decrease was primarily the result of reduced earnings and contributions from working capital. Despite reduced cash flows from operations in the year, we have sufficient assets of a short-term nature to meet our short-term obligations, evidenced by our improved current ratio, noted above.

At December 31, 2016, restricted cash consisted of \$70.1 million (December 31, 2015 – \$53.6 million) for cash held in trust by WestJet Vacations; \$31.0 million (December 31, 2015 – \$13.4 million) for security on letters of guarantee; and, in accordance with U.S. regulatory requirements, \$1.6 million (December 31, 2015 – \$1.6 million) for cash not yet remitted for passenger facility charges. Restricted cash related to WestJet Vacations increased significantly during the year due to increased vacation package sales to guests in Ontario, whereby regulations require us to hold the cost of the vacation package in trust until the guest departs. Additionally, for certain foreign jurisdictions, we are required to hold letters of guarantee for certain guest ticket taxes, which have increased significantly in the year due to our expanded international operations. The letters of guarantee were issued under our revolving letter of credit facility by assigning restricted cash.

Investing cash flows

For the year ended December 31, 2016, cash flow used for investing activities totaled \$942.3 million compared to \$822.9 million in the prior year. Our investing activities during 2016 related primarily to the delivery of four Boeing 737 NG aircraft, ten Q400 aircraft, two Boeing 767 aircraft, additional deposits for future Boeing 737 NG and Q400 aircraft, overhauls of owned engines, as well as installation of our new inflight entertainment system and slim-line seats with power.

Financing cash flows

For the year ended December 31, 2016, our financing cash inflows totaled \$578.3 million as compared to financing cash outflows of \$259.0 million in the prior year. Our financing inflows resulted from the receipt of over \$1,004.3 million in proceeds from our unsecured, non-revolving credit facility in January 2016, the issuance of our US-Dollar Notes in June 2016 and additional borrowings related to the financing of our ten Q400 deliveries in 2016. These cash inflows were partially offset by debt repayments of principal and interest of \$213.2 million, share repurchases pursuant to our normal course issuer bid of \$126.2 million and dividends paid of \$67.0 million.

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, 2016, was negative \$237.8 million compared to positive \$53.5 million in the prior year. On a per share basis, this equated to negative \$1.97 per share for the year ended December 31, 2016, compared to positive \$0.42 per share in the prior year. This deterioration is the result of decreased operating cash flow year over year due primarily to lower earnings and contributions from working capital and an increase in aircraft purchases.

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 Q400 aircraft. During 2016, all ten 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 four Boeing 737 800 series aircraft and two Boeing 767 aircraft in 2016, funded with cash. At December 31, 2016, we had secured loans financing 32 Boeing 737 NG aircraft and 34 Q400 aircraft with a remaining debt balance of \$816.3 million, net of transaction costs. This debt is financed in Canadian dollars and has no financial covenants associated with it. At the date of this MD&A, we have a total of 46 unencumbered aircraft, representing approximately one third of our total fleet.

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 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 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, 2016, we have \$234.4 million undrawn under the loan agreement.

At December 31, 2016, 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, 2016, 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. On January 7, 2016, we drew the full \$300 million available under the credit facility for aircraft purchases and general corporate purposes using Canadian dollar bankers' acceptances, which remained outstanding as at December 31, 2016. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on our corporate debt credit ratings. 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, 2016, the Corporation was in compliance with both ratios.

On June 16, 2016, we successfully completed a private placement of US\$400.0 million 3.50 per cent US-dollar denominated senior unsecured notes (the US-Dollar Notes). The US-Dollar Notes bear interest of 3.50 per cent per year with semi-annual interest payments on June 16 and December 16 of each year commencing on December 16, 2016 and will mature on June 16, 2021. These US-Dollar Notes rank senior in right of payment to all future subordinated debt, rank equally in right of payment with all our other existing and future unsecured unsubordinated debt, but are effectively subordinate to all of our existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenant requirements associated with the US-Dollar Notes. The net proceeds from the sale of these US-Dollar Notes are being used for general corporate purposes and the funding of future aircraft purchases.

Concurrently with the issuance of the US-Dollar Notes, the Corporation entered into fixed US dollar to fixed Canadian dollar uncollateralized cross-currency interest rate swap agreements to mitigate our exposure to future cash flow fluctuations in the Canadian to US dollar exchange rate attributable to the notional and interest portions of the US-Dollar Notes. The US\$400.0 million notional amount at 3.50 per cent interest per annum was exchanged for \$511 million Canadian dollars at a 3.56 per cent weighted average interest rate per annum through the cross-currency swaps.

Our total outstanding debt balance at December 31, 2016 is \$2,046.7 million, net of transaction costs.

At December 31, 2016, we have not made any commitments for future aircraft financing, except our loan agreement with EDC described above. Our credit ratings, discussed below, are 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.

Interest

During the year ended December 31, 2016, we incurred \$49.1 million in interest (December 31, 2015 - \$53.7 million) on our long-term debt. In the fourth quarter of 2016, \$3.4 million of interest was capitalized (December 31, 2015 - \$nil) as it related to deposits paid for Boeing and Bombardier aircraft. During the year ended December 31, 2016 \$18.8 million of interest was capitalized (December 31, 2015 - \$nil), of this amount, \$8.2 million relates to prior periods.

We mitigate the earnings impact of changing interest rates on our variable rate loans through our interest rate swap agreements to fix the interest rates over the term of the loans. At December 31, 2016, the interest rate swap contracts continue to meet the criteria for designation as effective cash flow hedges for accounting purposes. The following table presents the financial impact and statement presentation of the interest rate swap agreements on the consolidated statement of financial position at December 31, 2016 and December 31, 2015 and on the consolidated statement of earnings for the years ended December 31, 2016 and 2015.

(\$ in thousands)	Statement presentation	2016	2015
Statement of Financial Position:			
Fair value	Other assets	1,359	-
Fair value	Accounts payable and accrued liabilities	(3,285)	(4,475)
Fair value	Other liabilities	(5,746)	(8,489)
Unrealized loss	Hedge reserves (before tax)	(6,734)	(12,026)
(\$ in thousands)	Statement presentation	2016	2015
Statement of Earnings:			
Realized loss	Finance costs	3,882	3,515
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.

Credit ratings

Both our 'BBB-' long-term corporate credit rating with a stable outlook from Standard & Poor's Rating Services, originally received in the first quarter of 2014, and our 'Baa2' senior unsecured notes rating with a stable outlook from Moody's Investors Service, received on May 2, 2016, remain in good standing. Both of our corporate credit ratings are considered "investment grade".

Credit ratings are intended to provide investors with an external measure of our overall creditworthiness. Credit ratings are not recommendations to buy, sell or hold our securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that our ratings will remain in effect for any given period of time or that our ratings will not be revised or withdrawn entirely by the credit rating agencies in the future if, in their judgment, circumstances so warrant.

Contractual obligations and commitments

At December 31, 2016, 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, 2016 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⁾	2,309,701	210,482	772,303	955,269	371,647
Leases and commitments ⁽ⁱⁱ⁾	800,978	241,707	323,926	179,442	55,903
Purchase obligations ⁽ⁱⁱⁱ⁾	4,532,844	666,935	1,162,964	737,172	1,965,773
Total contractual obligations	7,629,203	1,121,884	2,263,223	1,848,413	2,395,683

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

Fleet

During 2016, we took delivery of ten Bombardier Q400 aircraft, four Boeing 737 NG 800 series aircraft and two Boeing 767 aircraft to end the year with a registered fleet of 153 aircraft with an average age of 7.3 years. During the year we also returned three leased Boeing 737 700 series aircraft. Subsequent to the end of the year, we executed extensions for two aircraft leases scheduled to expire in 2017: one Boeing 737 NG 700 series for an additional four years and one Boeing 737 NG 800 series aircraft for two additional years. In addition, we converted the remaining nine of our original 25 purchase options with Bombardier to firm orders for Bombardier Q400 aircraft, which we expect to be delivered in 2017 and 2018.

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 190 and 231 aircraft, depending on future decisions to renew leases.

The following table illustrates our Boeing NG 737, Boeing 767 and Bombardier Q400 fleet as at December 31, 2016 and 2015 as well as our firm commitments through to 2027.

	Total		Future Deliveries							Total
	Dec. 31, 2015	Dec. 31, 2016	2017	2018	2019	2020	2021 22	2023 27	Total	2027
Boeing narrow body										
737-600 NG	13	13	—	—	—	—	—	—	—	13
737-700 NG ⁽ⁱ⁾	59	56	—	—	—	—	—	—	—	56
737-800 NG ⁽ⁱⁱ⁾	42	46	2	—	—	—	—	—	2	48
737 MAX 7 ^{(iii)(iv)}	—	—	—	—	2	4	3	16	25	25
737 MAX 8 ^{(iii)(iv)}	—	—	4	4	3	2	7	10	30	30
737 MAX 9 ^{(iii)(iv)}	—	—	—	3	7	—	—	—	10	10
Boeing wide body										
767-300 ERW	2	4	—	—	—	—	—	—	—	4
Boeing aircraft	116	119	6	7	12	6	10	26	67	186
Lease expiries	—	—	(4) ^(v)	(9)	(8)	(5)	(15)	—	(41)	(41)
Boeing aircraft after lease expiries	116	119	2	(2)	4	1	(5)	26	26	145
Bombardier										
Q400 NextGen	24	34	9	2	—	—	—	—	11	45
Fleet	140	153	15	9	12	6	10	26	78	231
Fleet after lease expiries	140	153	11		4	1	(5)	26	37	190

(i) At December 31, 2016, of the 56 Boeing 737 NG 700 aircraft in our fleet, 27 are leased (Dec. 31, 2015 – 30) and 29 are owned (Dec. 31, 2015 – 29).

(ii) At December 31, 2016, of the 46 Boeing 737 NG 800 aircraft in our fleet, 14 are leased (Dec. 31, 2015 – 14) and 32 are owned (Dec. 31, 2015 – 28).

(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) Subsequent to December 31, 2016, we executed two lease extensions for aircraft scheduled to expire in 2017.

Off-Balance Sheet Arrangements and Related-Party Transactions

Aircraft operating leases

We currently have 41 Boeing 737 NG aircraft under operating leases. Future cash flow commitments in connection with these aircraft totaled US \$337.1 million at December 31, 2016 (December 31, 2015 – US \$466.6 million) which we expect to fund through cash from operations. Although the current obligations related to our aircraft operating lease agreements are not recognized on our consolidated statement of financial position, we include an amount equal to 7.5 times our annual aircraft leasing expense in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios discussed previously.

