

# 2019 Second Quarter Report

**WESTJET** 



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

For the three and six months ended June 30, 2019 and 2018

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## Advisories

The following Management's Discussion and Analysis of Financial Condition and Operating Results (MD&A), dated July 26, 2019, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as WestJet's unaudited condensed consolidated interim financial statements and notes thereto for the three and six months ended June 30, 2019 and 2018, and our audited consolidated financial statements and notes thereto, for the years ended December 31, 2018 and 2017. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "WestJet," "the Corporation," "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 filed with Canadian securities regulatory authorities, is available on SEDAR at [sedar.com](http://sedar.com) and our website at [westjet.com](http://westjet.com).

### Cautionary statement regarding forward-looking information

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

The forward-looking information, including any financial outlook, contained in this MD&A, is provided to assist investors in understanding our assessment of WestJet's future plans, operations and expected results. The forward-looking information, including, without limitation, the disclosure found in the *Outlook* section in this MD&A may not be appropriate for other purposes and is expressly qualified by this cautionary statement. Please refer to page 25 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 as required in conjunction with filing our quarterly and annual MD&A and, except as required by law, we do not undertake to update any other forward-looking information.

### Non-GAAP and additional GAAP measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by Generally Accepted Accounting Principles (GAAP) and, therefore, are considered non-GAAP measures. These measures are provided to enhance the reader's overall understanding of our financial performance or current financial condition. These measures also provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and 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 28 of this MD&A for a reconciliation of non-GAAP measures, including cost per available seat mile (CASM), excluding fuel and employee profit share; return on invested capital (ROIC); free cash flow; diluted free cash flow per share; and diluted operating cash flow per share, and for a reconciliation of additional GAAP measures, including adjusted debt-to-equity; net debt to earnings before interest, taxes, depreciation, amortization and other items (EBITDA); adjusted EBITDA; and the cash to trailing 12 months (TTM) revenue ratio.

### Definitions

Various terms used throughout this MD&A are defined at page 26 under the title *Definition of key operating indicators*.

## About WestJet

WestJet is a Canadian airline, based in Calgary, Alberta, with expanding global operations. Through scheduled flights across a growing network, WestJet also operates WestJet Vacations, which provides air, hotel, car and excursion packages, WestJet Encore, a regional airline which operates a fleet of turboprop aircraft in a network of destinations in Canada and the United States, and Swoop, an ultra-low-cost carrier (ULCC), launched to provide affordable air transportation to the most price-sensitive travellers.

As of June 30, 2019, our airline offered scheduled service to over 100 destinations in North America, Central America, the Caribbean and Europe with our fleet of narrow-body and wide-body Boeing aircraft, Bombardier Q400 (Q400) aircraft and Saab 340B aircraft, operated under our capacity purchase agreement (CPA) with Pacific Coastal Airlines Ltd. (Pacific Coastal). When including connectivity provided through our airline partners, including our expanded codeshare agreements, we serve over 240 destinations. We will continue to build diversity and frequency in our network through portfolio management of our fleet.

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

Our 2022 vision for all WestJet employees focuses on three bold claims:

- We are team WestJet. WestJet is people powered.
- We are caring at our core. Air travel is better with WestJet.
- We are a global airline. Authentically Canadian. Uniquely WestJet.

This vision was co-created with WestJetters across the country and reflects our shared beliefs and values across the organization. Guiding us every day toward accomplishing our mission and vision are our core values of acting like an owner, caring from the heart, rising to the challenge and working together as one team.

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

## Financial and operational highlights

The financial and operational highlights for WestJet for the three and six months ended June 30, 2019 are as follows:

	Three months ended June 30			Six months ended June 30			
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change	
(\$ in thousands, except per share amounts and unless otherwise noted)							
Financial highlights	Revenue	1,212,920	1,087,573	11.5%	2,470,576	2,279,297	8.4%
	Operating expenses	1,170,951	1,095,723	6.9%	2,368,713	2,226,520	6.4%
	Earnings (loss) from operations	41,969	(8,150)	615.0%	101,863	52,777	93.0%
	Operating margin (per cent)	3.5%	(0.7%)	4.2 pts.	4.1%	2.3%	1.8 pts.
	Earnings (loss) before income taxes (EBT)	27,930	(21,639)	229.1%	92,311	27,647	233.9%
	EBT margin (per cent)	2.3%	(2.0%)	4.3 pts.	3.7%	1.2%	2.5 pts.
	Net earnings (loss)	44,279	(15,826)	379.8%	89,894	18,374	389.2%
	Earnings (loss) per share:						
	Basic	0.39	(0.14)	378.6%	0.79	0.16	393.8%
	Diluted	0.38	(0.14)	371.4%	0.78	0.16	387.5%
ROIC (per cent) <sup>(ii)</sup>	6.0%	4.4% <sup>(iii)</sup>	1.6 pts.	6.0%	4.4% <sup>(iii)</sup>	1.6 pts.	

	Three months ended June 30			Six months ended June 30			
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change	
Operational highlights	ASMs	8,145,063,263	7,921,730,038	2.8%	16,601,154,841	15,950,596,467	4.1%
	RPMs	7,098,936,014	6,645,800,451	6.8%	14,266,587,887	13,455,677,675	6.0%
	Load factor (per cent)	87.2%	83.9%	3.3 pts.	85.9%	84.4%	1.5 pts.
	Yield (cents)	17.09	16.36	4.5%	17.32	16.94	2.2%
	RASM (cents)	14.89	13.73	8.5%	14.88	14.29	4.1%
	CASM (cents)	14.38	13.84	3.9%	14.26	13.96	2.1%
	CASM, excluding fuel and employee profit share (cents) <sup>(ii)</sup>	10.66	10.06	6.0%	10.62	10.28	3.3%
	Fuel consumption (litres)	371,024,287	372,635,337	(0.4%)	758,106,871	755,514,347	0.3%
	Fuel costs per litre (cents)	81	81	—	79	77	2.6%
	Segment guests	6,493,802	6,276,226	3.5%	12,776,583	12,365,180	3.3%
	Average stage length (miles)	847	845	0.2%	870	870	—
	Departures	65,592	66,356	(1.2%)	130,470	129,542	0.7%
	Utilization (hours)	10.2	10.8	(5.6%)	10.5	11.1	(5.4%)
	Full-time equivalent employees at period end	11,905	11,468	3.8%	11,905	11,468	3.8%
	Fleet size at period end	181	173	4.6%	181	173	4.6%

(i) We adopted IFRS 16 *Leases* (IFRS 16) effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Please refer to page 23 for a description of the restatements performed under IFRS 16.

(ii) Please refer to page 28 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

(iii) This amount represents our restated ROIC as at December 31, 2018. Please refer to page 28 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

## Overview

Our 2019 second quarter financial results reported net earnings of \$44.3 million and diluted earnings per share of \$0.38. Total revenue increased by 11.5 per cent year over year, primarily due to the increase in guest revenue resulting from a record second quarter load factor and improved yield on flights, as compared to the same period in the prior year which was impacted by the threat of industrial action by labour groups in the process of negotiating their first collective bargaining agreement. Our operating margin improved to 3.5 per cent this quarter, from operating margin of negative 0.7 per cent in the second quarter of 2018, as a result of double-digit revenue growth which exceeded our increase in operating expenses in the period.

We returned approximately \$16.1 million to our shareholders through our dividend program in the second quarter of 2019. Since our dividend and share repurchase programs began in 2010, we have returned approximately \$1.2 billion dollars to our shareholders. Our 12-month ROIC of 6.0 per cent at June 30, 2019 represents an increase of 1.6 percentage points compared to our restated December 31, 2018 ROIC of 4.4 per cent.

We adopted IFRS 16 *Leases* (IFRS 16) effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16.

### Acquisition by Onex Corporation (Onex)

On May 13, 2019, we announced that we had entered into a definitive agreement that provides for WestJet's acquisition in an all-cash transaction. Under the terms of the agreement, Kestrel Bidco Inc., an affiliate of Onex will acquire all outstanding common voting shares and variable voting shares of WestJet for \$31.00 per share, subject to the terms and conditions of the agreement, after which WestJet will operate as a privately-held company. The proposed transaction is to be completed by way of a statutory plan of arrangement under Section 193 of the *Business Corporations Act* (Alberta) (the Arrangement). Completion of the Arrangement is subject to satisfaction of conditions to closing, including receipt of remaining regulatory approvals.

On June 24, 2019, we announced that we had received approval from the Minister of Transport (Canada) on the basis that the proposed Arrangement does not raise public interest issues as related to national transportation. On July 23, 2019, shareholders and optionholders were asked to consider, and if deemed advisable, to pass a special resolution approving the Arrangement. The special resolution in respect of the proposed Arrangement was approved by the requisite majorities in accordance with the interim order of the Court of Queen's Bench of Alberta on July 23, 2019. Assuming the timely receipt of remaining regulatory approvals, the Arrangement is expected to close in the latter part of 2019.

### WestJetters

We were pleased to announce on April 2, 2019, the ratification of a five-year compensation agreement with our WestJet and WestJet Encore aircraft maintenance engineers which is effective from May 1, 2019. Additionally, we announced that on May 18, 2019, WestJet flight dispatchers, represented by the Canadian Airline Dispatchers Association (CALDA), voted in favour of a three-year agreement, expiring in May 2022. This was followed by the ratification of a three-year agreement on May 22, 2019 by our WestJet Encore flight dispatchers, also represented by CALDA. Negotiations between WestJet and the Canadian Union of Public Employees (CUPE) on behalf of WestJet cabin crew members, excluding WestJet Encore, are ongoing. On May 3, 2019, CUPE was certified by the Canadian Industrial Relations Board as the bargaining agent for WestJet Encore cabin crew members, followed by their certification on June 11, 2019, to also represent cabin crew members at our ULCC, Swoop. Throughout our ongoing negotiations, WestJet remains committed to establishing labour agreements that reflect the hard work and valuable contributions of our various labour groups and that are beneficial for all parties involved.

As a result of the ongoing efforts and dedication of our more than 14,000 WestJetters we received the following recognition during the second quarter of 2019:

- Favourite overall airline and favourite leisure airline (Baxter Media's 20<sup>th</sup> annual Agents' Choice Awards);
- Favourite airline ultra-low-cost carrier winner was Swoop (Baxter Media's 20<sup>th</sup> annual Agents' Choice Awards);
- Top leisure airline (2019 TravelPulse Canada Readers' Choice Awards);
- Best low-cost airline in Canada (2019 Skytrax World Airline Awards); and
- Winner – Marketing (2019 Airline Strategy Awards).

## Guest experience and service enhancements

On June 20, 2019, we celebrated the first anniversary of our ULCC, Swoop, which provided ultra-low-cost flying to over one million travellers across a network that has grown from five destinations to 16 destinations spanning four countries, including the U.S., Jamaica and Mexico. Over the past year, Swoop has grown from an initial fleet of three high-density Boeing 737-800 series aircraft, to seven aircraft, with the most recent aircraft added in the second quarter of 2019. During the quarter, Swoop partnered with Google Flights to promote the visibility of Swoop's non-stop fares, which can now be booked through Google Flights as well as through Swoop's website.

In June 2019 we also celebrated our first full year of operations of WestJet Link, our regional air service operated under our capacity purchase agreement with Pacific Coastal. In the first full year of operations, WestJet Link has connected over 195,000 passengers between Cranbrook, Lethbridge, Lloydminster, Medicine Hat and Prince George to our largest hub in Calgary.

On May 24, 2019, the Canadian Transportation Agency (CTA) announced the finalization of the Air Passenger Protection Regulations which establish the minimum airline obligations and compensation regime for flight disruptions. These regulations come into effect in two stages, with certain requirements effective on July 15, 2019, and the remainder effective on December 15, 2019. We continue to work with Transport Canada and the CTA to ensure the implementation of the new regulations within the required timelines.