Fuel and de-icing facility corporations

We are a contracted party to 17 fuel facility arrangements and three de-icing facility arrangements whereby we participate under contract in Fuel Facility Corporations (FFCs) and De-icing Facility Corporations (DFCs), along with other airlines, to obtain fuel services and de-icing services at major Canadian and 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 17 FFCs and the three DFCs are not consolidated within our accounts. In the remote event that all other contracting airlines withdraw from the arrangements and we remained as sole member, we would be responsible for the costs of the FFCs and DFCs, including debt service requirements. At November 30, 2016, these corporations have combined total assets of approximately \$782.6 million and liabilities of approximately \$737.3 million.

Related-party transactions

At December 31, 2016, 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:

	February 3 2017	December 31 2016
Total voting shares issued and outstanding⁽ⁱ⁾	117,202,250	117,200,439
Stock options	8,581,771	8,622,779
RSUs – Key employee plan	238,381	238,381
RSUs – Executive share unit plan	197,865	197,865
PSUs – Executive share unit plan	336,718	336,718
Total voting shares potentially issuable	9,354,735	9,395,743
Total outstanding and potentially issuable voting shares	126,556,985	126,596,182

(i) At December 31, 2016, 93,972,416 common voting shares were outstanding and 23,228,023 variable voting shares were outstanding.

Quarterly dividend policy

Our dividend is reviewed on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On February 6, 2017, the Board of Directors declared our 2017 first quarter dividend of \$0.14 per common voting share and variable voting share payable on March 31, 2017 to shareholders of record on March 15, 2017, which remains consistent with the \$0.14 per common voting share declared and paid quarterly throughout 2016. 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, the Corporation filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, the Corporation was authorized to purchase up to 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 from May 13, 2015 to May 12, 2016. 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 and to 6,000,000 shares as approved by the TSX on February 1, 2016 (collectively, the 2015 bid). All of the shares purchased under the 2015 bid were 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 the 2015 bid were cancelled.

On May 16, 2016, the TSX accepted our notice to make a normal course issuer bid to purchase up to 4,000,000 Common Voting Shares and Variable Voting Share (the Shares) on the open market (representing approximately 3.3 per cent of our issued and outstanding Shares as of April 30, 2016) during the period of May 18, 2016 to May 17, 2017 or until such time as the bid is completed or terminated at our option (2016 bid). Any Shares purchased under the 2016 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 2016 bid will be cancelled. In the three months ended December 31, 2016, we repurchased and cancelled 1,696,388 shares under the 2016 bid, for total consideration of \$35.9 million.

During 2016, we repurchased and cancelled a total 3,806,828 shares, equal to 95.2 per cent of the maximum number of shares we are authorized to repurchase under the 2016 bid, for total consideration of \$84.2 million. This is in addition to repurchasing and cancelling 2,148,121 shares under the 2015 bid, which expired in May 2016, for total consideration of \$42.0 million. As of the date of this MD&A, there are 193,172 shares remaining available for purchase under the 2016 bid.

A shareholder of WestJet may obtain a copy of the notice filed with the TSX in relation to the 2016 bid, free of charge, by contacting the Corporate Secretary of WestJet at 22 Aerial Place N.E., Calgary, Alberta T2E 3J1 (telephone: (403) 444-2600) or by emailing legal@westjet.com.

Change in ticker designation

Effective February 18, 2016, our common voting shares and variable voting shares commenced trading on the TSX under a single ticker designated 'WJA' and are now designated for purposes of trading on the TSX and reporting in brokerage accounts under the single designation of "variable voting and common voting shares" of WestJet. This change, which allowed the demand and liquidity for both classes of shares on the TSX to be consolidated under a single ticker, is designed to improve the liquidity for the variable voting shares which have historically had lower trading volumes. The trading of common voting shares and variable voting shares under a single ticker is limited primarily to the administration of trading of such shares on the TSX. This change did not involve any amendment to our articles of incorporation, by-laws or share capital structure, nor the terms and conditions or the voting and ownership restrictions applicable to the common voting shares and variable voting shares.

Financial Instruments and Risk Management

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

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

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

Fuel risk

The airline industry is inherently dependent upon jet fuel to operate and, therefore, we are exposed to the risk of volatile fuel prices. Fuel prices are affected by a host of factors outside our control, such as significant weather events, geopolitical tensions, refinery capacity, and global demand and supply. For the year ended December 31, 2016, aircraft fuel expense represented approximately 20.8 per cent (2015 – 23.5 per cent) of our total operating expenses.

Under our fuel price risk management policy, we are permitted to hedge a portion of our future anticipated jet fuel purchases for up to 36 months. As at and for the year ended December 31, 2016, we are not party to any fuel hedging contracts. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate as a result of changes in foreign exchange rates. We are exposed to foreign exchange risks arising from fluctuations in exchange rates on our US-dollar-denominated monetary assets and liabilities, contractual commitments and our US-dollar-denominated operating expenditures, mainly aircraft fuel, aircraft leasing expense, the land component of vacations packages and certain maintenance and airport operation costs. 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 *2016 Results of operations – Foreign exchange* on page 20 of this MD&A.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on short-term investments included in our cash 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 \$2.8 million for the year ended December 31, 2016 (2015 – \$4.6 million) as a result of our short-term investment activities. We are also exposed to interest rate fluctuations on our deposits that relate to certain purchased aircraft and airport operations which, at December 31, 2016, totaled \$17.6 million (2015 – \$26.7 million). A change of 50 basis points in market interest rates at December 31, 2016, would not have significantly impacted our net earnings due to the small size of these deposits.

The fixed-rate nature of the majority of our long-term debt mitigates the impact of interest rate fluctuations on our cash flows over the term of the outstanding debt. We account for our long-term fixed-rate debt at amortized cost, and, therefore, a change in interest rates at December 31, 2016, would not impact net earnings.

We are exposed to interest rate fluctuations on our variable-rate long-term debt, which, at December 31, 2016 totaled \$484.7 million or 23.5 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 30 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, 2016, 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)	2016	2015
Cash and cash equivalents ⁽ⁱ⁾	1,520,822	1,183,797
Restricted cash ⁽ⁱ⁾	102,649	68,573
Accounts receivable ⁽ⁱⁱ⁾	127,785	82,136
Other deposits ⁽ⁱⁱⁱ⁾	17,584	26,675
Derivative financial assets ^(iv)	24,242	17,409

- (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. We manage our exposure by assessing the financial strength of its counterparties and by limiting the total exposure to any individual counterparty.
- (ii) All significant counterparties, both current and new, are reviewed and approved for credit on a regular basis under WestJet's credit management processes. WestJet does not hold any collateral as security; however, in some cases we require guaranteed letters of credit with certain of its counterparties. Trade receivables are generally settled within 30 to 60 days. Industry receivables are generally settled in less than 30 days.
- (iii) WestJet is exposed to counterparty credit risk on its deposit relating to airport operations; however, it considers this risk to be remote because of the nature and size of the counterparty.
- (iv) Derivative financial assets consist of foreign exchange forward contracts, interest rate swap contracts and cross-currency interest rate swap contracts. We review the size and credit rating of both current and any new counterparties in addition to limiting the total exposure to any individual counterparty.

Liquidity risk

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

The table below presents a maturity analysis of our undiscounted contractual cash flow for our non-derivative and derivative financial liabilities as at December 31, 2016. 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⁾	547,490	547,490	-	-	-
Derivative financial liabilities ⁽ⁱⁱ⁾	10,222	4,476	5,746	-	-
Long-term debt	2,295,381	213,242	776,333	931,799	374,007
Total	2,853,093	765,208	782,079	931,799	374,007

- (i) Excludes foreign exchange derivative liabilities of \$1,191 and interest rate derivative liabilities of \$3,285.
- (ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$1,191 and interest rate derivative contracts of \$9,031. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2016, net long-term interest rate derivative liabilities were \$5,746.

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, 2016, the fair value of our long-term debt was approximately \$1,972.0 million (2015 – \$1,124.8 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, 2016, the weighted average rate used in determining the fair value was 3.69 per cent (2015 – 3.95 per cent). The increase in the fair value of our long-term debt is due to the decrease in the rate used to discount our debt. The fair value of our variable-rate long-term debt approximates its carrying value, as it is at a floating market rate of interest. Please refer to *Foreign exchange* and *Financing* on page 20 and page 30, 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, 2016.

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

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, revenue management 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, call centre 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.

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.

The airline industry is labour intensive and subject to increasing labour, retention and succession 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* was amended in 2015 and currently requires a secret ballot vote for all union certifications. A secret ballot vote will be triggered where the union demonstrates evidence that 40 per cent or more of the proposed bargaining unit are members of the union. Where the threshold is met, certification will be issued if a majority of the votes cast favor the union. However, there is currently pending legislation before Canadian Parliament to repeal the recent amendments to the *Canada Labour Code* so that a union can once again be automatically certified where more than 50 per cent of a group of employees sign membership cards. Additionally, evidence that 35 to 50 per cent of the proposed bargaining unit are members in a union would trigger a secret ballot. In the event an employee group was 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.

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.

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.

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

Jet fuel pricing represents a significant risk, representing 21 and 24 per cent of operating costs in 2016 and 2015, 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.

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.

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.

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

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

As of the date of this MD&A, we are also exposed to fluctuations in the US-dollar exchange rate relating to our Boeing 737 NG aircraft purchase commitments, Boeing MAX aircraft purchase commitments and Bombardier Q400 purchase commitments. The purchase of our Boeing and Bombardier 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 and delivery payment. As a result, we are exposed to foreign currency fluctuations prior to each deposit and delivery date.

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

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

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 future Boeing MAX fleet and our 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 in the past year, 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 maintenance costs will increase as our fleet ages.

The average age of our fleet at December 31, 2016, was 7.3 years. Our maintenance costs will increase as our fleet ages and our aircraft warranties expire. Since we began acquiring our Boeing 737 NG aircraft, 87 aircraft have come off warranty, with an additional 5 coming off warranty in 2017. 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.

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

To efficiently serve our network of destinations we are increasingly dependent on the markets and airport operations at Toronto's Pearson International Airport, Calgary International Airport and Vancouver International Airport. A significant change in the demand environment in one or more of these markets, as has been experienced in the Alberta market in 2015 and 2016 due to the economic downturn of the energy sector, 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.