## Network expansion and fleet

In May 2019, we launched our inaugural transatlantic flight operated on our new Boeing 787-9 Dreamliner (Boeing 787) aircraft, delivered in the first quarter of 2019, between Calgary and London (Gatwick). During the second quarter of 2019, we expanded our Boeing 787 service to include additional transatlantic destinations with routes between Calgary and Paris commencing in May 2019 and Calgary to Dublin in June 2019. As part of our 2019/2020 winter schedule, we announced the expansion of our Boeing 787 schedule to include routes between Toronto and London (Gatwick), Calgary and Maui, as well as increased frequency of flights from Calgary to London (Gatwick). During the second quarter of 2019, we also launched our inaugural non-stop flight from Toronto to Barcelona, Spain, operated on our Boeing 767 wide-body aircraft.

As part of our 2019/2020 winter schedule, we announced new non-stop routes from our hub airports to several sun destinations, including Punta Cana, Cancun and Montego Bay. Additionally, Swoop added two new destinations in their winter schedule, Los Cabos, Mexico and San Diego, US.

We continue to revise our summer schedule through the end of August as a result of the ongoing closure of Canadian airspace for the Boeing MAX series aircraft impacting our fleet. Our contingency planning and proactive schedule adjustments enables us to reduce last minute flight cancellations and unexpected travel disruptions, providing assurance to our guests during the busy summer travel period.

On June 27, 2019, we announced that the proposed transborder joint venture arrangement between WestJet and Delta Air Lines (Delta) has received clearance under Canada's *Competition Act* from the Canadian Competition Bureau. The proposed joint venture is still subject to regulatory approval from the Department of Transportation in the United States. Upon receipt of all regulatory clearances or approvals the new joint venture will enable Delta and WestJet to deepen our existing partnership with expanded codesharing, reciprocal elite frequent flyer benefits, optimized growth across the U.S.-Canada transborder networks, and co-location at key hubs with initiatives designed to deliver a more seamless guest experience.

## Business development plans

We remain on track to reach our margin expansion target of \$120 million in 2019 as we continue to progress toward our annualized savings target of \$200 million by the end of 2020.

## Outlook

All 2019 financial guidance provided in our MD&A for the year ended December 31, 2018, as well as at our Investor Day in December 2018, was suspended following Transport Canada's safety notice closing Canadian airspace to Boeing MAX aircraft until further notice, the Federal Aviation Administration's temporary grounding order and Boeing's decision to suspend all Boeing MAX aircraft deliveries to customers. The financial guidance provided with respect to EPS, ROIC and cumulative free-cash flow from 2020 to 2022 remains in place until further information is known.

## Discussion of operations

### Capacity

For the three and six months ended June 30, 2019, our system capacity increased by 2.8 per cent and 4.1 per cent, respectively, over the same periods in 2018. These increases were primarily due to the addition of three Boeing 787 aircraft to our fleet during the first quarter of 2019 (please refer to the *Fleet* section on page 21 of this MD&A), and the impacts of the June 2018 launches of Swoop and WestJet Link.

The following tables depict our capacity allocation between our domestic and transborder and international markets for the three and six months ended June 30, 2019:

	Three months ended June 30				
	2019		2018		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	4,232,524,251	52.0%	4,395,839,882	55.5%	(3.7%)
Transborder and international	3,912,539,012	48.0%	3,525,890,156	44.5%	11.0%
<b>Total</b>	<b>8,145,063,263</b>	<b>100.0%</b>	<b>7,921,730,038</b>	<b>100.0%</b>	<b>2.8%</b>

	Six months ended June 30				
	2019		2018		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	7,484,022,598	45.1%	7,737,883,763	48.5%	(3.3%)
Transborder and international	9,117,132,243	54.9%	8,212,712,704	51.5%	11.0%
<b>Total</b>	<b>16,601,154,841</b>	<b>100.0%</b>	<b>15,950,596,467</b>	<b>100.0%</b>	<b>4.1%</b>

For the three and six months ended June 30, 2019, the year-over-year decreases in domestic capacity were driven by the closure of Canadian airspace for our 13 Boeing MAX aircraft, which comprise less than 10 per cent of our overall fleet, combined with previously planned capacity reductions allowing for the deployment of aircraft to higher yield markets. The impacts of the Boeing MAX groundings and planned capacity reductions were largely offset by capacity growth provided by Swoop and our WestJet Link service, both of which were fully operational throughout the first two quarters of 2019, following their respective launches in June 2018.

For the three and six months ended June 30, 2019, capacity growth within our transborder and international network was primarily driven by increased seasonal service to our transatlantic destinations in Europe, operated on our Boeing 787 aircraft added to our fleet in the first quarter of 2019, as well as the new route between Toronto and Barcelona which commenced in the second quarter of 2019 on our Boeing 767 widebody aircraft.

### Traffic

The following tables depict our traffic allocation between our domestic and transborder and international markets for the three and six months ended June 30, 2019:

	Three months ended June 30				
	2019		2018		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	3,597,811,619	50.7%	3,502,900,221	52.7%	2.7%
Transborder and international	3,501,124,395	49.3%	3,142,900,230	47.3%	11.4%
<b>Total</b>	<b>7,098,936,014</b>	<b>100.0%</b>	<b>6,645,800,451</b>	<b>100.0%</b>	<b>6.8%</b>



	Six months ended June 30				
	2019		2018		Change
	RPMs	% of total	RPMs	% of total	RPMs
Domestic	6,184,236,331	43.3%	6,071,232,512	45.1%	1.9%
Transborder and international	8,082,351,556	56.7%	7,384,445,163	54.9%	9.5%
<b>Total</b>	<b>14,266,587,887</b>	<b>100.0%</b>	<b>13,455,677,675</b>	<b>100.0%</b>	<b>6.0%</b>

For the three and six months ended June 30, 2019, our traffic, measured in RPMs, increased by 6.8 and 6.0 per cent, respectively, year over year, as compared to increases in capacity of 2.8 and 4.1 per cent, respectively. The proactive management of our flight schedules and implementation of comprehensive contingency plans throughout the period impacted by the closure of Canadian airspace to the Boeing MAX aircraft has provided us the ability to re-accommodate the majority of our guests on alternate flights and, when combined with the incremental domestic traffic generated by our Swoop and WestJet Link service, has resulted in a record second quarter load factor.

Domestic traffic growth outpaced capacity growth for both the second quarter and year to date 2019, resulting in regional load factor improvements in both periods, largely due to domestic routes operated by Swoop. The comparative periods were impacted by the threatened industrial action, which resulted in guests choosing to book with other airlines during the second quarter of 2018.

For the three and six months ended June 30, 2019, traffic growth within our transborder and international markets increased by 11.4 and 9.5 per cent, respectively, on capacity increases of 11.0 per cent for both comparative periods of 2018. The increase in transborder and international traffic, relative to capacity in the second quarter of 2019, was driven by strong demand across our network, resulting in load factor improvements in all regions. Additionally, load factor and traffic results for the second quarter of 2019 were favourably impacted by the timing of the spring holiday within the second quarter of 2019, as compared to its occurrence in the first quarter of 2018.

## Revenue

(\$ in thousands, unless otherwise noted)	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Guest revenue	1,163,239	1,039,317	11.9%	2,341,535	2,148,624	9.0%
Other revenue	49,681	48,256	3.0%	129,041	130,673	(1.2%)
<b>Total revenue</b>	<b>1,212,920</b>	<b>1,087,573</b>	<b>11.5%</b>	<b>2,470,576</b>	<b>2,279,297</b>	<b>8.4%</b>
RASM (cents)	14.89	13.73	8.5%	14.88	14.29	4.1%
Load factor (per cent)	87.2%	83.9%	3.3 pts.	85.9%	84.4%	1.5 pts.
Yield (cents)	17.09	16.36	4.5%	17.32	16.94	2.2%

During the second quarter of 2019, total revenue increased by 11.5 per cent to \$1,212.9 million compared to \$1,087.6 million in the same quarter of 2018. For the six months ended June 30, 2019, total revenue increased by 8.4 per cent to \$2,470.6 million compared to \$2,279.3 million in the same period of 2018. The increases in total revenue for the three and six months ended June 30, 2019, compared to 2018, were primarily driven by an increase in guest revenue due to an increased load factor and improved yield on flights, combined with higher ancillary revenues generated in the period.

On a per ASM basis for the three months ended June 30, 2019, revenue increased by 8.5 per cent to 14.89 cents, from 13.73 cents in the same quarter of 2018, while for the six months ended June 30, 2019, revenue on a per ASM basis increased by 4.1 per cent, to 14.88 from 14.29 in 2018. Revenue on an ASM basis increased during both periods of 2019 due to yield impact of our efforts to maintain travel demand in the face of threatened industrial action by our unionized labour groups and further downward pressure on fares as a result of increased competitive pressure and added industry capacity in the prior year.

### Guest revenue

Guest revenue is comprised of ticket sales for scheduled domestic and transborder and international flights, the air component of vacation packages, as well as ancillary revenues, such as fees associated with guest itinerary changes or cancellations, Premium and Business cabin upgrades, baggage fees, buy-on-board sales, pre-reserved seating fees and certain revenues related to our co-branded credit card program.

(\$ in thousands, unless otherwise noted)	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Guest revenue – domestic	618,110	565,692	9.3%	1,084,055	1,017,884	6.5%
Guest revenue – transborder and international	420,719	364,337	15.5%	1,006,950	911,990	10.4%
Ancillary revenue	124,410	109,288	13.8%	250,530	218,750	14.5%
<b>Total guest revenue</b>	<b>1,163,239</b>	<b>1,039,317</b>	<b>11.9%</b>	<b>2,341,535</b>	<b>2,148,624</b>	<b>9.0%</b>

Guest revenue for the three and six months ended June 30, 2019 increased to \$1,163.2 million and \$2,341.5 million, from \$1,039.3 million and \$2,148.6 million in the same periods of 2018, as a result of the year-over-year improvements in load factor and yield, combined with increased ancillary revenues.

Ancillary revenue provides an opportunity to sell higher-margin goods and services while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. The following table presents ancillary revenue and ancillary revenue per guest for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Ancillary revenue (\$ in thousands)	124,410	109,288	13.8%	250,530	218,750	14.5%
Ancillary revenue per guest (\$)	19.51	17.89	9.1%	19.98	18.22	9.7%

For the three and six months ended June 30, 2019, ancillary revenue was \$124.4 million and \$250.5 million, respectively, an increase of 13.8 and 14.5 per cent from \$109.3 million and \$218.8 million, respectively, in the same periods of the prior year. These increases were primarily attributable to the higher volume of guests travelling in the period, as well as increased ancillary revenues generated through Swoop's sale of unbundled fares.

On a per guest basis, ancillary fees for the three and six months ended June 30, 2019 increased by 9.1 per cent and 9.7 per cent to \$19.51 and \$19.98, respectively, per guest, from \$17.89 and \$18.22 per guest in 2018. These increases were primarily due to increased per guest spending on ancillary products and services on flights operated by Swoop.

### Other revenue

Included in other revenue are amounts related to WestJet Vacations' non-air revenue, cargo revenue, our charter operations, and the brand value licensing component of the co-brand credit card program. During the three months ended June 30, 2019, other revenue increased by 3.0 per cent to \$49.7 million, from \$48.3 million in 2018, primarily due to increased revenue generated by WestJet Vacations and our expanded cargo product offering, partially offset by decreased charter revenues.

WestJet Vacations continues to generate revenue which supports WestJet's overall network. The land component, which includes hotels, attractions and car rentals, is reported on the condensed consolidated statement of earnings at the net amount received. For both the three and six month periods ended June 30, 2019, WestJet Vacations' non-air revenue component of vacation packages reflected year-over-year increases primarily due to an increased number of travelling guests within the period relative to the prior year as well as improvement in the sales price of vacation package prices.

For the six months ended June 30, 2019, other revenue decreased 1.2 per cent to \$129.0 million, from \$130.7 million in 2018. This decrease was primarily due to a decrease in the number of flights operated under our charter program with Suncor Energy Inc. relative to the prior year, which more than offset year to date revenue increases in WestJet Vacations and cargo services.

## Expenses

	Expense (\$ in thousands)			CASM (cents)		
	Three months ended June 30			Three months ended June 30		
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Aircraft fuel	301,290	302,261	(0.3%)	3.70	3.82	(3.1%)
Salaries and benefits	267,119	247,659	7.9%	3.28	3.12	5.1%
Rates and fees	175,852	175,624	0.1%	2.16	2.22	(2.7%)
Depreciation and amortization	158,917	146,184	8.7%	1.95	1.85	5.4%
Sales and marketing	106,922	98,871	8.1%	1.31	1.25	4.8%
Maintenance	49,365	35,636	38.5%	0.61	0.45	35.6%
Other	109,945	92,745	18.5%	1.35	1.17	15.4%
Employee profit share	1,541	(3,257)	(147.3%)	0.02	(0.04)	(150.0%)
<b>Total operating expenses</b>	<b>1,170,951</b>	<b>1,095,723</b>	<b>6.9%</b>	<b>14.38</b>	<b>13.84</b>	<b>3.9%</b>
<b>Total, excluding fuel and employee profit share</b>	<b>868,120</b>	<b>796,719</b>	<b>9.0%</b>	<b>10.66</b>	<b>10.06</b>	<b>6.0%</b>

(i) We adopted IFRS 16 effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Please refer to page 23 for a description of the restatements performed under IFRS 16.

During the three months ended June 30, 2019, operating expenses increased by 6.9 per cent to \$1,171.0 million as compared to \$1,095.7 million in the same period in 2018. On an ASM basis, operating expenses increased by 3.9 per cent to 14.38 cents, from 13.84 cents in the same period in 2018. These increases were primarily due to increases in salaries and benefits expense, maintenance expense and other operating expenses.

	Expense (\$ in thousands)			CASM (cents)		
	Six months ended June 30			Six months ended June 30		
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Aircraft fuel	598,212	583,412	2.5%	3.60	3.66	(1.6%)
Salaries and benefits	536,695	502,784	6.7%	3.23	3.15	2.5%
Rates and fees	351,055	344,554	1.9%	2.11	2.16	(2.3%)
Depreciation and amortization	316,723	292,683	8.2%	1.91	1.83	4.4%
Sales and marketing	233,018	218,450	6.7%	1.40	1.37	2.2%
Maintenance	100,928	85,631	17.9%	0.61	0.54	13.0%
Other	225,292	195,879	15.0%	1.36	1.23	10.6%
Employee profit share	6,790	3,127	117.1%	0.04	0.02	100.0%
<b>Total operating expenses</b>	<b>2,368,713</b>	<b>2,226,520</b>	<b>6.4%</b>	<b>14.26</b>	<b>13.96</b>	<b>2.1%</b>
<b>Total, excluding fuel and employee profit share</b>	<b>1,763,711</b>	<b>1,639,981</b>	<b>7.5%</b>	<b>10.62</b>	<b>10.28</b>	<b>3.3%</b>

(i) We adopted IFRS 16 effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Please refer to page 23 for a description of the restatements performed under IFRS 16.

During the six months ended June 30, 2019, operating expenses increased by 6.4 per cent to \$2,368.7 million as compared to \$2,226.5 million in the same period in 2018. On an ASM basis, operating expenses for the six months ended June 30, 2019 increased by 2.1 per cent to 14.26 cents from 13.96 cents in the same period in 2018. These increases in the current year were driven by increased capacity combined with higher per ASM costs related to salaries and benefits expense, maintenance expense and other operating expenses.

## Aircraft fuel

	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Aircraft fuel expense (\$ in thousands)	301,290	302,261	(0.3%)	598,212	583,412	2.5%
Aircraft fuel expense as a percent of operating expenses	25.7%	27.6%	(1.9 pts.)	25.3%	26.2%	(0.9 pts.)
Fuel consumption (litres)	371,024,287	372,635,337	(0.4%)	758,106,871	755,514,347	0.3%
Fuel cost per litre (cents)	81	81	—	79	77	2.6%

Fuel is a significant cost, representing 25.7 per cent of total operating expenses for the three months ended June 30, 2019, and 25.3 per cent for the six months then ended, compared to 27.6 per cent and 26.2 per cent for the comparable periods in 2018. Aircraft fuel expense for the three months ended June 30, 2019 decreased by 0.3 per cent to \$301.3 million, from \$302.3 million in the same period of 2018, as a result of decreased flying of WestJet routes in the quarter, largely offset by Swoop, representing a full quarter of operations in 2019 compared to only 10 days of operations in the second quarter of 2018.

For the six months ended June 30, 2019, aircraft fuel expense increased 2.5 per cent to \$598.2 million, from \$583.4 million in the same period of 2018, primarily due to the impact of Swoop operating throughout both quarters of 2019.

For 2019, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US \$9.6 million annually for every one US dollar change per barrel of West Texas Intermediate crude oil. Additionally, we estimate our sensitivity of fuel costs to changes in fuel pricing for 2019 to be approximately \$15.3 million for every one-cent change per litre of fuel. We estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$8.1 million on fuel costs for 2019.

As at June 30, 2019, we have no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

## Salaries and benefits

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

(\$ in thousands, except FTE count)	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Salaries and benefits plans	236,299	217,619	8.6%	477,047	443,835	7.5%
Employee stock purchase plan	28,490	25,527	11.6%	53,848	50,558	6.5%
Share-based payment plans	2,330	4,513	(48.4%)	5,800	8,391	(30.9%)
<b>Total salaries and benefits</b>	<b>267,119</b>	<b>247,659</b>	<b>7.9%</b>	<b>536,695</b>	<b>502,784</b>	<b>6.7%</b>
Full-time equivalent employees (FTE)	11,905	11,468	3.8%	11,905	11,468	3.8%

Salaries and benefits expense for the three and six months ended June 30, 2019 was \$267.1 million and \$536.7 million, a \$19.5 million and \$33.9 million or 7.9 per cent and 6.7 per cent increase, respectively, from \$247.7 million and \$502.8 million in the same periods of 2018.

## Salaries and benefits plans

Compensation, including salary levels and participation in benefits plans are determined via a framework of job levels based on internal experience and external market data. During the three and six months ended June 30, 2019, salaries and benefits plans expense increased by 8.6 per cent and 7.5 per cent, respectively to \$236.3 million and \$477.0 million, from \$217.6 million and \$443.8 million in the same periods of 2018. These increases were due to annual merit increases effective during the quarter, the incremental costs associated with the collective bargaining agreement for WestJet mainline and Swoop pilots and the increase in our total number of full-time equivalent employees to 11,905 at June 30, 2019 (June 30, 2018 – 11,468) resulting primarily from hiring at Swoop, which commenced operations in the second quarter of 2018. Prior to the

commencement of operations, salaries and benefits costs incurred in relation to Swoop employees were recognized as start-up costs included in Other operating expenses, resulting in a year-over-year increase in salaries and benefits plans expense for 2019 when compared to the prior year.

### Employee stock 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 June 30, 2019, approximately 81.3 per cent (June 30, 2018 – 80.2 per cent) of our eligible active employees participated in the ESPP, contributing an average of 13.1 per cent (June 30, 2018 – 12.5 per cent) of their gross salaries. Under the terms of the ESPP, we acquire voting shares on behalf of employees through open market purchases. For the three and six months ended June 30, 2019, our matching expense was \$28.5 million and \$53.8 million, a 11.6 per cent and 6.5 per cent increase, respectively, from \$25.5 million and \$50.6 million in the same periods of 2018, largely driven by increases in the average share price of WestJet during the quarter, an increased number of eligible employees compared to the prior year, as well as an increase in the employee participation rate in the quarter.

### 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 three and six months ended June 30, 2019, share-based payment expense totaled \$2.3 million and \$5.8 million, representing a decrease of 48.4 per cent and 30.9 per cent, respectively, from the \$4.5 million and \$8.4 million recognized in the same periods of the prior year. The decrease in the expense related to share-based payment plans is primarily due to a decrease in the estimated number of PSUs expected to vest within the next two years as well as an adjustment for actual awards granted in the quarter compared to that which was previously estimated.

### Maintenance expense

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

	Expense (\$ in thousands)			CASM (cents)		
	Three months ended June 30					
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Technical maintenance	46,241	39,987	15.6%	0.57	0.50	14.0%
Maintenance provision	3,124	(4,351)	171.8%	0.04	(0.05)	180.0%
<b>Total maintenance</b>	<b>49,365</b>	<b>35,636</b>	<b>38.5%</b>	<b>0.61</b>	<b>0.45</b>	<b>35.6%</b>

	Expense (\$ in thousands)			CASM (cents)		
	Six months ended June 30					
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Technical maintenance	89,114	79,252	12.4%	0.54	0.50	8.0%
Maintenance provision	11,814	6,379	85.2%	0.07	0.04	75.0%
<b>Total maintenance</b>	<b>100,928</b>	<b>85,631</b>	<b>17.9%</b>	<b>0.61</b>	<b>0.54</b>	<b>13.0%</b>

(i) We adopted IFRS 16 effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Please refer to page 23 for a description of the restatements performed under IFRS 16.

Maintenance expense for the three and six months ended June 30, 2019 was \$49.4 million and \$100.9 million, an increase of \$13.7 million and \$15.3 million, or 38.5 per cent and 17.9 per cent, from \$35.6 million and \$85.6 million in the same periods

of 2018. On an ASM basis, for the three and six months ended June 30, 2019, our maintenance costs increased 35.6 per cent and 13.0 per cent, to 0.61 cents for both periods of 2019, from 0.45 cents and 0.54 cents during the same periods in 2018.

For the three and six months ended June 30, 2019, technical maintenance expense was \$46.2 million and \$89.1 million, a \$6.2 million and \$9.9 million or 15.6 per cent and 12.4 per cent increase from \$40.0 million and \$79.3 million in the same periods of 2018. For the three and six months ended June 30, 2019, technical maintenance cost per ASM was 0.57 cents and 0.54 cents, an increase of 14.0 per cent and 8.0 per cent, from 0.50 cents for both comparative periods of 2018. The year-over-year increase was attributable to the aging of our growing fleet, leading to an increased number of maintenance events compared to the prior year.

For the three and six months ended June 30, 2019, maintenance provision expenses relating to the future return costs of leased aircraft was \$3.1 million and \$11.8 million, a \$7.5 million and \$5.4 million increase, respectively, from a recovery of \$4.4 million and expense of \$6.4 million in the same periods of 2018. Maintenance provision costs per ASM for the three and six months ended June 30, 2019 were 0.04 cents and 0.07 cents, respectively, compared to a recovery of 0.05 cents and expense of 0.04 cents in the same periods of 2018. The year-over-year increase in maintenance provision expenses was mainly driven lower expenses in the 2018 comparative period which included a recovery of previously expensed amounts on remeasurement of the maintenance provision for executed lease extensions.