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

We are also dependent on General Electric as 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.

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

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

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

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

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

Risks relating to the airline industry

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

The airline industry is highly competitive and particularly susceptible to price discounting, since airlines incur only nominal costs to provide services to guests occupying otherwise unsold seats. We primarily compete with a small number of Canadian airlines in our domestic market and the same Canadian airlines and numerous 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. For example, NewLeaf Travel (NewLeaf) initially launched its website and began selling tickets to seven Canadian destinations on January 6, 2016. After a three month cessation in ticket sales due to a regulatory review, NewLeaf commenced sale of tickets in June 2016 for their inaugural flight which occurred on July 25, 2016. In addition to NewLeaf, another potential ULCC entrant, Canada Jetlines Ltd., has announced intentions to commence operations in the summer of 2017. 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.

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.

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

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

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

The airline industry is subject to extensive laws relating to, among other things, airline safety and security, provision of services, competition, environment and labour concerns. Government entities such as Transport Canada, the Competition Bureau, the Canada 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.

At a broader level, in 2014 the Canadian federal government undertook a review of transportation policy and the *Canadian Transportation Act*. The review was completed and made public in the first quarter of 2016. Post review, in late 2016 the federal government announced that it will increase the foreign ownership limit in respect of Canadian air carriers to 49% in order to expand domestic competition in the airline industry, and that it will introduce new passenger rights legislation to establish formal obligations for air carriers. Additional policy initiatives may flow from the review. 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.

Internationally, under the auspices of the International Civil Aviation Organization, member countries in 2016 reached agreement on developing an emission offset program to place a price on international aviation emissions as of 2020. Canada has formally stated it will adopt the program. Domestically, the Canadian federal and provincial governments have adopted or are developing emissions policies that impose a tax or emissions trading scheme on carbon emissions from fuel. 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.

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.

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, deicing workers, fuel workers and other third party workers not employed by us may also have a material adverse impact on our business depending on the severity of the service disruptions and the extent to which they cause delays, cancellations, increased costs and impact guest experience.

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

Accounting

Critical accounting judgments and estimates

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

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

Judgments

(i) 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, 2016.

(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, 2016.

(v) Unconsolidated structured entities

The classification of our participation in three Canadian DFCs, nine Canadian FFCs and eight U.S. FFCs as interests in unconsolidated structured entities is based on management's judgment 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 judgment 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 on property and equipment are calculated to write off the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including vendors, industry practice, and company-specific history. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions. Expected useful lives and amortization methods for intangible assets are reviewed annually.

(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, 2016, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 0.96 per cent (December 31, 2015 – 0.89 per cent) to reflect the weighted average remaining term of approximately 23 months (December 31, 2015 – 27 months) until cash outflow. A 1 per cent increase in the rate we use to discount our maintenance provisions at December 31, 2016 would decrease our maintenance expense by \$6.1 million in 2016.

(iii) Income taxes

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

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, 2016 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.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) which provides a single revenue recognition model aimed at providing greater comparability across industries and companies. The revised IFRS standard will replace existing revenue recognition guidance and is effective January 1, 2018 for annual and interim reporting periods.

Our preliminary assessments have identified certain areas where we anticipate a difference in reporting under IFRS 15. We anticipate that the majority of our ancillary services will no longer be considered distinct from our guest's associated flight, and therefore, will be presented within Guest revenue whereas today it is presented within Other revenue. Additionally, the timing of recognition of certain ancillary fees will be deferred until the flight occurs. We anticipate this will predominantly impact change fees which are currently recognized at the date of the ticket change. In addition, with respect to Guest revenue, we anticipate a change in the timing of the recognition of breakage on certain ticket sales which we believe will shorten our period of revenue deferral.

We continue to evaluate the potential impact of IFRS 15 on our WestJet Reward and co-brand credit card programs, due to the complexity of the accounting for these programs as well as outstanding relevant airline industry guidance.

In the first quarter of 2017 we intend to complete our gap assessments pending the publication of outstanding industry guidance. We will also continue to evaluate the potential impacts to systems and business processes.

IFRS 15 permits the use of either a full retrospective transition method or modified retrospective transition method. We anticipate that we will adopt the standard on January 1, 2018, in accordance with the required effective date, using the full retrospective transition method. We are continuing to evaluate the impact of the various practical expedients that are available under this method.

In July 2014, the IASB completed their final revision to IFRS 9 *Financial Instruments* which includes updates to the classification and measurement of financial assets and liabilities, an expected loss impairment model that will require more timely recognition of expected credit losses, and a simplified model for hedge accounting. The standard is effective for annual and interim reporting periods beginning on or after January 1, 2018 however we anticipate an early adoption of this standard in the first quarter of 2017. We do not anticipate a significant impact to our consolidated financial statements.

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16), effective for annual and interim reporting periods beginning on or after January 1, 2019. This standard eliminates the classification of leases as either operating leases or finance leases for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as either lease assets or together with property and equipment. It also allows for the service component of a lease agreement to be separated from the value of the asset and thus not reported on the statement of financial position. We anticipate the adoption of IFRS 16 will have a material impact on our statement of financial position as all aircraft operating leases will be capitalized with a corresponding lease liability. In addition to aircraft operating leases, we must identify and review potential contracts that may contain a lease arrangement prior to quantifying the impact of IFRS 16. We do not anticipate an early adoption of this standard.

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, 2016, 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, 2016, 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 Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2016, our ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2016 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:

Forward looking statement	Key assumptions	Heading	Page
Our plan to continue adding new destinations and additional frequencies to our existing markets through the growth of our fleet including, beginning in 2017, new fuel efficient 737 Max aircraft.	Boeing and Bombardier will meet our aircraft delivery schedules and there will be availability at certain airports.	<i>About WestJet</i>	8
Our plan to update the new WestJet maple leaf logo on our remaining fleet during normal maintenance events.	We will maintain our anticipated maintenance schedule.	<i>About WestJet</i>	8
Our expectation that as our fleet continues to expand we will establish additional profitable routes in Canada, the U.S. and internationally.	Boeing and Bombardier will be able to meet our aircraft delivery commitments. Our ability and systems to assess route profitability will continue. We will have the ability to source additional aircraft capable of long haul flying to support continued international expansion.	<i>WestJetters</i>	11
		<i>Network expansion and fleet</i>	12
TSA PreCheck program will make the security experience much more efficient, especially for those guests travelling for business and our WestJet Rewards members.	Guests have registered with a Trusted Traveller Program (i.e. Nexus) prior to date of departure from a U.S. airport.	<i>Guest experience and service enhancements</i>	11
Our expectation that the new contact centre in Moncton, New Brunswick will provide increasing local job opportunities and enhance our ability to service our French-speaking guests.	That we will maintain our anticipated level of demand originating in Eastern Canada and the Maritime region.	<i>Guest experience and service enhancements</i>	11
Our plan to serve McCafe Premium Roast coffee on our WestJet Encore fleet of Q400s in 2017.	We will have the infrastructure in place to serve the product on our Q400 fleet.	<i>Guest experience and service enhancements</i>	11
WestJet Encore will begin daily service in the first quarter of 2017 between Sudbury and Toronto, and commence service to Mesa, Arizona in 2017.	Based on our current network planning and schedules.	<i>Network expansion and fleet</i>	12
Our anticipated outlook and guidance for the first quarter of 2017 and full year 2017, where provided, for traffic, system-wide and domestic capacity, year over year change in RASM, year over year change in CASM, excluding fuel and profit share, fuel costs, capital expenditures and our expected effective tax rate.	Forecasted jet fuel prices of US \$66 per barrel for the first quarter of 2017. Average foreign exchange rate of approximately 1.35 Canadian dollars to one US dollar for the first quarter of 2017 and approximately 1.35 for the full-year 2017. No significant changes to current tax legislation. Boeing and Bombardier will meet our aircraft delivery schedules. Based on our current network planning and schedules.	<i>Outlook</i>	14
Our estimate of our sensitivity of fuel costs to	Forecasted full year 2017 consumption	<i>Aircraft fuel</i>	18

changes in crude oil and jet fuel and sensitivity to fuel costs to the change in the value of the Canadian dollar versus the US dollar.	in litres and average foreign exchange rate of approximately 1.35 Canadian dollars to one US dollar.		
We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.	Based on our current risk management policies.	<i>Aircraft fuel</i>	18
Our estimate of our sensitivity in our annual unhedged operating costs and our future US-denominated purchase obligations to the change in the value of the Canadian dollar versus the US dollar.	Forecasted 2017 expenses and average foreign exchange rate of approximately 1.35 Canadian dollars to one US dollar.	<i>Foreign exchange</i>	20
We expect to receive financing from EDC for up to 80 per cent of the net price for each Bombardier Q400 aircraft.	Our current EDC agreement will remain in good standing.	<i>Financing</i>	30
Our expectation that our credit rating will provide us with a range of public and private debt financing options in the future.	We will maintain our investment grade corporate debt credit ratings.	<i>Financing</i>	30
Our plan to meet contractual obligations and commitments through our current cash and cash equivalents balance combined with future cash flows from operations sources of aircraft financing and our expectation that there will not be adverse changes to our future ability to access liquidity.	We will maintain our investment grade corporate debt credit ratings. We will have sufficient cash on hand and/or will continue be able to obtain future financing as circumstances require.	<i>Contractual obligations and commitments</i>	32
		<i>Off balance sheet arrangements</i>	34
We expect 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.	The assessment of our current legal counsel is correct and there will be no material changes in the law, as currently interpreted and applied.	<i>Contingencies</i>	32
We expect our aircraft to be delivered as per our fleet delivery schedule.	Boeing and Bombardier will be able to meet our aircraft delivery commitments.	<i>Fleet</i>	33
Our confidence in our ability to deliver continued profitable results.	That our fuel price, exchange rate and tax rate forecasts are accurate. That we will maintain our current aircraft delivery and network planning schedules.	<i>Quarterly dividend policy</i>	35
We will evaluate the impact of implementation of IFRS 15 with respect to practical expedients, additional impacts to consolidated financial statements and changes to information systems by January 1, 2018. We anticipate early adoption of IFRS 9 in 2017. We will evaluate the implications of adoption of IFRS 16 by the stated effective date.	Based on preliminary review of the standards and execution of the project plan as expected.	<i>Future accounting pronouncements</i>	50

Definition of Key Operating Indicators

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

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

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

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

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

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

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

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

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

Utilization: Operating hours per day per operating aircraft.