### Other operating expenses

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

	Expense (\$ in thousands)			CASM (cents)		
	Three months ended June 30					
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Travel and training	30,295	31,247	(3.0%)	0.37	0.39	(5.1%)
Technical support	20,851	17,780	17.3%	0.26	0.22	18.2%
General and administrative	42,959	27,169	58.1%	0.53	0.34	55.9%
Remaining other operating expenses	15,840	16,549	(4.3%)	0.19	0.22	(13.6%)
<b>Total other operating expenses</b>	<b>109,945</b>	<b>92,745</b>	<b>18.5%</b>	<b>1.35</b>	<b>1.17</b>	<b>15.4%</b>

	Expense (\$ in thousands)			CASM (cents)		
	Six months ended June 30					
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Travel and training	63,364	61,263	3.4%	0.38	0.38	—
Technical support	40,095	35,716	12.3%	0.24	0.22	9.1%
General and administrative	77,669	52,504	47.9%	0.47	0.33	42.4%
Remaining other operating expenses	44,164	46,396	(4.8%)	0.27	0.30	(10.0%)
<b>Total other operating expenses</b>	<b>225,292</b>	<b>195,879</b>	<b>15.0%</b>	<b>1.36</b>	<b>1.23</b>	<b>10.6%</b>

(i) We adopted IFRS 16 effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Please refer to page 23 for a description of the restatements performed under IFRS 16.

For the second quarter of 2019, other operating expense was \$109.9 million, a \$17.2 million or 18.5 per cent increase from \$92.7 million for the same period in 2018. Other operating expense per ASM was 1.35 cents for the three months ended June 30, 2019, an increase of 16.4 per cent from 1.17 cents in the same period of 2018. For the six months ended June 30, 2019, our other operating expense was \$225.3 million, a \$29.4 million or 15.0 per cent increase from \$195.9 million in 2018. On a per ASM basis, other operating expenses increased by 10.6 per cent to 1.36 cents from 1.23 cents in the first half of 2019. These increases were primarily driven by increasing general and administrative expenses.

For the three and six months ended June 30, 2019, general and administrative expenses increased to \$43.0 million and \$77.7 million, an increase of \$15.8 million and \$25.2 million, respectively, from \$27.2 million and \$52.5 million in the same periods of 2018, due primarily to increased professional fees related to significant ongoing projects and the increase in the valuation of the deferred share units based the market price of WestJet shares.

### *Employee profit share*

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost plan, employees receive larger awards when we are more profitable. Conversely, the amount distributed to employees is reduced in less profitable periods. Our profit share expense for the three months ended June 30, 2019 was \$1.5 million, an increase of \$4.8 million from a recovery of \$3.3 million in the same period of the prior year. Our profit share expense for the six months ended June 30, 2019, was \$6.8 million, an increase of \$3.7 million, from \$3.1 million in the same period of the prior year. The year-over-year increase is directly attributable to the increased earnings eligible for profit share in the first half of 2019 compared to the first half of the prior year.

### **Foreign exchange**

The gain or loss on foreign exchange included in our condensed consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary assets and liabilities. Monetary assets consist mainly of US dollar cash, cash equivalents and marketable securities, accounts receivable, security deposits on various leased aircraft and maintenance reserves paid to lessors, offset by monetary liabilities consisting of US dollar accounts payable and accrued liabilities, lease obligations recognized under IFRS 16 and maintenance provisions for leased aircraft. 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 June 30, 2019, US-dollar-denominated net monetary liabilities totaled approximately US \$548.2 million compared to restated net monetary liabilities of US \$385.9 million at December 31, 2018. The increase in US-dollar-denominated net monetary liabilities from December 31, 2018 is largely due to an increase in US-dollar-denominated lease obligations related to leases executed in the first quarter of 2019. During the three and six months ended June 30, 2019, our foreign exchange gain was \$16.9 million and \$23.6 million, respectively, compared to restated foreign exchange losses of \$5.7 million and \$12.8 million for the same periods of 2018. The gain on foreign exchange in the first half of 2019 was predominantly driven by an unrealized foreign exchange gain related to the revaluation of net-monetary liability balances at a lower period end US dollar foreign exchange rate compared to the rate in effect on December 31, 2018.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At June 30, 2019, 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 approximately US \$18.6 million per month for the period from July 2019 to June 2020, for a total of US \$223.5 million, at a weighted average contract price of 1.3250 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 or have not been designated as a hedging instrument. 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, or in the same period during which the hedged cash flow impacts earnings, 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 condensed 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 condensed consolidated statement of financial position at June 30, 2019 and December 31, 2018 and on the condensed consolidated statement of earnings for the three and six months ended June 30, 2019 and 2018.

(\$ in thousands)	Statement presentation	June 30	December 31
		2019	2018
<b>Statement of Financial Position:</b>			
Fair value	Prepaid expenses, deposits and other	309	13,113
Fair value	Accounts payable and accrued liabilities	(4,425)	(30)
Unrealized gain/(loss)	Hedge reserves (before tax)	(1,661)	11,888

(\$ in thousands)	Statement presentation	Three months ended June 30	
		2019	2018
<b>Statement of Earnings:</b>			
Realized gain/(loss)	Gain (loss) on foreign exchange <sup>(i)</sup>	936	(1,043)
Realized gain	Other revenue	532	563
Realized gain/(loss)	Gain (loss) on derivatives	37	(42)
Unrealized gain/(loss)	Gain (loss) on derivatives	(2,841)	13

(\$ in thousands)	Statement presentation	Six months ended June 30	
		2019	2018
<b>Statement of Earnings:</b>			
Realized gain/(loss)	Gain (loss) on foreign exchange <sup>(i)</sup>	2,526	(2,491)
Realized gain	Other revenue	1,930	1,423
Realized gain/(loss)	Gain (loss) on derivatives	(304)	22
Unrealized gain/(loss)	Gain (loss) on derivatives	(3,179)	13

(i) We adopted IFRS 16 effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Settlement of cash flow hedges of aircraft leasing payments, accounted for using hedge accounting, were previously recognized within Aircraft leasing line item of the statement of earnings. Please refer to page 23 for a description of the restatements performed under IFRS 16.

Additionally, we entered into fixed US dollar to fixed Canadian dollar uncollateralized cross-currency interest rate swap agreements (the cross-currency swaps) to mitigate our exposure to fluctuations in the Canadian to US dollar exchange rate on interest payments on the US-dollar-denominated notes (US Dollar Notes). The cross-currency swap terms are from June 16, 2016 to June 16, 2021, which matches the 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 was determined by discounting future cash flows over the remaining term of the swaps at market rates of interest and quoted foreign exchange rates.

The following table presents the financial impact and statement presentation of the cross-currency swaps on the condensed consolidated statement of financial position at June 30, 2019 and December 31, 2018 and on the condensed consolidated statement of earnings for the three and six months ended June 30, 2019 and 2018.

(\$ in thousands)	Statement presentation	June 30	December 31
		2019	2018
<b>Statement of Financial Position:</b>			
Fair value	Prepaid expenses, deposits and other	123	845
Fair value	Accounts payable and accrued liabilities	(32)	—
Fair value	Other assets	12,084	28,963
Fair value	Other liabilities	(15)	—
Unrealized gain/(loss)	Hedge reserves (before tax)	12,160	29,808

(\$ in thousands)	Statement presentation	Three and six months ended June 30	
		2019	2018
<b>Statement of Earnings:</b>			
Realized gain	Finance costs	281	181



For 2019, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of \$12.0 million on our annual unhedged operating costs (approximately \$8.1 million for fuel and \$3.9 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 June 30, 2019, we estimate every one-cent change in the value of the Canadian dollar versus the US dollar would have an approximate impact of \$29.6 million on our future US-dollar-denominated purchase obligations.

### Other non-operating expenses

During the three and six months ended June 30, 2019, we incurred \$10.4 million of non-operating costs related to the proposed acquisition of WestJet by Onex. These non-operating acquisition costs are comprised primarily of advisory and legal fees related to the review, evaluation and negotiation of the proposed transaction.

### Income taxes

For the three and six months ended June 30, 2019, we recognized an income tax recovery of \$16.3 million and expense of \$2.4 million, respectively, compared to a recovery of \$5.8 million and expense of \$9.3 million for the same periods of 2018. Our effective consolidated income tax rate for the three and six months ended June 30, 2019 was negative 58.5 per cent and positive 2.6 per cent, respectively, as compared to 26.9 per cent and 34.2 per cent for the comparative periods in 2018. The significant decrease in our effective tax rate in the quarter is mainly due to the \$25 million recovery attributable to the reduction in the Alberta corporate income tax rate substantively enacted in the period on the revaluation of our deferred tax liability. This resulted in a deferred income tax recovery amount in excess of current tax expense.

## Summary of quarterly results

	Three months ended			
	Jun. 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018
(\$ in thousands, except per share data)				
Total revenue	1,212,920	1,257,656	1,193,263	1,260,902
Net earnings	44,279	45,615	5,551	70,059
Basic earnings per share	0.39	0.40	0.05	0.61
Diluted earnings per share	0.38	0.40	0.05	0.61

	Three months ended			
	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017 <sup>(i)</sup>	Sep. 30 2017 <sup>(i)</sup>
(\$ in thousands, except per share data)				
Total revenue	1,087,573	1,191,724	1,119,079	1,214,624
Net earnings	(15,826)	34,200	47,806	135,937
Basic earnings per share	(0.14)	0.30	0.42	1.17
Diluted earnings per share	(0.14)	0.30	0.41	1.15

(i) The quarterly results for 2017 comparative periods have not been restated under IFRS 16 and are presented in accordance with previous IFRS standards.

Our business is seasonal in nature with varying levels of activity throughout the year. We experience increased domestic travel in the summer months (second and third quarters) and more demand for transborder and international sun destinations over the winter period (fourth and first quarters). With our transborder and international destinations, we have been able to partially alleviate the effects of seasonality on our net earnings. Our operating results could also vary from this trend as a result of changes in general economic conditions and consumer behaviour, among other things.

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

In the second quarter of 2019, we have returned to historical levels of profitability as a result of double-digit revenue growth combined with an increased focus on cost efficiency. We continue to focus on positioning our airline for successful expansion of our widebody service, with deliveries of our first three Boeing 787 aircraft during the first quarter of 2019 for service to a growing number of global destinations, enhancing our product and service offerings, including our WestJet Rewards program, to appeal to premium travellers across our network, and continued focus on enhancing our network through more frequent flight offerings at our primary domestic hub airports.

## Guest experience

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

### Key performance indicators

On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring the quality of our guest experience. The completion rate indicator represents the percentage of flights completed of the flights originally scheduled. Our mishandled bag ratio represents the number of delayed, lost, damaged or pilfered baggage claims made per 1,000 guests.

	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
On-time performance	83.9%	84.5%	(0.6 pts.)	78.2%	76.9%	1.3 pts.
Completion rate	99.2%	98.4%	0.8 pts.	97.9%	97.4%	0.5 pts.
Mishandled bag ratio	3.73	3.34	11.7%	4.45	4.62	(3.7%)

During the three months ended June 30, 2019, our on-time performance metric declined 0.6 percentage points over the same period of 2018 as a result of poor weather conditions in Calgary in the month of May as well as air traffic control staffing issues at one of our primary hub airports which impacted our performance. The slight increase in our on-time performance metric for the six months ended June 30, 2019 was due to overall improvement in weather conditions throughout the year as compared to the significant weather impacts in the first quarter of 2018. Despite the year-over-year decrease in our on-time performance, WestJet was ranked in the top three North American airlines throughout this quarter and was ranked the top performing major airline in North America in terms of on-time arrivals in the month of June 2019.

Our completion rate for the three and six months ended June 30, 2019 improved slightly compared to the same periods in 2018 and exceeded North American airline industry averages for the period. These results were driven by a decrease in weather related cancellations compared to the prior year.

Our mishandled bag ratio reflects an unfavourable 11.7 per cent increase for the three months ended June 30, 2019 compared to 2018. The increase in our mishandled bag ratio in the quarter was due to an increased volume of connecting baggage across our network, combined with the impacts on space and weight restrictions of our aircraft resulting from our record second quarter load factor. The improvement in our mishandled bag ratio for the six months ended June 30, 2019 is primarily due to the decreased number of weather related baggage issues in the first quarter of 2019 relative to the prior year.

## Liquidity and capital resources

### Liquidity

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. We completed the second quarter of 2019 with a cash, cash equivalents and marketable securities balance of \$1,569.0 million, compared to \$1,279.6 million at December 31, 2018. Through our revenue generating and cost saving initiatives, supplemented by available borrowings under our existing or new financing sources, including our \$400 million undrawn revolving credit facility, we expect to be able to generate sufficient cash in both the short and long-term to maintain our current capacity and support our future planned growth.

We use our working capital to settle our operating expenses, the current portion of long-term debt and lease obligations, payments of dividends and interest. In addition to our restricted cash requirements, detailed below, our contractual obligations and commitments (please refer to the *Contractual obligations and commitments* section in this MD&A on page 20) summarizes certain of our liquidity and working capital requirements as at June 30, 2019.

Our current ratio, defined as current assets over current liabilities, has decreased slightly to 0.74 as at June 30, 2019, compared to our restated current ratio of 0.76 at December 31, 2018, a decrease of 2.6 per cent, due primarily to the classification of both our \$400 million Canadian dollar senior unsecured notes and our \$243.6 million unsecured term loan as current liabilities due to their current maturity of July 2019 and January 2020, respectively. During the first quarter of 2019, we finalized the sale and leaseback of our first three Boeing 787 aircraft deliveries, the proceeds from which will help fund our capital commitment requirements for 2019. In the first quarter of 2019, a gain of \$13.8 million on the sale and leaseback transactions was recorded in the condensed consolidated statement of earnings in accordance with IFRS 16.

In addition to our cash, cash equivalents and marketable securities balance of \$1,569.0 million at June 30, 2019, we have available our undrawn revolving credit facility of \$400.0 million, totaling \$1,969.0 million in unrestricted liquidity (please refer to the section *Capital Resources* on page 19 of this MD&A). The following table lists our restricted cash balances as at June 30, 2019 and December 31, 2018.

	June 30 2019	December 31 2018	Change
Cash held in trust for WestJet Vacations Inc.	32,504	79,403	(46,899)
Security on facilities for letters of guarantee	35,011	34,684	327
Passenger facility charges	1,131	1,528	(397)
<b>Total restricted cash</b>	<b>68,646</b>	<b>115,615</b>	<b>(46,969)</b>

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

Our cash, cash equivalents and marketable securities balance includes cash collected with respect to advance ticket sales. At June 30, 2019, we had cash, cash equivalents and marketable securities on hand of 1.85 (December 31, 2018 – 1.84) times our advance ticket sales balance. With our cash, cash equivalents and marketable securities on hand we have sufficient liquidity to meet our liabilities, when due, under both normal and stressed conditions. We continue to evaluate our future financing needs based on internal requirements and preparations for upcoming maturities of existing debt in light of the proposed acquisition of WestJet by Onex.

We monitor capital and liquidity using a number of measures, including the following ratios:

	June 30 2019	December 31 2018 <sup>(i)</sup>	Change
Cash to TTM revenue <sup>(ii)</sup>	31.9%	27.0%	4.9 pts.
Adjusted debt-to-equity ratio	1.22	1.13	8.0%
Net debt to EBITDA	1.43	1.59	(10.1%)

(i) We adopted IFRS 16 effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16. Please refer to page 23 of this MD&A for a description of the restatements performed under IFRS 16 and page 28 for a reconciliation of non-GAAP and additional GAAP measures.

(ii) In addition to our cash and cash equivalents, as of June 30, 2019, we have available our entire \$400.0 million revolving credit facility that expires in June 2022 (please refer to the section *Capital Resources* found on page 19 of this MD&A). Available funds from the credit facility have not been included in this ratio.

As of June 30, 2019, our cash to TTM revenue ratio increased by 4.9 percentage points to 31.9 per cent from 27.0 per cent at December 31, 2018, which is consistent with our internal target of approximately 30 per cent. Our June 30, 2019 adjusted debt-to-equity ratio of 1.22 increased from 1.13 at December 31, 2018, primarily due to the increase in lease obligations recognized during the first quarter of 2019 related to the three Boeing 787 aircraft deliveries, financed through sale and

leaseback transactions. Our net debt to EBITDA ratio of 1.43 decreased from 1.59 at December 31, 2018 due primarily to increased net earnings in the period. These ratios continue to meet our internal threshold of not more than 2.5.

### Select cash flow information

(\$ in thousands)	Three months ended June 30			Six months ended June 30		
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Cash provided by operating activities	200,449	125,881	74,568	613,554	399,072	214,482
Less:						
Cash used by investing activities	(89,800)	(167,828)	78,028	(53,714)	(321,829)	268,115
Cash used by financing activities	(123,118)	(97,228)	(25,890)	(230,474)	(183,267)	(47,207)
<b>Cash flow from operating, investing and financing activities</b>	<b>(12,469)</b>	<b>(139,175)</b>	<b>126,706</b>	<b>329,366</b>	<b>(106,024)</b>	<b>435,390</b>
Effect of foreign exchange on cash and cash equivalents	(7,036)	6,400	(13,436)	(12,892)	13,631	(26,523)
Net change in cash and cash equivalents	(19,505)	(132,775)	113,270	316,474	(92,393)	408,867
<b>Cash and cash equivalents, beginning of period</b>	<b>1,521,785</b>	<b>1,187,458</b>	<b>334,327</b>	<b>1,185,806</b>	<b>1,147,076</b>	<b>38,730</b>
<b>Cash and cash equivalents, end of period</b>	<b>1,502,280</b>	<b>1,054,683</b>	<b>447,597</b>	<b>1,502,280</b>	<b>1,054,683</b>	<b>447,597</b>

(i) We adopted IFRS 16 Leases (IFRS 16) effective January 1, 2019 using the full retrospective transition method, and as such, certain comparative figures have been restated to conform with IFRS 16.

### Operating cash flows

For the quarter ended June 30, 2019, our cash flow provided by operating activities increased 59.2 per cent to \$200.4 million compared to \$125.9 million in the same quarter of the prior year. Similarly, on a diluted per share basis, for the quarter ended June 30, 2019, our cash flow provided by operating activities increased 56.4 per cent to \$1.72 per share compared to \$1.10 per share in the same period of the prior year (please refer to page 28 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures).

For the six months ended June 30, 2019, cash flow provided by operating activities increased 53.7 per cent to \$613.6 million compared to \$399.1 million in the same period of 2018. On a diluted per share basis, for the six months ended June 30, 2019, our cash flow provided by operating activities increased 53.0 per cent to \$5.31 per share compared to \$3.47 per share in the same period of the prior year. The year-over-year increases for both the three and six months ended June 30, 2019, compared to the same periods of 2018, was primarily due to the current year increase in earnings from operations and contributions from working capital.

### Investing cash flows

For the three and six months ended June 30, 2019, cash flow used by investing activities totaled \$89.8 million and \$53.7 million, respectively, as compared to \$167.8 million and \$321.8 million in the same periods of the prior year. The year-over-year decrease in cash outflows in both the three and six-month periods is the largely the result of reduced capital spending related to purchased aircraft and deposits on future deliveries. Additionally, included in the total cash used by investing activities for the six months ended June 30, 2019 are the proceeds received in the first quarter of 2019 related to the sale and leaseback of our first three Boeing 787 aircraft deliveries.

### Financing cash flows

For the three months ended June 30, 2019, our cash flow used by financing activities totaled \$123.1 million and \$230.5 million, respectively, compared to \$97.2 million and \$183.3 million in the same periods of 2018, due primarily to less proceeds received on financing of purchased aircraft as compared to 2018. Our financing activities in the second quarter of 2019 consisted mainly of cash outflows related to repayments of long-term debt and lease obligations of \$77.1 million, dividends paid of \$16.1 million and cash interest paid of \$25.5 million.

On adoption of IFRS 16, the repayment of lease obligations was reclassified from cash provided by operating activities to financing activities.

### *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 three and six months ended June 30, 2019, was \$85.7 million and \$538.3 million, respectively, compared to negative \$51.0 million and positive \$61.2 million in the same periods of the prior year. On a diluted per share basis, this equates to \$0.74 per share and \$4.66 per share for the three and six months ended June 30, 2019, compared to negative \$0.45 per share and positive \$0.53 per share in the same periods of the prior year. The increase for both the three and six months ended June 30, 2019 compared to the same periods of the prior year, is due to increased earnings combined with reduced capital expenditures for aircraft additions and, for the six months ended June 30, 2019, includes the receipt of proceeds on the sale and leaseback transaction in the first quarter of 2019.

Please refer to page 28 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

### **Capital Resources**

At June 30, 2019, we had secured loans financing 14 Boeing 737 NG aircraft and 45 Q400 aircraft with a remaining secured debt balance of \$729.5 million, net of transaction costs. This debt is financed in Canadian dollars and has no financial covenants associated with it. As of the date of this MD&A, we have a total of 78 unencumbered aircraft, representing over 40 per cent of our total fleet. This provides us with additional liquidity to manage our capital resource requirements through varying arrangements such as direct sales, leaseback agreements and the issuance of secured debt.

As at June 30, 2019, we have not drawn on our revolving credit facility and therefore the undisbursed portion of the credit facility was \$400 million, on which we pay a standby fee. Additionally, \$243.6 million of our four-year term credit facility, drawn using Canadian dollar bankers' acceptances, remained outstanding as at June 30, 2019. Interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on our corporate debt credit ratings. Both our revolving and non-revolving credit facilities contain two financial covenants: (i) minimum pooled asset coverage ratio of 1.5 to 1, and (ii) minimum fixed charge coverage ratio of 1.25 to 1. At June 30, 2019, the Corporation was in compliance with both ratios.

Additionally, at June 30, 2019, the present value of future lease payments associated with our aircraft, real estate and equipment lease contracts, was \$919.0 million (December 31, 2018 - \$547.0 million). Our total outstanding long-term debt and lease obligations balance at June 30, 2019 was \$2,813.6 million, net of transaction costs (December 31, 2018 - \$2,526.0 million).

On July 23, 2019, the \$400 million Canadian dollar senior unsecured notes matured and were repaid in full. The notes were subsequently cancelled.

### *Finance cost*

During the three and six months ended June 30, 2019, we incurred \$25.2 million and \$47.9 million in interest (three and six months ended June 30, 2018 - \$21.3 million and \$42.5 million) on our long-term debt and lease obligations. During the three and six months ended June 30, 2019, \$3.2 million and \$6.2 million of this interest was capitalized (June 30, 2018 - \$4.9 million and \$9.8 million) as it related to deposits paid for Boeing and Bombardier aircraft.

We mitigate the earnings impact of changing interest rates on our variable rate loans through our interest rate swap agreements to fix the interest rates over the term of the loans. At June 30, 2019, 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 condensed consolidated statement of financial position at June 30, 2019 and December 31, 2018 and on the condensed consolidated statement of earnings for the three and six months ended June 30, 2019 and 2018:

(\$ in thousands)	Statement presentation	June 30	December 31
		2019	2018
<b>Statement of Financial Position:</b>			
Fair value	Prepaid expenses, deposits and other	1,172	2,743
Fair value	Accounts payable and accrued liabilities	(1,044)	(504)
Fair value	Other assets	—	40
Fair value	Other liabilities	(2,327)	(1,150)
Unrealized gain	Hedge reserves (before tax)	(1,261)	2,067

(\$ in thousands)	Statement presentation	Three months ended June 30	
		2019	2018
<b>Statement of Earnings:</b>			
Realized gain/(loss)	Finance costs	407	51

(\$ in thousands)	Statement presentation	Six months ended June 30	
		2019	2018
<b>Statement of Earnings:</b>			
Realized gain/(loss)	Finance costs	974	(92)

The fair value of the interest rate swap agreements is measured based on the difference between the fixed swap rate and the forward curve for the applicable floating interest rates obtained from the counterparty, which can be observed and corroborated in the marketplace. In addition to the interest rate swap agreements, in June 2016, we also entered into a cross currency interest rate swap to fix the cash flow exposure to fluctuations in the foreign exchange rate on the notional and interest portions of the US Dollar Notes (please refer to the section called *Foreign exchange* on page 13).