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

Non-GAAP and Additional-GAAP Measures

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

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

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

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

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

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

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

EBITDAR: Earnings before net finance costs, taxes, depreciation, 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, which is not considered to represent the Company's ongoing performance, increasing comparability between periods.

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, adjusting for seasonality that may occur within a financial year.

CASM, excluding fuel and employee profit share: CASM is a common measure used in the airline industry to measure an airline's cost structure and efficiency. We exclude the effects of aircraft fuel expense and employee profit share expense to assess the operating performance of our business. Fuel expense is excluded from our operating results because fuel prices are affected by a host of factors outside our control. Additionally, employee profit share expense is excluded as it varies based on the outcome of our net earnings. Excluding these expenses allows us to analyze our operating results to those of other airlines.

Return on invested capital: ROIC is a measure commonly used 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.

Diluted free cash flow per share: Measures our ability to generate operating cash flows after capital expenditures on a per share basis. Free cash flow divided by the diluted weighted average number of shares outstanding.

Diluted operating cash flow per share: Measures our ability to generate cash from our operations on a per share basis. 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		
	2016	2015	Change	2016	2015	Change
Operating expenses	932,492	846,028	86,464	3,682,762	3,459,512	223,250
Aircraft fuel expense	(210,489)	(182,181)	(28,308)	(765,867)	(814,498)	48,631
Employee profit share expense	(6,454)	(8,869)	2,415	(59,342)	(100,965)	41,623
Operating expenses, adjusted	715,549	654,978	60,571	2,857,553	2,544,049	313,504
ASMs	7,253,281,603	6,524,788,975	11.2%	29,298,340,363	26,902,227,359	8.9%
CASM, excluding above items (cents)	9.87	10.04	(1.7%)	9.75	9.46	3.1%

Adjusted debt-to-equity

(\$ in thousands)	December 31 2016	December 31 2015	Change
Long-term debt ⁽ⁱ⁾	2,046,658	1,174,833	871,825
Off-balance-sheet aircraft operating leases ⁽ⁱⁱ⁾	1,338,338	1,305,668	32,670
Adjusted debt	3,384,996	2,480,501	904,495
Total shareholders' equity	2,060,702	1,959,993	100,709
Add: Hedge reserves	11,003	(1,903)	12,906
Adjusted equity	2,071,705	1,958,090	113,615
Adjusted debt to equity	1.63	1.27	28.3%

(i) At December 31, 2016, long-term debt includes the current portion of long-term debt of \$145,128 (December 31, 2015 – \$141,572) and long-term portion of \$1,901,530 (December 31, 2015 – \$1,033,261).

(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, 2016, the trailing 12 months of aircraft leasing expenses totaled \$178,445 (December 31, 2015 – \$174,089).

Adjusted net debt to EBITDAR

(\$ in thousands)	December 31 2016	December 31 2015	Change
Adjusted debt	3,384,996	2,480,501	904,495
Less: Cash and cash equivalents	(1,520,822)	(1,183,797)	(337,025)
Adjusted net debt	1,864,174	1,296,704	567,470
Net earnings	295,458	367,530	(72,072)
Add:			
Net finance costs ⁽ⁱ⁾	32,456	38,136	(5,680)
Taxes	120,775	152,728	(31,953)
Depreciation and amortization	350,484	264,921	85,563
Aircraft leasing	178,445	174,089	4,356
Other ⁽ⁱⁱ⁾	(11,906)	9,499	(21,405)
EBITDAR	965,712	1,006,903	(41,191)
Adjusted net debt to EBITDAR⁽ⁱⁱⁱ⁾	1.93	1.29	49.6%

(i) At December 31, 2016, net finance costs includes the trailing 12 months of finance income of \$16,618 (December 31, 2015 – \$15,529) and the trailing 12 months of finance cost of \$49,074 (December 31, 2015 – \$53,665).

(ii) At December 31, 2016, other includes the trailing 12 months foreign exchange gain of \$7,402 and a gain on derivatives of \$4,504 (December 31, 2015 – loss of \$10,326 and gain of \$827).

(iii) At December 31, 2016 and December 31, 2015, 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		
	2016	2015	Change
Cash flow from operating activities	704,587	876,441	(171,854)
Weighted average number of shares outstanding - diluted	120,610,704	125,964,541	(5,353,837)
Diluted operating cash flow per share	5.84	6.96	(16.1%)

Free cash flow

(\$ in thousands, except per share data)	Twelve months ended December 31		
	2016	2015	Change
Cash flow from operating activities	704,587	876,441	(171,854)
Adjusted for:			
Aircraft additions	(859,474)	(758,143)	(101,331)
Other property and equipment and intangible additions	(82,868)	(64,789)	(18,079)
Free cash flow	(237,755)	53,509	(291,264)
Weighted average number of shares outstanding - diluted	120,610,704	125,964,541	(5,353,837)
Diluted free cash flow per share	(1.97)	0.42	(569.0%)

Cash to trailing 12 months revenue

(\$ in thousands)	December 31 2016	December 31 2015	Change
Cash and cash equivalents	1,520,822	1,183,797	337,025
Trailing 12 months revenue	4,122,859	4,029,265	93,594
Cash to trailing 12 months revenue ⁽ⁱ⁾	36.9%	29.4%	7.5 pts.

(i) At December 31, 2016 and December 31, 2015, 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 2016	December 31 2015	Change
Earnings before income taxes (trailing twelve months)	416,233	520,258	(104,025)
Add:			
Finance costs	49,074	53,665	(4,591)
Implicit interest in operating leases ⁽ⁱ⁾	93,684	91,397	2,287
Return	558,991	665,320	(106,329)
Invested capital:			
Average long-term debt ⁽ⁱⁱ⁾	1,610,746	1,181,748	428,998
Average shareholders' equity	2,010,348	1,868,748	141,600
Off-balance-sheet aircraft leases ⁽ⁱⁱⁱ⁾	1,338,338	1,305,668	32,670
Invested capital	4,959,432	4,356,164	603,268
Return on invested capital	11.3%	15.3%	(4.0 pts.)

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

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

(iii) Off-balance-sheet aircraft operating leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2016, the trailing 12 months of aircraft leasing expenses totaled \$178,445 (December 31, 2015 – \$174,089).

Adjusted net debt to adjusted EBITDAR

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

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

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

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

Adjusted EBT Margin

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

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

Return on invested capital

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

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

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

Adjusted net earnings/Adjusted diluted earnings per share

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

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

Financial Statements and Notes

Consolidated Financial Statements and Notes

For the years ended December 31, 2016 and 2015

WestJet Airlines Ltd.
Annual 2016 Financial Statements and Notes
February 6, 2017





MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

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

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

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

A handwritten signature in black ink, appearing to read "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 6, 2017
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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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 6, 2017
Calgary, Canada



Consolidated Statement of Earnings

For the years ended December 31

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

	Note	2016	2015
Revenue:			
Guest		3,556,941	3,557,222
Other		565,918	472,043
		4,122,859	4,029,265
Operating expenses:			
Salaries and benefits		854,056	801,715
Aircraft fuel		765,867	814,498
Rates and fees		617,573	562,745
Sales and marketing		356,745	325,127
Depreciation and amortization	6	350,484	264,921
Maintenance		209,226	164,305
Aircraft leasing		178,445	174,089
Other		291,024	251,147
Employee profit share		59,342	100,965
		3,682,762	3,459,512
Earnings from operations		440,097	569,753
Non-operating income (expense):			
Finance income		16,618	15,529
Finance cost		(49,074)	(53,665)
Gain (Loss) on foreign exchange		7,402	(10,326)
Loss on disposal of property and equipment		(3,314)	(1,860)
Gain on derivatives		4,504	827
		(23,864)	(49,495)
Earnings before income tax		416,233	520,258
Income tax expense (recovery):			
Current	10	133,055	123,939
Deferred	10	(12,280)	28,789
		120,775	152,728
Net earnings		295,458	367,530
Earnings per share:			
Basic	13	2.46	2.94
Diluted	13	2.45	2.92

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	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	4	1,520,822	1,183,797
Restricted cash	5	102,649	68,573
Accounts receivable	18	127,785	82,136
Prepaid expenses, deposits and other	18	181,070	131,747
Inventory	18	33,535	36,018
		1,965,861	1,502,271
Non-current assets:			
Property and equipment	6	4,036,880	3,473,262
Intangible assets	7	66,187	63,549
Other assets	18	95,368	89,942
Total assets		6,164,296	5,129,024
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	18	547,490	545,438
Advance ticket sales		626,635	620,216
Deferred rewards program		155,567	117,959
Non-refundable guest credits		42,942	40,921
Current portion of maintenance provisions	8	103,571	85,819
Current portion of long-term debt	9	145,128	141,572
		1,621,333	1,551,925
Non-current liabilities:			
Maintenance provisions	8	262,663	243,214
Long-term debt	9	1,901,530	1,033,261
Other liabilities	18	8,374	13,603
Deferred income tax	10	309,694	327,028
Total liabilities		4,103,594	3,169,031
Shareholders' equity:			
Share capital	11	555,716	582,796
Equity reserves		93,039	82,713
Hedge reserves		(11,003)	1,903
Retained earnings		1,422,950	1,292,581
Total shareholders' equity		2,060,702	1,959,993
Total liabilities and shareholders' equity		6,164,296	5,129,024

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	2016	2015
Operating activities:			
Net earnings		295,458	367,530
Items not involving cash:			
Depreciation and amortization		350,484	264,921
Change in maintenance provisions		82,564	64,404
Amortization of transaction costs		5,092	4,503
Amortization of hedge settlements		833	1,390
Gain on derivatives		(2,472)	(827)
Loss on disposal of property and equipment		3,314	1,860
Share-based payment expense	11	18,432	17,254
Deferred income tax expense (recovery)		(12,280)	28,789
Unrealized foreign exchange gain		(4,498)	(938)
Change in non-cash working capital		40,384	199,706
Change in restricted cash		(34,076)	(10,424)
Change in other assets		7,129	(15,912)
Change in other liabilities		(2,486)	(3,192)
Purchase of shares pursuant to compensation plans		(7,197)	(14,005)
Maintenance provision settlements		(36,094)	(28,618)
		704,587	876,441
Investing activities:			
Aircraft additions		(847,718)	(867,870)
Aircraft disposals		4,660	83,348
Other property and equipment and intangible additions		(76,996)	(88,999)
Change in non-cash working capital		(22,288)	50,589
		(942,342)	(822,932)
Financing activities:			
Increase in long-term debt		998,715	153,112
Repayment of long-term debt		(157,193)	(171,490)
Shares repurchased	11	(126,152)	(123,813)
Dividends paid	12	(66,967)	(69,711)
Issuance of shares pursuant to compensation plans		40	156
Cash interest paid		(56,046)	(47,305)
Change in non-cash working capital		(14,066)	21
		578,331	(259,030)
Cash flow from/(used in) operating, investing and financing activities		340,576	(205,521)
Effect of foreign exchange on cash and cash equivalents		(3,551)	31,247
Net change in cash and cash equivalents		337,025	(174,274)
Cash and cash equivalents, beginning of year		1,183,797	1,358,071
Cash and cash equivalents, end of year		1,520,822	1,183,797
Supplemental disclosure of operating cash flows			
Cash interest received		16,148	16,349
Cash taxes paid, net		(118,014)	(114,752)