### Credit ratings

Following the announcement of the proposed acquisition of WestJet by Onex in May 2019, Moody's Investors Service placed our senior unsecured ratings under review for possible downgrades. Similarly, Standard and Poor's Rating Services placed our ratings, including our 'BBB-' long-term corporate credit rating on credit watch with possible negative implications.

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 June 30, 2019, our contractual obligations and commitments are indicated in the following table. In the table, all US dollar amounts have been converted at the foreign exchange rate in effect at June 30, 2019 and presented in Canadian dollars.

(\$ in thousands)	Total	< 1 year	2 - 3 years	4 - 5 years	Over 5 years
Long-term debt and lease repayments <sup>(i)</sup>	3,129,208	979,780	1,050,929	406,996	691,503
Contractual commitments <sup>(ii)</sup>	168,879	62,694	87,338	14,920	3,927
Purchase obligations <sup>(iii)</sup>	3,874,766	768,503	1,396,552	861,480	848,231
<b>Total contractual obligations<sup>(iv)</sup></b>	<b>7,172,853</b>	<b>1,810,977</b>	<b>2,534,819</b>	<b>1,283,396</b>	<b>1,543,661</b>

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

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

(iii) Relates to obligations for our confirmed purchased aircraft deliveries for Boeing MAXs, Boeing 787-9s and spare engines.

(iv) Total contractual obligations exclude long-term liabilities, other than long-term debt and lease repayments, due to reasons of uncertainty of timing and amount of cash flows.

Our future US-dollar-denominated purchase commitments, including certain aircraft, are exposed to foreign exchange risk (please refer to the section *Foreign exchange* on page 13 of this MD&A). We plan to meet our contractual obligations and

commitments through our current cash, cash equivalents and marketable securities balance which include the proceeds from the sale and leaseback of our first three Boeing 787 aircraft combined with cash flows from operations and future sources of financing. We continuously monitor the capital markets and assess financing alternatives available to us for our future aircraft deliveries. At this time, we are not aware of, nor do we reasonably expect, adverse changes to our future ability to access similar or other generally available sources of liquidity.

## Contingencies

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

## Fleet

During the second quarter of 2019, we returned one leased Boeing 737-700 aircraft to end the quarter with a fleet of 181 aircraft with an average age of 8.3 years. The combination of our firm commitments and lease renewal options help us to optimize the size and age of our fleet. This provides us with the flexibility within our firm commitments to end 2027 with a fleet size between 193 and 232 aircraft, depending on future decisions to renew leases.

The following table illustrates our Boeing narrow body, Boeing wide body and Bombardier fleet as at June 30, 2019 and December 31, 2018 as well as our firm commitments through to 2027.

	Total		Future Deliveries						Total	
	Dec. 31, 2018	Jun. 30, 2019	Q3-Q4 2019	2020	2021	2022	2023-24	2025-27	Total	2027
<b>Boeing narrow-body aircraft</b>										
737-600 NG	13	13	—	—	—	—	—	—	—	13
737-700 NG <sup>(i)</sup>	54	53	—	—	—	—	—	—	—	53
737-800 NG <sup>(ii)</sup>	48	48	—	—	—	—	—	—	—	48
737 MAX 7 <sup>(iii)(iv)</sup>	—	—	—	—	1	1	6	14	22	22
737 MAX 8 <sup>(iii)(iv)(v)</sup>	11	13	2	2	4	2	—	—	10	23
737 MAX 10 <sup>(iii)(iv)</sup>	—	—	—	—	—	6	5	1	12	12
<b>Boeing wide-body aircraft</b>										
767-300 ERW	4	4	—	—	—	—	—	—	—	4
787-9 Dreamliner <sup>(iii)(vi)</sup>	—	3	—	3	4	—	—	—	7	10
<b>Total Boeing aircraft</b>	<b>130</b>	<b>134</b>	<b>2</b>	<b>5</b>	<b>9</b>	<b>9</b>	<b>11</b>	<b>15</b>	<b>51</b>	<b>185</b>
Lease expiries	—	—	(1)	(4)	(11)	(4)	(13)	(4)	(37)	(37)
<b>Boeing aircraft after lease expiries</b>	<b>130</b>	<b>134</b>	<b>1</b>	<b>1</b>	<b>(2)</b>	<b>5</b>	<b>(2)</b>	<b>11</b>	<b>14</b>	<b>148</b>
<b>Bombardier</b>										
Q400 NextGen <sup>(vii)</sup>	47	47	—	—	—	—	—	—	—	47
Lease expiries	—	—	—	—	—	—	—	(2)	(2)	(2)
<b>Bombardier aircraft after lease expiries</b>	<b>47</b>	<b>47</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(2)</b>	<b>(2)</b>	<b>45</b>
<b>Fleet before lease expiries</b>	<b>177</b>	<b>181</b>	<b>2</b>	<b>5</b>	<b>9</b>	<b>9</b>	<b>11</b>	<b>15</b>	<b>51</b>	<b>232</b>
<b>Fleet after lease expiries</b>	<b>177</b>	<b>181</b>	<b>1</b>	<b>1</b>	<b>(2)</b>	<b>5</b>	<b>(2)</b>	<b>9</b>	<b>12</b>	<b>193</b>

(i) At June 30, 2019, of the 53 Boeing 737-700NG series aircraft in our fleet, 24 are leased (Dec. 31, 2018 – 25) and 29 are owned (Dec. 31, 2018 – 29).

(ii) At June 30, 2019, of the 48 Boeing 737-800NG series aircraft in our fleet, 14 are leased (Dec. 31, 2018 – 14) and 34 are owned (Dec. 31, 2018 – 34).

(iii) We have options to purchase an additional 17 Boeing 737 MAX aircraft and an additional 10 Boeing 787 aircraft between the years 2021 and 2026.

(iv) WestJet's Boeing 737 MAX 7 and MAX 8 aircraft orders can each be substituted for the other model of aircraft, or, beginning in 2022, for Boeing 737 MAX 10 aircraft.

(v) At June 30, 2019, of the 13 Boeing 737 MAX 8 series aircraft in our fleet, one is leased (Dec. 31, 2018 - nil) and 12 are owned (Dec. 31, 2018 - 11)

(vi) At June 30, 2019, all three of our Boeing 787 Dreamliner aircraft are leased.

(vii) At June 30, 2019, of the 47 Bombardier Q400 aircraft in our fleet, 2 are leased (Dec. 31, 2018 – 2) and 45 are owned (Dec. 31, 2018 – 45).

A total of three Saab 340B aircraft are also operated by Pacific Coastal, on behalf of WestJet, under a capacity purchase agreement.

## Off balance sheet arrangements and related-party transactions

### Fuel and de-icing facility corporations

We are a contracted party to 20 fuel facility arrangements and three de-icing facility arrangements whereby we participate under contract in Fuel Facility Corporations (FFCs) and De-icing Facility Corporations (DFCs), along with other airlines, to obtain fuel services and de-icing services at major Canadian and US airports. The FFCs and DFCs operate on a cost-recovery basis. The purpose of these corporations is to own and finance the systems that distribute fuel and de-icing fluid, to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including the debt service requirements, of the FFCs and DFCs are shared pro rata among the contracting airlines. These FFCs and DFCs are not consolidated within our accounts. In the remote event that all other contracting airlines withdraw from the arrangements and we remained as sole member, we would be responsible for the costs of the FFCs and DFCs, including debt service requirements. As at the date of this MD&A, these corporations have combined total assets of approximately \$1,066.3 million and liabilities of approximately \$1,091.1 million, based on the FFCs and DFCs' most recently completed financial reports.

### Related-party transactions

At June 30, 2019, 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:

	June 30, 2019	July 24, 2019
<b>Total voting shares issued and outstanding<sup>(i)</sup></b>	<b>115,529,391</b>	<b>115,539,928</b>
Stock options	5,488,085	5,249,303
RSUs – Key employee and pilot plan	624,622	620,857
RSUs – Executive share unit plan	268,387	268,387
PSUs – Executive share unit plan	460,521	460,521
<b>Total voting shares potentially issuable</b>	<b>6,841,615</b>	<b>6,599,068</b>
<b>Total outstanding and potentially issuable voting shares</b>	<b>122,371,006</b>	<b>122,138,996</b>

(i) At June 30, 2019, 69,879,500 common voting shares were outstanding and 45,649,891 variable voting shares were outstanding.

### Quarterly dividend

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 July 26, 2019, our Board of Directors declared our 2019 third quarter dividend of \$0.14 per common voting share and variable voting share payable on September 30, 2019 to shareholders of record on September 11, 2019. This remains consistent with the \$0.14 per share dividend declared and paid during the second quarter of 2019.

## Accounting

### Critical accounting judgments and estimates

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated interim financial statements are described in WestJet's 2018 annual MD&A and annual consolidated financial statements for the year ended December 31, 2018. The preparation of consolidated financial statements in conformity with GAAP requires management to make both 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.

Other than judgments and estimates relating to the adoption of IFRS 16 during the period, described in Note 1 of the condensed consolidated interim financial statements, there have been no material changes to our critical accounting estimates and judgments during the three and six months ended June 30, 2019.

### **IFRS adopted in period**

In January 2016, the IASB issued IFRS 16, effective for annual and interim reporting periods beginning on or after January 1, 2019. This standard eliminates the classification of leases as either operating leases or finance leases for a lessee, and instead, all leases are capitalized by recognizing the present value of lease payments and presenting them as either leased assets or together with property and equipment. The service component of a lease agreement must be separated from the value of the asset and thus not reported on the statement of financial position; however, there is a practical expedient to combine lease and non-lease components. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease obligation. Lease obligations do not include variable lease payments other than those that depend on an index or rate. Entities have the option of using the full retrospective approach or a modified retrospective approach on transition to IFRS 16.

We adopted IFRS 16 at the required effective date of January 1, 2019, using the full retrospective transition method, and have restated 2018 comparative periods presented from that which was previously reported. The changes to our accounting policies and reconciliation of the adjustments to our condensed consolidated statement of financial position and condensed consolidated statement of earnings as a result of the application of IFRS 16, from those previously presented under prior IFRS standards, can be found in notes 1 and 2 of the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019.

We have elected to apply the recognition exemptions for all asset categories to short-term leases and leases for which the underlying asset is of low value. In addition, we have elected not to separate non-lease components from lease components for real estate leases. Instead, we have accounted for each lease component and any associated non-lease components as a single lease component. For all leases that have not been covered by these recognition exemptions described above, WestJet has recognized right-of-use assets and lease obligations measured under IFRS 16.

As at January 1, 2018, WestJet had 41 leased aircraft classified as operating leases as well as leased aircraft operated under our capacity purchase agreement with Pacific Coastal. Additionally, we have real estate contracts for leased office space at airports, land leases, storage space, hangar storage space, parking space and leased space for corporate head offices. Many of the real estate contracts have early termination and extension options that we have considered in assessing each respective lease term. Effective January 1, 2018, the present value of the future operating lease payments for aircraft, real estate and other qualifying operating lease arrangements were recognized as right-of-use assets and lease obligations in the statement of financial position. Additionally, certain qualifying mid-life maintenance events performed on leased aircraft that were previously provided for and recognized as maintenance expense have been capitalized as leasehold improvements under IFRS 16. Other assets and liabilities were adjusted on transition to remove the accounting impact of deferred rent and other lease incentives accounted for under previous IFRS guidance to reflect the right-of-use asset and lease obligation measurement requirements of IFRS 16.

As at January 1, 2018, the adoption of IFRS 16 resulted in a decrease in retained earnings of \$55.9 million due to the cumulative impact of unrealized losses on foreign exchange on the revaluation of US-dollar-denominated lease obligations. Additionally, as certain components of right-of-use assets relating to aircraft leases are depreciated over the shorter of the lease term and useful life, the value of these right-of-use assets at the date of adoption was lower than the present value of remaining lease payments.

Upon adoption of IFRS 16, qualifying operating leases are no longer expensed as aircraft leasing expense or other operating expenses. These lease contracts are now being recognized as right-of-use assets which are depreciated and a lease obligation liability which now includes a portion of the lease payments being recognized as finance costs. Certain lease contracts that are short-term or are comprised of variable lease payments and do not meet the criteria for recognition as a lease in the statement of financial position continue to be expensed on a straight-line basis over the lease term and presented in other operating expenses.

The lease obligations recognized under IFRS 16 are monetary liabilities of which the majority are denominated in US dollars, which differs from our Canadian dollar reporting currency. This results in increased volatility in the measurement of the lease obligations on the statement of financial position, as well as the gain (loss) on foreign exchange line item in the statement of earnings due to the remeasurement of these liabilities at the foreign exchange rate in effect at the end of each reporting period.

In the statement of cash flows, repayments of lease obligations have been reclassified from operating cash flow to financing cash flow in accordance with IFRS 16.

The condensed consolidated interim financial statements for the three and six months ended June 30, 2019 include the additional disclosures required under IFRS 16 as they relate to our portfolio of leases as well as the revision to Note 15 Commitments in such financial statements to exclude future lease payments related to leased aircraft, real estate contracts and leased equipment as these payments have been recognized as lease obligations in the statement of financial position on adoption of IFRS 16.

The following table summarizes the impact of IFRS 16 on certain key financial ratios and operational performance metrics:

(\$ in thousands, except ratio and per share amounts)	Three months ended June 30, 2018		
	Previously reported	Restated IFRS 16	Change
<b>Financial ratios and operational performance metrics</b>			
CASM (cents)	14.08	13.84	(1.7%)
CASM, excluding fuel and employee profit share (cents)	10.30	10.06	(2.3%)
Free cash flow	(97,749)	(50,970)	46,779
Diluted free cash flow per share	(0.86)	(0.45)	47.7%
Current ratio	0.97	0.91	(6.2%)

(\$ in thousands, except ratio and per share amounts)	Six months ended June 30, 2018		
	Previously reported	Restated IFRS 16	Change
<b>Financial ratios and operational performance metrics</b>			
CASM (cents)	14.12	13.96	(1.1%)
CASM, excluding fuel and employee profit share (cents)	10.44	10.28	(1.5%)
Free cash flow	(14,044)	61,151	75,195
Diluted free cash flow per share	(0.12)	0.53	541.7%
Current ratio	0.97	0.91	(6.2%)

(\$ in thousands, except ratio and per share amounts)	Twelve months ended December 31, 2018		
	Previously reported	Restated IFRS 16	Change
<b>Financial ratios and operational performance metrics</b>			
CASM (cents)	13.90	13.76	(1.0%)
CASM, excluding fuel and employee profit share (cents)	10.11	9.98	(1.3%)
Adjusted debt	3,026,730	2,525,960	(500,770)
Adjusted equity	2,295,711	2,242,291	(53,420)
Adjusted debt-to-equity	1.32	1.13	(14.4%)
Adjusted net debt	1,747,153	1,246,383	(500,770)
EBITDA	728,885	784,172	55,287
Adjusted net debt-to-EBITDA	2.40	1.59	(33.8%)
Free cash flow	128,675	285,403	156,728
Diluted free cash flow per share	1.12	2.49	122.3%
Current ratio	0.78	0.76	(2.6%)
ROIC	5.0%	4.4%	(0.6 pts.)

Please refer to page 28 of this MD&A for a reconciliation of the non-GAAP measures and additional GAAP measures.

The financial ratios in the tables above have been restated to reflect the application of IFRS 16 on a full retrospective method of adoption. The previous reported measures, such as adjusted debt, adjusted net debt, and ROIC, included adjustments to the related financial statement line items to reflect the estimated impact of off-balance sheet lease contracts. On application of IFRS 16, the actual impact of accounting for these contracts as lease obligations on the statement of position was determined to be lower than the estimated impact, resulting in a decrease to the adjusted debt measure after restatement.

### Future accounting pronouncements

As at the date of this MD&A, there have been no accounting pronouncements issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are applicable to WestJet and have effective dates subsequent to the current reporting period.

## Controls and procedures

### Disclosure controls and procedures (DC&P)

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

### Internal control over financial reporting (ICFR)

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

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

The CEO and the CFO have concluded that there were no changes in our ICFR during the interim period ended June 30, 2019 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
We will continue to build diversity and frequency in our network through portfolio management of our fleet.	Based on our strategic plan and network planning as well as aircraft delivery schedules.	<i>About WestJet</i>	2
Our expectation concerning the receipt of regulatory approvals on the Arrangement and the anticipated closing of the transaction.	Regulatory approval will be received in a timely manner.	<i>Acquisition by Onex Corporation</i>	4
The approval of the joint venture with Delta will deepen our existing partnership with expanded	Regulatory approval from the Department of Transportation in the	<i>Network expansion and fleet</i>	5

codesharing, reciprocal elite frequent flyer benefits, optimized growth across the U.S.-Canada transborder networks, and co-location at key hubs with initiatives designed to deliver a more seamless guest experience.	United States will be received in a timely manner.		
Our estimate of our sensitivity of fuel costs to changes in crude oil and sensitivity to changes in fuel pricing to the change in the value of the Canadian dollar versus of the US dollar.	Forecasted jet fuel prices of US \$85 per barrel for the third quarter of 2019. Average foreign exchange rate of approximately 1.31 Canadian dollars to one US dollar.	<i>Aircraft fuel</i>	10
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>	10
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.	Average foreign exchange rate of approximately 1.31 Canadian dollars to one US dollar.	<i>Foreign exchange</i>	13
Our expectation that we will generate sufficient cash in both the short and long-term to maintain our current capacity and fund our future planned growth, as well as generate positive free cash flow.	Based on our current business strategy and forecasted performance.	<i>Liquidity</i>	16
Our plan to meet contractual obligations and commitments through our current cash, cash equivalents and marketable securities balance.	Based on our current business strategy and forecasted performance.	<i>Contractual obligations and commitments</i>	20
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.	Based on our current legal counsel assessment.	<i>Contingencies</i>	21

## 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 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.

**Net debt:** Long-term debt and lease obligations less cash and cash equivalents. This measure is used in the calculation of net debt to EBITDA, as defined below.

**EBITDA:** Earnings before net finance costs, taxes, depreciation and amortization and other items, such as asset impairments, gains and losses on derivatives, and foreign exchange gains or losses. TTM EBITDA 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. The impact of gains and losses on derivatives and foreign exchange gains and losses have also been adjusted in our calculation of this measure, as these impacts are not able to be controlled by management nor are reflective of our core operating performance.

**Cash to TTM of revenue:** Cash as a percentage of the TTM 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 relative to those of other airlines.

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

**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:** Free cash flow divided by the diluted weighted average number of shares outstanding. This metric measures our ability to generate operating cash flows after capital expenditures on a per share basis. This metric can be used as a proxy for earnings per share and reflects WestJet's solvency and ability to repay debt, pay dividends, and buy back stock.

**Diluted operating cash flow per share:** Cash flow from operations divided by diluted weighted average shares outstanding. Measures our financial strength and our ability to generate cash from our operations on a per share basis.

## Reconciliation of non-GAAP and additional GAAP measures

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

### CASM, excluding fuel and employee profit share

(\$ in thousands)	Three months ended June 30			Six months ended June 30		
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Operating expenses	1,170,951	1,095,723	75,228	2,368,713	2,226,520	142,193
Aircraft fuel expense	(301,290)	(302,261)	971	(598,212)	(583,412)	(14,800)
Employee profit share expense	(1,541)	3,257	(4,798)	(6,790)	(3,127)	(3,663)
<b>Operating expenses, excluding fuel and employee profit share</b>	<b>868,120</b>	<b>796,719</b>	<b>71,401</b>	<b>1,763,711</b>	<b>1,639,981</b>	<b>123,730</b>
ASMs	8,145,063,263	7,921,730,038	2.8%	16,601,154,841	15,950,596,467	4.1%
<b>CASM, excluding above items (cents)</b>	<b>10.66</b>	<b>10.06</b>	<b>6.0%</b>	<b>10.62</b>	<b>10.28</b>	<b>3.3%</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

### CASM, excluding fuel and employee profit share

The table below presents our restated CASM, excluding fuel and employee profit share measure for the 12 months ended December 31, 2018, as a result of the application of IFRS 16, as well as the measure which was previously presented in our 2018 annual MD&A.

(\$ in thousands)	Twelve months ended December 31		
	2018 <sup>(i)</sup>	2018	Change
Operating expenses	4,533,970	4,578,235	(44,265)
Aircraft fuel expense	(1,231,632)	(1,231,632)	—
Employee profit share expense	(15,937)	(15,937)	—
<b>Operating expenses, adjusted</b>	<b>3,286,401</b>	<b>3,330,666</b>	<b>(44,265)</b>
ASMs	32,939,257,510	32,939,257,510	—
<b>CASM, excluding above items (cents)</b>	<b>9.98</b>	<b>10.11</b>	<b>(1.3%)</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

### Adjusted debt-to-equity

(\$ in thousands)	June 30 2019	December 31 2018 <sup>(i)</sup>	Change
<b>Long-term debt and lease obligations<sup>(ii)</sup></b>	<b>2,813,609</b>	<b>2,525,960</b>	<b>287,649</b>
Total shareholders' equity	2,300,283	2,249,147	51,136
Add: Hedge reserves	2,444	(6,856)	9,300
<b>Adjusted equity</b>	<b>2,302,727</b>	<b>2,242,291</b>	<b>60,436</b>
<b>Adjusted debt-to-equity</b>	<b>1.22</b>	<b>1.13</b>	<b>8.0%</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

(ii) At June 30, 2019, long-term debt includes the current portion of long-term debt and lease obligations of \$897,250 (December 31, 2018 – \$675,953) and long-term debt and lease obligations of \$1,916,359 (December 31, 2018 – \$1,850,007).

### Net debt to EBITDA<sup>(i)</sup>

(\$ in thousands)	June 30 2019	December 31 2018 <sup>(ii)</sup>	Change
Long-term debt and lease obligations	2,813,609	2,525,960	287,649
Less: Cash and cash equivalents	(1,568,967)	(1,279,577)	(289,390)
<b>Adjusted net debt</b>	<b>1,244,642</b>	<b>1,246,383</b>	<b>(1,741)</b>
Trailing 12 months net earnings	165,505	93,984	71,521
Add:			
Net finance costs <sup>(iii)</sup>	59,211	38,090	21,121
Taxes	38,484	45,341	(6,857)
Depreciation and amortization	604,671	580,630	24,041
Other <sup>(iv)</sup>	3,583	26,126	(22,543)
<b>EBITDA</b>	<b>871,454</b>	<b>784,171</b>	<b>87,283</b>
<b>Adjusted net debt to EBITDA<sup>(v)</sup></b>	<b>1.43</b>	<b>1.59</b>	<b>(10.1%)</b>

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

(ii) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

(iii) At June 30, 2019, net finance costs include the trailing 12 months of finance income of \$35,222 (December 31, 2018 – \$29,421) and the trailing 12 months of finance cost of \$94,433 (December 31, 2018 – \$67,511).