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	2016	2015
Share capital:			
Balance, beginning of year	11	582,796	603,287
Issuance of shares pursuant to compensation plans	11	1,146	1,833
Shares repurchased	11	(28,226)	(22,324)
		555,716	582,796
Equity reserves:			
Balance, beginning of year		82,713	75,094
Share-based payment expense	11	18,432	17,254
Issuance of shares pursuant to compensation plans		(8,106)	(9,635)
		93,039	82,713
Hedge reserves:			
Balance, beginning of year		1,903	(3,179)
Other comprehensive income		(12,906)	5,082
		(11,003)	1,903
Retained earnings:			
Balance, beginning of year		1,292,581	1,102,300
Dividends declared	12	(66,967)	(69,711)
Shares repurchased	11	(97,926)	(101,489)
Purchase of shares pursuant to compensation plans		(196)	(6,049)
Net earnings		295,458	367,530
		1,422,950	1,292,581
Total shareholders' equity		2,060,702	1,959,993

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)

	2016	2015
Net earnings	295,458	367,530
Items to be reclassified to net earnings:		
Other comprehensive income, net of tax:		
Amortization of hedge settlements to aircraft leasing	833	1,390
Net unrealized gain (loss) on foreign exchange derivatives ⁽ⁱ⁾	(6,042)	23,078
Reclassification of net realized gain on foreign exchange derivatives ⁽ⁱⁱ⁾	(3,683)	(16,246)
Net unrealized gain (loss) on interest rate derivatives ⁽ⁱⁱⁱ⁾	1,037	(5,721)
Reclassification of net realized loss on interest rate derivatives ^(iv)	2,838	2,581
Net unrealized loss on cross-currency swap derivatives ^(v)	(7,718)	-
Reclassification of net realized loss on cross-currency swap derivatives ^(vi)	(171)	-
	(12,906)	5,082
Total comprehensive income	282,552	372,612

(i) Net of income taxes of \$2,219 (2015 – \$(8,455)).

(ii) Net of income taxes of \$1,352 (2015 – \$5,877).

(iii) Net of income taxes of \$(374) (2015 – \$2,166).

(iv) Net of income taxes of \$(1,044) (2015 – \$(934)).

(v) Net of income taxes of \$2,837 (2015 – \$nil).

(vi) Net of income taxes of \$63 (2015 – \$nil).

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, 2016 and 2015

(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, 2016 and 2015 were authorized for issue by the Board of Directors on February 6, 2017. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline service and travel packages. The Corporation's shares are publicly traded on the Toronto Stock Exchange (TSX) under the symbol WJA. The principal business address is 22 Aerial Place N.E., Calgary, Alberta, T2E 3J1 and the registered office is Suite 2400, 525 - 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

(a) Basis of presentation

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

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

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

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries consist of entities over which the Corporation is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. A description of the Corporation's subsidiaries is provided in Note 17. All intercompany balances and transactions between the Corporation and its subsidiaries have been eliminated.

(c) Seasonality

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

(d) Revenue recognition

(i) Guest

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

(ii) Other

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

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

Ancillary revenue is recognized when the services and products are provided to the guest. Ancillary revenues include items such as fees associated with guest itinerary changes or cancellations, Plus upgrades, 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, 2016 and 2015

(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 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 guest 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. When the Corporation provides travel credits related to flight delays, missing baggage or other inconveniences as goodwill gestures, a performance obligation is not created until such time as the guest utilizes the credit to book a flight. These credits are recorded as a reduction to guest revenue to offset any revenue generated from the booking.

(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, 2016 and 2015

(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 hedged instrument, the effective gains and losses previously accumulated in hedge reserves are recorded in net earnings under the same caption as the hedged item.

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 and aircraft expendables.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2016 and 2015

(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 rotable parts is recognized in maintenance expense as incurred.

(k) Intangible assets

Included in intangible assets are costs related to software, landing rights and other. Software and landing rights are carried at cost less accumulated amortization and are amortized on a straight-line basis over their respective useful lives of five 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, 2016 and 2015

(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, 2016 and 2015

(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, 2016 and 2015

(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 are no triggers of impairment at December 31, 2016.

(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), eight US FFCs and three Canadian De-Icing Facility Corporations (DFCs) as interests in unconsolidated structured entities is based on management's judgment of each entity including contractual relationships and the absence of equity ownership. Management considered the restricted, narrow and well-defined objectives and activities of each FFC and DFC, the financial dependence of each FFC and DFC on the contracting airlines, and the contractual terms of each FFC and DFC preventing any single airline from having control or significant influence. Refer to Note 17 for additional disclosures of the Corporation's interest in unconsolidated structured entities.

(vi) Operating and reportable segments

The assessment of the Corporation as one operating and reportable segment is based on management's judgment 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.

(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.

Notes to Consolidated Financial Statements

As at and for the years ended December 31, 2016 and 2015

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

2. New accounting standards and interpretations

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

Proposed standards	Description	Previous standard	Effective date
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.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15) which provides a single revenue recognition model aimed at providing greater comparability across industries and companies. The revised IFRS standard will replace existing revenue recognition guidance and is effective January 1, 2018 for annual and interim reporting periods.

The Corporation's preliminary assessments have identified certain areas where it anticipates a difference in reporting under IFRS 15. The Corporation anticipates that the majority of ancillary services will no longer be considered distinct from the guest's associated flight and therefore, will be presented within Guest revenue whereas today it is presented within Other revenue. Additionally, the timing of recognition of certain ancillary fees will be deferred until the flight occurs. The Corporation anticipates this will predominantly impact change fees which are currently recognized at the date of the ticket change. In addition, with respect to Guest revenue, the Corporation anticipates a change in the timing of the recognition of breakage on certain ticket sales which it believes will shorten the period of revenue deferral.

The Corporation continues to evaluate the potential impact of IFRS 15 on the WestJet Reward and co-brand credit card programs due to the complexity of the accounting for these programs as well as outstanding relevant airline industry guidance.

In the first quarter of 2017 the Corporation intends to complete gap assessments pending the publication of outstanding industry guidance. The Corporation will also continue to evaluate the potential impacts to systems and business processes.

IFRS 15 permits the use of either a full retrospective transition method or modified retrospective transition method. The Corporation anticipates that it will adopt the standard on January 1, 2018, in accordance with the required effective date, using the full retrospective transition method. The Corporation is continuing to evaluate the impact of the various practical expedients that are available under this method.



Notes to Consolidated Financial Statements

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

2. New accounting standards and interpretations (continued)

In July 2014, the IASB completed their final revision to IFRS 9 Financial Instruments which includes updates to the classification and measurement of financial assets and liabilities, an expected loss impairment model that will require more timely recognition of expected credit losses, and a simplified model for hedge accounting. The standard is effective for annual and interim reporting periods beginning on or after January 1, 2018 however the Corporation anticipates an early adoption of this standard in the first quarter of 2017. The Corporation does not anticipate a significant impact to the consolidated financial statements.

In January 2016, the IASB issued IFRS 16 Leases (IFRS 16), effective for annual and interim reporting periods beginning on or after January 1, 2019. This standard eliminates the classification of leases as either operating leases or finance leases for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as either lease assets or together with property and equipment. It also allows for the service component of a lease agreement to be separated from the value of the asset and thus not reported on the statement of financial position. The Corporation anticipates the adoption of IFRS 16 will have a material impact on the statement of financial position as all aircraft operating leases will be capitalized with a corresponding lease liability. In addition to aircraft operating leases, the Corporation must identify and review potential contracts that may contain a lease arrangement prior to quantifying the impact of IFRS 16. The Corporation does not anticipate an early adoption of this standard.

Notes to Consolidated Financial Statements

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

3. Capital management

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

In order to 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.

	2016	2015	Change
Cash to trailing 12 months revenue			
Cash and cash equivalents	1,520,822	1,183,797	337,025
Trailing 12 months revenue	4,122,859	4,029,265	93,594
Cash to trailing 12 months revenue ^(v)	36.9%	29.4%	7.5 pts
Adjusted debt-to-equity			
Long-term debt ⁽ⁱ⁾	2,046,658	1,174,833	871,825
Off-balance-sheet aircraft leases ⁽ⁱⁱ⁾	1,338,338	1,305,668	32,670
Adjusted debt	3,384,996	2,480,501	904,495
Total shareholders' equity	2,060,702	1,959,993	100,709
Add: Hedge reserves	11,003	(1,903)	12,906
Adjusted equity	2,071,705	1,958,090	113,615
Adjusted debt-to-equity ^(v)	1.63	1.27	28.3%
Adjusted net debt to EBITDAR			
Adjusted debt (as above)	3,384,996	2,480,501	904,495
Less: Cash and cash equivalents	(1,520,822)	(1,183,797)	(337,025)
Adjusted net debt	1,864,174	1,296,704	567,470
Net earnings	295,458	367,530	(72,072)
Add:			
Net finance cost ⁽ⁱⁱⁱ⁾	32,456	38,136	(5,680)
Taxes	120,775	152,728	(31,953)
Depreciation and amortization	350,484	264,921	85,563
Aircraft leasing	178,445	174,089	4,356
Other ^(iv)	(11,906)	9,499	(21,405)
EBITDAR	965,712	1,006,903	(41,191)
Adjusted net debt to EBITDAR ^(v)	1.93	1.29	49.6%

(i) At December 31, 2016, long-term debt includes the current portion of long-term debt of \$145,128 (December 31, 2015 – \$141,572) and long-term debt of \$1,901,530 (December 31, 2015 – \$1,033,261).

(ii) Off-balance-sheet aircraft leases is calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At December 31, 2016, the trailing 12 months of aircraft leasing costs totaled \$178,445 (December 31, 2015 – \$174,089).

(iii) At December 31, 2016, net finance cost includes the trailing 12 months of finance income of \$16,618 (December 31, 2015 – \$15,529) and the trailing 12 months of finance cost of \$49,074 (December 31, 2015 – \$53,665).

(iv) At December 31, 2016, other includes the trailing 12 months foreign exchange gain of \$7,402 (December 31, 2015 – loss of \$10,326) and trailing 12 months non-operating gain on derivatives of \$4,504 (December 31, 2015 – \$827).

(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 2016	December 31 2015
Cash ⁽ⁱ⁾	261,408	340,504
Short-term investments ⁽ⁱ⁾	1,259,414	843,293
	1,520,822	1,183,797

(i) Included in these balances, at December 31, 2016, the Corporation has US-dollar cash and cash equivalents totaling US \$228,707 (December 31, 2015 – US \$170,216).

5. Restricted cash

	December 31 2016	December 31 2015
Cash held in trust for WestJet Vacations Inc.	70,080	53,572
Security on facilities for letters of guarantee	31,013	13,366
Passenger facility charges	1,556	1,635
	102,649	68,573

6. Property and equipment

	January 1 2016	Net Additions	Depreciation	Transfers	December 31 2016
Aircraft ⁽ⁱ⁾	2,741,974	120,764	(290,733)	553,035	3,125,040
Ground property and equipment	72,176	17,922	(18,166)	1,979	73,911
Spare engines and rotables	167,446	32,562	(19,772)	5,856	186,092
Deposits on aircraft	319,019	640,098	-	(466,741)	492,376
Buildings	106,364	-	(3,531)	-	102,833
Leasehold improvements	10,374	5,742	(3,159)	1,223	14,180
Assets under development	55,909	81,891	-	(95,352)	42,448
	3,473,262	898,979	(335,361)	-	4,036,880

	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

(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, 2016, total aircraft depreciation expense for overhaul components was \$111,312 (December 31, 2015 – \$93,343).

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6. Property and equipment (continued)

December 31, 2016	Cost	Accumulated depreciation	Net book value
Aircraft	4,439,579	(1,314,539)	3,125,040
Ground property and equipment	198,083	(124,172)	73,911
Spare engines and rotables	278,863	(92,771)	186,092
Deposits on aircraft	492,376	-	492,376
Buildings	136,783	(33,950)	102,833
Leasehold improvements	27,431	(13,251)	14,180
Assets under development	42,448	-	42,448
	5,615,563	(1,578,683)	4,036,880

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

The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was \$1,471,441 at December 31, 2016 (December 31, 2015 – \$1,574,433).

7. Intangible assets

	January 1 2016	Net additions	Amortization	Transfers	December 31 2016
Software	29,641	4,698	(14,141)	13,231	33,429
Landing rights	14,595	65	(894)	-	13,766
Other	5,609	-	(88)	-	5,521
Assets under development	13,704	12,998	-	(13,231)	13,471
	63,549	17,761	(15,123)	-	66,187

	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

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7. Intangible assets (continued)

December 31, 2016	Cost	Accumulated amortization	Net book value
Software	90,943	(57,514)	33,429
Landing rights	17,847	(4,081)	13,766
Other	5,836	(315)	5,521
Assets under development	13,471	-	13,471
	128,097	(61,910)	66,187

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

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 2016	December 31 2015
Opening balance	329,033	246,579
Additions	72,900	59,061
Change in estimate ⁽ⁱ⁾	7,560	3,677
Foreign exchange	(9,269)	46,667
Accretion ⁽ⁱⁱ⁾	2,104	1,667
Settled	(36,094)	(28,618)
Ending balance	366,234	329,033
Current portion	(103,571)	(85,819)
Long-term portion	262,663	243,214

(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, 2016, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 0.96% (December 31, 2015 – 0.89%) to reflect the weighted average remaining term of approximately 23 months (December 31, 2015 – 27 months) until cash outflow.

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

At December 31, 2016, the current portion of maintenance reserves included in prepaid expenses, deposits and other is \$13,727 (December 31, 2015 – \$15,190) and the long-term portion of maintenance reserves included in other assets is \$16,823 (December 31, 2015 – \$19,261).

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9. Long-term debt

	December 31 2016	December 31 2015
Term loans – purchased aircraft ⁽ⁱ⁾	128,697	220,458
Term loans – purchased aircraft ⁽ⁱⁱ⁾	177,606	198,041
Term loans – purchased aircraft ⁽ⁱⁱⁱ⁾	510,067	358,415
Senior unsecured notes ^(iv)	398,612	397,919
Non-revolving facility ^(v)	299,182	-
USD senior unsecured notes ^(vi)	532,494	-
Ending balance	2,046,658	1,174,833
Current portion	(145,128)	(141,572)
Long-term portion	1,901,530	1,033,261

- (i) 25 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$17,952, at an effective weighted average fixed rate of 5.95%, maturing between 2017 and 2020. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by 25 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 2.48% at December 31, 2016, 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, 2015, other than the weighted average floating interest rate of 2.40%. There are no financial covenants related to these term loans.
- (iii) 34 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$10,971, at an effective weighted average fixed rate of 3.10%, maturing between 2025 and 2028. Each term loan is secured by one Q400 aircraft. At December 31, 2015 – 24 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 3.43% at December 31, 2016, 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.
- (v) Non-revolving, unsecured term loan repayable in quarterly principal instalments of \$3,750 beginning on March 31, 2017, increasing annually, with an effective weighted average floating interest rate of 2.49% at December 31, 2016, maturing in 2020. The Corporation has fixed the rate of interest on the term loan, at a weighted average rate of 2.76%, using interest rate swaps. The credit facility contains two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1 measurable on a quarterly basis. At December 31, 2016 the Corporation has met both covenants.
- (vi) Senior unsecured notes denominated in US Dollars with semi-annual interest payments and a fixed effective rate of 3.72% at December 31, 2016, with principal due upon maturity in June 2021. The notes rank equally in right of payment with all other existing and future unsubordinated debt of the Corporation, but are effectively subordinate to all of the Corporation's existing and future secured debt to the extent of the value of the assets securing such debt. There are no financial covenants related to these senior unsecured notes.

Future scheduled principal and interest repayments of long-term debt at December 31, 2016 are as follows:

Within 1 year	210,482
1 – 3 years	772,303
3 – 5 years	955,269
Over 5 years	371,647
	2,309,701

The Corporation has an unsecured, revolving syndicated credit facility to borrow up to \$300,000. The credit facility is available for general corporate purposes, including the funding of future aircraft acquisitions, and matures in June 2019 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, 2016, the Corporation has \$nil (December 31, 2015 – \$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, 2016, the Corporation has met both covenants.

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9. Long-term debt (continued)

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, 2016, is \$234,371 (December 31, 2015 – \$421,975). 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.

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 was used for general corporate purposes, including the funding of future aircraft acquisitions. On January 7, 2016, the Corporation received the \$300,000 from the credit facility using Canadian dollar bankers' acceptances. The Corporation has fixed the interest rate over the 4-year term of the facility at 2.757% using an interest rate swap.

On June 16, 2016, the Corporation successfully completed a private placement offering for USD \$400,000 3.50% senior unsecured notes maturing on June 16, 2021. The Corporation has fixed the foreign exchange rate over the 5-year term using cross-currency interest rate swaps; refer to Note 15 for additional disclosure. The Corporation used the proceeds from the sale for general corporate purposes, including the funding of future aircraft acquisitions.

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:

	2016	2015
Earnings before income tax	416,233	520,258
Combined Canadian federal and provincial income tax rate	26.93%	26.44%
Expected income tax provision	112,092	137,556
Add (deduct):		
Non-deductible expenses	5,310	4,611
Non-deductible share-based payment expense	3,021	859
Effect of tax rate changes	645	9,671
Other	(293)	31
Actual income tax provision	120,775	152,728
Effective tax rate	29.02%	29.36%

The slight decrease in the effective tax rate is primarily due to the general corporate income tax rate increase in Alberta which occurred in 2015.

(b) Deferred tax

Components of the net deferred tax liability are as follows:

	2016	2015
Deferred tax liability:		
Property and equipment	(404,012)	(348,983)
Deferred partnership income	-	(56,139)
Net unrealized gain on derivatives designated in a hedging relationship	-	(1,009)
Deferred tax asset:		
Maintenance provision	90,273	79,103
Net unrealized loss on derivatives designated in a hedging relationship	4,045	-
	(309,694)	(327,028)

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10. Income taxes (continued)

(b) Deferred tax (continued)

	2016	2015
Deferred tax liability at December 31, 2015:	327,028	296,892
Deferred income tax recovery, period ended December 31, 2016	(12,280)	28,789
Tax impact of net unrealized loss on effective portion of derivatives designated in a hedging relationship	(5,054)	1,347
Deferred tax liability at December 31, 2016	309,694	327,028

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

	2016		2015	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	123,086,477	582,796	127,690,868	603,287
Issuance of shares pursuant to compensation plans	68,911	1,146	115,299	1,833
Shares repurchased	(5,954,949)	(28,226)	(4,719,690)	(22,324)
Balance, end of year	117,200,439	555,716	123,086,477	582,796

At December 31, 2016, the number of common voting shares outstanding was 93,972,416 (December 31, 2015 – 109,089,643) and the number of variable voting shares was 23,228,023 (December 31, 2015 – 13,996,834).

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 was 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 as approved by the TSX on July 28, 2015 and to 6,000,000 shares as approved by the TSX on February 1, 2016. Any shares purchased under this bid were 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 were cancelled. The bid expired on May 12, 2016, with the Corporation purchasing and cancelling 5,348,121 of the 6,000,000 shares it was authorized.

On May 16, 2016, 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 4,000,000 common voting shares and variable voting shares (representing approximately 3.3 per cent of the Corporation's issued and outstanding shares as of April 30, 2016) during the period May 18, 2016 to May 17, 2017, or until such time as the bid is completed or terminated at the Corporation's option. Any shares purchased under this bid are purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Common voting shares and variable voting shares acquired under this bid are cancelled. At December 31, 2016, 3,806,828 shares have been repurchased under this bid with 193,172 remaining.

During the year ended December 31, 2016, the Corporation purchased and cancelled a total of 5,954,949 shares (December 31, 2015 – 4,719,690) for total consideration of \$126,152 (December 31, 2015 – \$123,813). The average book value of the shares repurchased was \$4.74 per share (December 31, 2015 – \$4.73) and was charged to share capital. The excess of the market price over the average book value, including transaction costs, was \$97,926 (December 31, 2015 – \$101,489) and was charged to retained earnings.

(c) Stock option plan

The Corporation has a stock option plan, whereby at December 31, 2016, 11,040,365 (2015 – 9,109,276) 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:

	2016	2015
Weighted average fair value per option	3.58	4.83
Expected life of options (years)	3.7	3.8
Weighted average risk-free interest rate	0.64%	0.95%
Weighted average expected volatility	28%	27%
Weighted average dividend yield	1.9%	1.7%

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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:

	2016		2015	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of year	5,706,547	24.40	3,738,714	22.33
Granted	3,562,396	20.07	2,477,323	26.63
Exercised	(261,890)	16.32	(371,169)	19.04
Forfeited	(258,856)	22.78	(111,736)	23.65
Expired	(125,418)	23.90	(26,585)	20.89
Stock options outstanding, end of year	8,622,779	22.91	5,706,547	24.40
Exercisable, end of year	4,676,301	24.63	2,785,374	22.44

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, 2016, option holders exercised 259,158 options (2015 – 363,734 options) on a cashless basis and received 66,179 shares (2015 – 107,864 shares). For the year ended December 31, 2016, 2,732 options were exercised on a cash basis (2015 – 7,435 options).

Options outstanding and exercisable at December 31, 2016:

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	126,047	2.76	15.36	110,617	15.26
20.01-23.00	4,085,783	3.64	20.41	680,630	21.94
23.01-26.00	2,229,369	2.25	23.83	1,979,417	23.86
26.01-31.16	2,181,580	2.98	26.94	1,905,637	26.94
	8,622,779	3.10	22.91	4,676,301	24.63

(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, 2016, 944,738 (2015 – 944,738) voting shares of the Corporation were reserved for issuance under the KEP plan. For the year ended December 31, 2016, the Corporation settled 158,995 RSUs through the open market and nil RSUs with shares issued from treasury (December 31, 2015 – 216,107 and nil, respectively).

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

	2016		2015	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	278,140	24.09	391,030	20.99
Granted	122,919	19.96	96,686	26.32
Units, in lieu of dividends	6,415	21.78	6,846	25.00
Settled	(158,995)	23.21	(216,107)	19.51
Forfeited	(10,098)	23.72	(315)	23.98
Units outstanding, end of year	238,381	22.50	278,140	24.09

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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, 2016, 1,011,927 (2015 – 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, 2016, the Corporation settled 83,389 RSUs and 64,619 PSUs through the purchase of shares on the open market and nil through the issuance from treasury (December 31, 2015 – 77,318 and 107,658 and nil, respectively).

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

	2016				2015			
	RSUs		PSUs		RSUs		PSUs	
	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of year	222,720	24.04	302,887	24.79	179,890	19.85	321,620	20.88
Granted	100,798	20.35	203,666	20.12	144,636	24.41	142,092	26.12
Units, in lieu of dividends	5,864	21.78	9,007	21.87	3,332	23.65	6,032	24.28
Settled	(83,389)	22.65	(64,619)	22.10	(77,318)	15.23	(107,658)	15.61
Forfeited	(48,128)	23.55	(114,223)	23.72	(27,820)	23.28	(59,199)	23.41
Units outstanding, end of year	197,865	22.80	336,718	22.78	222,720	24.04	302,887	24.79

(f) Share-based payment expense

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

	2016	2015
Stock option plan	12,536	10,955
Key employee plan	2,341	2,700
Executive share unit plan	3,555	3,599
Total share-based payment expense	18,432	17,254

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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, 2016, 51,494 (2015 – 27,110) DSUs were granted, with \$1,992 (2015 – recapture of \$844) of expense included in salaries and benefits. During the year ended December 31, 2016, the Corporation settled 32,873 DSUs (2015 – 12,533). The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the cash-settled DSUs at December 31, 2016 is \$4,150 (2015 – \$3,275). At December 31, 2016, 180,125 (2015 – 160,872) DSUs are vested and outstanding. DSUs are redeemable upon the Director's retirement from the Board.

(h) Employee share purchase plan

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

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

The Corporation's share of the contributions in 2016 amounted to \$92,284 (2015 – \$86,776) and is recorded as compensation expense within salaries and benefits.

12. Dividends

During the year ended December 31, 2016, 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, 2016, the Corporation paid dividends totaling \$66,967 (2015 – \$69,711).

13. Earnings per share

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

	2016	2015
Weighted average number of shares outstanding – basic	120,257,581	125,101,235
Employee stock options	54,520	469,217
Key employee-RSUs	159,984	212,080
Executive-RSUs	81,976	87,982
Executive-PSUs	56,643	94,027
Weighted average number of shares outstanding – diluted	120,610,704	125,964,541

For the year ended December 31, 2016, 7,124,866 employee stock options (2015 – 2,489,570 options) were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

14. Finance cost

	2016	2015
Interest on long-term debt	65,768	51,998
Capitalized interest ⁽ⁱ⁾	(18,798)	-
Accretion on maintenance provisions	2,104	1,667
	49,074	53,665

(i) Relates to interest capitalized on deposits paid for Boeing and Bombardier aircraft yet to be delivered using a weighted average interest rate of 3.15%. Of the total amount capitalized for the twelve months ended December 31, 2016, \$8,197 relates to prior periods.

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15. Financial instruments and risk management

(a) Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, derivatives, 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, 2016 and 2015:

December 31, 2016	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⁾	1,623,471	–	–	–	1,623,471	1,623,471
Accounts receivable	–	–	127,785	–	127,785	127,785
Foreign exchange derivatives ⁽ⁱⁱ⁾	–	6,534	–	–	6,534	6,534
Interest rate derivatives ⁽ⁱⁱⁱ⁾	–	(7,672)	–	–	(7,672)	(7,672)
Cross-currency interest rate swap derivatives ^(iv)	–	15,158	–	–	15,158	15,158
Other deposits ^(v)	17,584	–	–	–	17,584	17,584
Accounts payable and accrued liabilities ^(vi)	–	–	–	(543,014)	(543,014)	(543,014)
Long-term debt ^(vii)	–	–	–	(2,046,658)	(2,046,658)	(1,971,965)
	1,641,055	14,020	127,785	(2,589,672)	(806,812)	(732,119)

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 ^(v)	26,675	–	–	–	26,675	26,675
Accounts payable and accrued liabilities ^(vi)	–	–	–	(540,912)	(540,912)	(540,912)
Long-term debt ^(vii)	–	–	–	(1,174,833)	(1,174,833)	(1,124,849)
	1,279,045	4,394	82,136	(1,715,745)	(350,170)	(300,186)

(i) Includes restricted cash of \$102,649 (December 31, 2015 – \$68,573).

(ii) Includes \$7,725 (December 31, 2015 – \$17,409) classified in prepaid expenses, deposits and other, and \$1,191 (December 31, 2015 – \$51) classified in accounts payable and accrued liabilities.

(iii) Includes \$3,285 (December 31, 2015 – \$4,475) classified in accounts payable and accrued liabilities, \$1,359 (December 31, 2015 – \$nil) classified in other long-term assets, and \$5,746 classified in other long-term liabilities (December 31, 2015 – \$8,489).

(iv) Includes \$601 (December 31, 2015 – \$nil) classified in prepaid expenses, deposits and other, and \$14,557 (December 31, 2015 – \$nil) classified in other long-term assets.

(v) Includes \$17,584 (December 31, 2015 – \$21,275) classified in prepaid expenses, deposits and other, and \$nil (December 31, 2015 – \$5,400) classified in other long-term assets.

(vi) Excludes foreign exchange derivative liabilities of \$1,191 (December 31, 2015 – \$51), and interest rate derivative liabilities of \$3,285 (December 31, 2015 – \$4,475).

(vii) Includes current portion of long-term debt of \$145,128 (December 31, 2015 – \$141,572) and long-term debt of \$1,901,530 (December 31, 2015 – \$1,033,261). The fair value of the long-term debt is determined by discounting the future contractual cash flows of principal and interest under the current financing arrangements using the Corporation's December 31, 2016 implied Corporate BBB- rate of 3.69% (December 31, 2015 – 3.95%) for a 5.45 year term (December 31, 2015 – 6.44 year term), equal to the weighted average remaining term of the Corporation's long term debt at December 31, 2016.

Notes to Consolidated Financial Statements

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15. Financial instruments and risk management (continued)

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

The following items shown in the consolidated statement of financial position at December 31, 2016 and 2015, are measured at fair value on a recurring basis and classified using level 1 or level 2 inputs. Level 1 inputs are defined as quoted prices in active markets while level 2 is defined as significant other observable inputs. There are no financial assets or liabilities classified as level 3 (significant unobservable inputs) in the fair value hierarchy.

December 31, 2016	Level 1	Level 2	Total
Asset (liability):			
Cash and cash equivalents	1,623,471	–	1,623,471
Foreign exchange derivatives	–	6,534	6,534
Interest rate derivatives	–	(7,672)	(7,672)
Cross-currency interest rate swap derivatives	–	15,158	15,158
Other deposits	17,584	–	17,584
	1,641,055	14,020	1,655,075

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

During the years ended December 31, 2016 and 2015, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

Cash and cash equivalents: Classified as level 1, these consist of bank balances and short-term investments, primarily highly liquid instruments, with terms up to 31 days. 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: Classified as level 2, these consist of foreign exchange forward contracts where the fair value of the forward contracts is measured based on the difference between the contracted rate and the current forward price.

At December 31, 2016, the weighted average contracted rate on the forward contracts was 1.3150 (December 31, 2015 – 1.3069) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.3414 (December 31, 2015 – 1.3830) Canadian dollars to one US dollar.

Interest rate derivatives: Classified as level 2, these consist of interest rate swap contracts that exchange a floating rate of interest with a fixed rate of interest. The fair value of the interest rate swaps is determined by measuring the difference between the fixed contracted rate and the forward curve for the applicable floating interest rates. At December 31, 2016, the Corporation's swap contracts have a weighted average fixed interest rate of 1.69% (December 31, 2015 – 1.69%). The December 31, 2016, weighted average floating forward interest rate was 1.32% (December 31, 2015 – 1.14%).

Cross-currency interest rate swap derivatives: Classified as level 2, these consist of fixed US dollar to fixed Canadian dollar uncollateralized cross-currency interest rate swap agreements to mitigate exposure to fluctuations in future cash flows that are attributable to foreign currency risk resulting from the issuance of US denominated long-term debt. The USD \$400,000 notional at 3.50% interest per annum was exchanged for CAD \$511,110 at a 3.56% weighted average interest per annum through the terms of the swaps, which match the 5-year maturity of the USD senior unsecured notes. These swaps have been designated as effective cash flow hedges. The fair value of the cross-currency interest rate swap contracts were determined by discounting the difference between the contracted prices and market based yield curves. These are classified as level 2.

Other deposits: Consist of security deposits related to airport operations deposits and are classified as level 1.

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15. Financial instruments and risk management (continued)

(b) Risk management related to financial instruments

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

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

Market risk

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

(i) Fuel price risk

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

The Corporation estimates that a one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$6.3 million on fuel costs. For the year ended December 31, 2016, aircraft fuel expense represented approximately 21% (2015 – 24%) of the Corporation's total operating expenses.

(ii) Foreign exchange risk

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

US dollar monetary assets and liabilities

The gain or loss on foreign exchange included in the Corporation's consolidated statement of earnings is mainly attributable to the changes and settlements in the value of the Corporation's US-dollar-denominated monetary assets and liabilities. At December 31, 2016, US-dollar-denominated net monetary liabilities totaled approximately US \$19,423 (2015 – US \$24,039).

The Corporation estimates that a one-cent change in the value of the US dollar versus the Canadian dollar at December 31, 2016, would have increased or decreased net earnings for the year ended December 31, 2016, by \$138 (2015 – \$170), as a result of the Corporation's US-dollar-denominated net monetary asset balance.

US-dollar aircraft leasing and vacation package hotel costs

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

At December 31, 2016, the Corporation has entered into foreign exchange forward contracts for an average of US \$21,078 (2015 – US \$19,011) per month for the period of January to December 2017 for a total of US \$252,934 (2015- period of January to December 2016 – US \$228,127) at a weighted average contract price of 1.3150 (2015 – 1.3069) Canadian dollars to one US dollar. The Corporation applies cash flow hedge accounting for certain foreign exchange hedges.

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15. 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	2016	2015
Fair value	Prepaid expenses, deposits and other	7,725	17,409
Fair value	Accounts payable and accrued liabilities	(1,191)	(51)
Unrealized gain	Hedge reserves (before tax)	2,476	15,770

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	2016	2015
Realized gain	Aircraft leasing	5,534	21,515
Realized gain/(loss)	Other revenue	(500)	608
Realized and unrealized gain	Gain on derivatives	4,504	1,765

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

	Statement presentation	2016	2015
Fair value	Prepaid expenses, deposits and other	601	-
Fair value	Other assets	14,557	-
Unrealized gain	Hedge reserves (before tax)	15,158	-

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

	Statement presentation	2016	2015
Realized gain	Finance cost	234	-

A one-cent change in the US-dollar exchange rate for the year ended December 31, 2016, would impact hedge reserves, net of taxes, by \$877 (2015 – \$1,349) and gain on derivatives, net of taxes, by \$973 (2015 – \$261) 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 \$2,753 (2015 – \$4,639) as a result of the Corporation's short-term investment activities.

Deposits

The Corporation is exposed to interest rate fluctuations on deposits related to airport operations, which, at December 31, 2016, totaled \$17,584 (2015 – \$26,675). A reasonable change in market interest rates at December 31, 2016, would not have significantly impacted the Corporation's net earnings due to the small size of these deposits.

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15. Financial instruments and risk management (continued)

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

Market risk (continued)

Long-term debt

The Corporation is exposed to interest rate risks arising from fluctuations in market interest rates on its variable-rate debt. The fixed-rate debt and interest rate swaps on the Corporation's long-term debt mitigate the impact of interest rate fluctuations over the term of the outstanding debt and therefore a change in interest rates at December 31, 2016, would not impact net earnings.

At December 31, 2016, the Corporation has entered into interest rate swaps with a weighted-average term of 7.1 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.

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	2016	2015
Fair value	Other assets	1,359	-
Fair value	Accounts payable and accrued liabilities	(3,285)	(4,475)
Fair value	Other liabilities	(5,746)	(8,489)
Unrealized loss	Hedge reserves (before tax)	(6,734)	(12,026)

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	2016	2015
Realized loss	Finance cost	3,882	3,515
Unrealized loss	Loss on derivatives	-	938

A change of 50 basis points in market interest rates at December 31, 2016, would impact hedge reserves, net of taxes, by \$5,583 (2015 – \$3,372) and gain on derivatives, net of taxes, by \$nil (2015 – \$3,829) 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, 2016, the Corporation's credit exposure consists primarily of the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other deposits and the fair value of derivative financial assets.

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

	2016	2015
Cash and cash equivalents ⁽ⁱ⁾	1,520,822	1,183,797
Restricted cash ⁽ⁱ⁾	102,649	68,573
Accounts receivable ⁽ⁱⁱ⁾	127,785	82,136
Other deposits ⁽ⁱⁱⁱ⁾	17,584	26,675
Derivative financial assets ^(iv)	24,242	17,409

(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 exposed to counterparty credit risk on its deposit relating to airport operations, however it considers this risk to be remote because of the nature and size of the counterparties.

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

There were no new bad debts recorded for the year ended December 31, 2016 (2015 – \$nil).

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15. 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, 2016. 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⁾	547,490	547,490	-	-	-
Derivative financial liabilities ⁽ⁱⁱ⁾	10,222	4,476	5,746	-	-
Long-term debt and interest	2,309,701	210,482	772,303	955,269	371,647
	2,867,413	762,448	778,049	955,269	371,647

(i) Excludes foreign exchange derivative liabilities of \$1,191 and interest rate derivative liabilities of \$3,285.

(ii) Derivative financial liabilities consist of foreign exchange forward contracts of \$1,191 and interest rate derivative contracts of \$9,031. The Corporation reports long-term interest rate derivatives at their net position. At December 31, 2016, net long-term interest rate derivative liabilities were \$5,746.

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, 2016, was \$626,635 (2015 – \$620,216). 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, 2016, the Corporation's current ratio was 1.21 (2015 – 0.97).

At December 31, 2016, the Corporation has not been required to post collateral with respect to any of its outstanding derivative contracts.



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16. Commitments

(a) Purchased aircraft and spare engines

At December 31, 2016, the Corporation is committed to purchase two 737 Next Generation aircraft for delivery in 2017 and 65 737 MAX aircraft for delivery between 2017 and 2027. The Corporation is also committed to purchase 11 Q400 NextGen aircraft for delivery between 2017 and 2018 and a total of nine Boeing and Bombardier spare engines for delivery between 2017 and 2026.

The remaining estimated deposits and delivery payments for the 78 aircraft and nine 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	666,935
1 – 3 years	1,162,964
3 – 5 years	737,172
Over 5 years	1,965,773
	<u>4,532,844</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, 2016, 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	241,707
1 – 3 years	323,926
3 – 5 years	179,442
Over 5 years	55,903
	<u>800,978</u>

(c) Letters of guarantee

At December 31, 2016, the Corporation has a revolving letter of credit facility totaling \$50,000 (December 31, 2015 – \$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, 2016, \$31,013 (December 31, 2015 – \$13,366) letters of guarantee were issued under the facility by assigning restricted cash.



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17. Related parties

(a) Interests in subsidiaries

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

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

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

(b) Interests in consolidated structured entities

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

(c) Interests in unconsolidated structured entities

The Corporation is a party to 17 Fuel Facility Corporations (FFCs) and three De-Icing Facility Corporations (DFCs) for the purpose of obtaining cost effective into-plane fuel services and aircraft de-icing services at select Canadian and US airports. These operating costs are recorded in aircraft fuel and other expenses, respectively, on the consolidated statement of earnings. At December 31, 2016, the Corporation has \$2,300 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, 2016, the 17 FFCs and three DFCs have combined total assets of approximately \$782,582 and liabilities of \$737,325. 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, 2016 and 2015.

	2016	2015
Salaries, benefits and other compensation ⁽ⁱ⁾	5,860	10,754
Share-based payment expense ⁽ⁱⁱ⁾	6,530	3,284
	12,390	14,038

(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, 2016 and 2015

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

18. Additional financial information

(a) Assets

	Note	2016	2015
Accounts receivable:			
Trade and industry ⁽ⁱ⁾		119,375	75,423
Other		10,707	9,081
Allowance		(2,297)	(2,368)
		127,785	82,136
Prepaid expenses, deposits and other:			
Prepaid expenses ⁽ⁱⁱ⁾		122,072	58,322
Short-term deposits ⁽ⁱⁱⁱ⁾		36,723	40,411
Maintenance reserves – current portion	8	13,727	15,190
Derivatives	15	8,326	17,409
Other		222	415
		181,070	131,747
Inventory:			
Fuel		14,892	16,700
Aircraft expendables		17,810	15,106
De-icing fluid		484	597
Other		349	3,615
		33,535	36,018
Other Assets:			
Aircraft deposits ^(iv)		41,173	50,881
Maintenance reserves – long term	8	16,823	19,261
Derivatives	15	15,916	-
Other ^(v)		21,456	19,800
		95,368	89,942

(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, maintenance services on owned and leased aircraft 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	2016	2015
Accounts payable and accrued liabilities:			
Trade and industry		450,249	449,766
Taxes payable		63,198	40,269
Derivatives	15	4,476	4,526
Other		29,567	50,877
		547,490	545,438
Other liabilities:			
Deferred contract incentives ⁽ⁱ⁾		2,628	5,114
Derivatives	15	5,746	8,489
		8,374	13,603

(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.

Corporate information

Board of Directors

Clive Beddoe,
Chair of the Board

Brad Armitage,
WEA Chair

Hugh Bolton,
Director

Ron Brenneman,
Director

Christopher Burley,
Vice Chair of the Board

Brett Godfrey,
Director

Allan Jackson,
Director

S. Barry Jackson,
Director

L. Jacques Ménard,
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

Mark Porter,
Executive Vice-President, People and Culture

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

Cameron Kenyon,
Executive Vice-President, Operations

Stock exchange listing

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

Investor relations contact information

Phone: 1-877-493-7853

Email: investor_relations@westjet.com

WestJet headquarters

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

Annual meeting

WestJet Airlines Ltd.'s annual meeting will be held at 10 a.m. (MT) on Tuesday, May 2, 2017, at WestJet's headquarters at 22 Aerial Place NE Calgary, Alberta 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