(iv) At June 30, 2019, other includes non-operating acquisition costs of \$10,394 (December 31, 2018 – \$nil), the trailing 12 months foreign exchange gain of \$9,083 (December 31, 2018 – loss of \$27,373) and loss on derivatives of \$2,272 (December 31, 2018 – gain of \$1,247).

(v) At June 30, 2019 and December 31, 2018, the Corporation met its internal guideline of an adjusted net debt to EBITDA and an adjusted net debt to adjusted EBITDA measure of less than 2.50.

### Free cash flow

(\$ in thousands)	Three months ended June 30			Six months ended June 30		
	2019	2018 <sup>(i)</sup>	Change	2019	2018 <sup>(i)</sup>	Change
Cash provided by operating activities	200,449	125,881	74,568	613,554	399,072	214,482
Adjusted for:						
Aircraft additions <sup>(ii)</sup>	(100,724)	(157,446)	56,722	(34,222)	(296,001)	261,779
Other property and equipment and intangible additions <sup>(i)</sup>	(14,073)	(19,405)	5,332	(41,038)	(41,920)	882
<b>Free cash flow</b>	<b>85,652</b>	<b>(50,970)</b>	<b>136,622</b>	<b>538,294</b>	<b>61,151</b>	<b>477,143</b>
Weighted average number of shares outstanding - diluted	116,234,894	114,048,874	2,186,020	115,481,990	115,042,243	439,747
<b>Diluted free cash flow per share</b>	<b>0.74</b>	<b>(0.45)</b>	<b>264.4%</b>	<b>4.66</b>	<b>0.53</b>	<b>779.2%</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

(ii) Aircraft additions and other property and equipment and intangible additions above are net of proceeds from disposals and exclude non-cash amounts included in the consolidated statement of cash flows.

### Free cash flow

The table below presents our restated free cash flow measure for the twelve months ended December 31, 2018, as a result of the application of IFRS 16, as well as the measure which was previously presented in our 2018 annual MD&A.

(\$ in thousands, except per share data)	Twelve months ended December 31		
	2018 <sup>(i)</sup>	2018	Change
Cash flow from operating activities	940,766	758,580	182,186
Adjusted for:			
Aircraft additions <sup>(ii)</sup>	(495,235)	(495,235)	—
Other property and equipment and intangible additions <sup>(iii)</sup>	(160,128) <sup>(iii)</sup>	(134,670)	(25,458)
<b>Free cash flow</b>	<b>285,403</b>	<b>128,675</b>	<b>156,728</b>
Weighted average number of shares outstanding - diluted	114,553,266	114,553,266	—
<b>Diluted free cash flow per share</b>	<b>2.49</b>	<b>1.12</b>	<b>122.3%</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

(ii) Aircraft additions and other property and equipment and intangible additions above are net of proceeds from disposals and exclude non-cash amounts included in the consolidated statement of cash flows.

(iii) December 31, 2018 Other property and equipment and intangible additions has been recast from the amount disclosed in the MD&A for the period ending March 31, 2019, whereby the net cash additions decreased by \$9,420 from the previously disclosed amount.

### Diluted operating cash flow per share

(\$ in thousands, except per share data)	Three months ended June 30		
	2019	2018 <sup>(i)</sup>	Change
Cash provided by operating activities	200,449	125,881	74,568
Weighted average number of shares outstanding - diluted	116,234,894	114,048,874	2,186,020
<b>Diluted operating cash flow per share</b>	<b>1.72</b>	<b>1.10</b>	<b>56.4%</b>

(\$ in thousands, except per share data)	Six months ended June 30		
	2019	2018 <sup>(i)</sup>	Change
Cash provided by operating activities	613,554	399,072	214,482
Weighted average number of shares outstanding - diluted	115,481,990	115,042,243	439,747
<b>Diluted operating cash flow per share</b>	<b>5.31</b>	<b>3.47</b>	<b>53.0%</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

### Cash to trailing 12 months revenue

(\$ in thousands)	June 30 2019	December 31 2018	Change
Cash, cash equivalents and marketable securities	1,568,967	1,279,577	289,390
TTM revenue	4,924,741	4,733,462	191,279
<b>Cash to TTM revenue<sup>(i)</sup></b>	<b>31.9%</b>	<b>27.0%</b>	<b>4.9 pts.</b>

(i) At June 30, 2019 and December 31, 2018, the Corporation was within its internal guideline of cash to TTM revenue of approximately 30 per cent.



### Return on invested capital

(\$ in thousands)	June 30 2019	December 31 2018 <sup>(i)</sup>	Change
Earnings before income taxes (TTM)	203,988	139,325	64,663
Add:			
Finance costs	94,433	67,511	26,922
<b>Return</b>	<b>298,421</b>	<b>206,836</b>	<b>91,585</b>
Invested capital:			
Average long-term debt and lease obligations <sup>(iii)</sup>	2,690,171	2,526,573	163,598
Average shareholders' equity	2,248,210	2,226,033	22,177
<b>Invested capital</b>	<b>4,938,381</b>	<b>4,752,606</b>	<b>185,775</b>
<b>Return on invested capital</b>	<b>6.0%</b>	<b>4.4%</b>	<b>1.6 pts.</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

(ii) Average long-term debt is comprised of the current portion and long-term portion of long-term debt and lease obligations.

### Return on invested capital

The table below presents our restated ROIC measure for the twelve months ended December 31, 2018, as a result of the application of IFRS 16, as well as the measure which was previously presented in our 2018 annual MD&A.

(\$ in thousands)	December 31 2018 <sup>(i)</sup>	December 31 2018	Change
Earnings before income taxes (TTM)	139,325	135,882	3,443
Add:			
Finance costs	67,511	57,027	10,484
Implicit interest in operating leases <sup>(ii)</sup>	—	73,344	(73,344)
<b>Return</b>	<b>206,836</b>	<b>266,253</b>	<b>(59,417)</b>
Invested capital:			
Average long-term debt and lease obligations <sup>(iii)</sup>	2,526,573	2,014,002	512,571
Average shareholders' equity	2,226,033	2,280,711	(54,678)
Off-balance sheet aircraft leases <sup>(iv)</sup>	—	1,047,773	(1,047,773)
<b>Invested capital</b>	<b>4,752,606</b>	<b>5,342,486</b>	<b>(589,880)</b>
<b>Return on invested capital</b>	<b>4.4%</b>	<b>5.0%</b>	<b>(0.6 pts.)</b>

(i) This measure has been restated from that which was previously disclosed under prior IFRS guidance as a result of the application of IFRS 16.

(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 interest for any given period.

(iii) Average long-term debt is comprised of the current portion and long-term portion of long-term debt and lease obligations.

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



# Condensed Consolidated Interim Financial Statements and Notes

For the three and six months ended June 30, 2019 and 2018



## Condensed Consolidated Statements of Earnings

For the three and six months ended June 30

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

(Unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2019	2018 <sup>(i)</sup>	2019	2018 <sup>(i)</sup>
Revenue:					
Guest	3	1,163,239	1,039,317	2,341,535	2,148,624
Other		49,681	48,256	129,041	130,673
		1,212,920	1,087,573	2,470,576	2,279,297
Operating expenses:					
Aircraft fuel		301,290	302,261	598,212	583,412
Salaries and benefits		267,119	247,659	536,695	502,784
Rates and fees		175,852	175,624	351,055	344,554
Depreciation and amortization		158,917	146,184	316,723	292,683
Sales and marketing		106,922	98,871	233,018	218,450
Maintenance		49,365	35,636	100,928	85,631
Other		109,945	92,745	225,292	195,879
Employee profit share		1,541	(3,257)	6,790	3,127
		1,170,951	1,095,723	2,368,713	2,226,520
Earnings (loss) from operations		41,969	(8,150)	101,863	52,777
Non-operating income (expense):					
Finance income		10,319	7,191	19,703	13,901
Finance cost	13	(30,122)	(15,527)	(55,980)	(29,059)
Gain (loss) on foreign exchange		16,873	(5,718)	23,637	(12,819)
Gain on disposal of property and equipment		2,089	595	16,965	2,812
Gain (loss) on derivatives		(2,804)	(30)	(3,483)	35
Other non-operating	1	(10,394)	-	(10,394)	-
		(14,039)	(13,489)	(9,552)	(25,130)
Earnings (loss) before income tax		27,930	(21,639)	92,311	27,647
Income tax expense (recovery):					
Current		5,283	(7,597)	10,044	227
Deferred		(21,632)	1,784	(7,627)	9,046
		(16,349)	(5,813)	2,417	9,273
<b>Net earnings (loss)</b>		<b>44,279</b>	<b>(15,826)</b>	<b>89,894</b>	<b>18,374</b>
Earnings (loss) per share:					
Basic	12	0.39	(0.14)	0.79	0.16
Diluted	12	0.38	(0.14)	0.78	0.16

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

<sup>(i)</sup> Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.



## Condensed Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

(Unaudited)

	Note	June 30 2019	December 31 2018 <sup>(1)</sup>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	5	1,502,280	1,185,806
Marketable securities	5	66,687	93,771
Total cash, cash equivalents and marketable securities		1,568,967	1,279,577
Restricted cash	6	68,646	115,615
Accounts receivable		162,971	145,544
Prepaid expenses, deposits and other		164,276	190,224
Inventory		49,857	39,742
		2,014,717	1,770,702
Non-current assets:			
Property and equipment	7	5,578,206	5,312,995
Intangible assets		49,129	54,851
Other assets		75,632	102,537
<b>Total assets</b>		<b>7,717,684</b>	<b>7,241,085</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		634,289	658,067
Advance ticket sales		849,788	695,367
Deferred rewards program		247,673	224,608
Non-refundable guest credits		63,848	62,914
Current portion of maintenance provisions	8	42,704	22,576
Current portion of long-term debt and lease obligations	9	897,250	675,953
		2,735,552	2,339,485
Non-current liabilities:			
Maintenance provisions	8	359,950	387,023
Long-term debt and lease obligations	9	1,916,359	1,850,007
Other liabilities		11,449	10,263
Deferred income tax		394,091	405,160
<b>Total liabilities</b>		<b>5,417,401</b>	<b>4,991,938</b>
Shareholders' equity:			
Share capital	10	574,032	548,979
Equity reserves		85,004	106,655
Hedge reserves		(2,444)	6,856
Retained earnings		1,643,691	1,586,657
<b>Total shareholders' equity</b>		<b>2,300,283</b>	<b>2,249,147</b>
<b>Total liabilities and shareholders' equity</b>		<b>7,717,684</b>	<b>7,241,085</b>

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

<sup>(1)</sup> Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.



## Condensed Consolidated Statements of Cash Flows

For the three and six months ended June 30

(Stated in thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2019	2018 <sup>(i)</sup>	2019	2018 <sup>(i)</sup>
<b>Operating activities:</b>					
Net earnings (loss)		44,279	(15,826)	89,894	18,374
Items not involving cash:					
Depreciation and amortization		158,917	146,184	316,723	292,683
Change in maintenance provisions		10,660	600	26,558	2,117
Amortization of transaction costs		953	1,132	1,918	2,268
Unrealized (gain) loss on derivatives		75	33	474	(234)
Gain on disposal of property and equipment		(2,089)	(595)	(16,965)	(2,812)
Share-based payment expense	10	2,330	4,513	5,800	8,391
Deferred income tax expense (recovery)		(21,632)	1,784	(7,627)	9,046
Unrealized foreign exchange (gain) loss		(19,167)	2,484	(23,650)	5,596
Change in non-cash working capital		(6,871)	(30,779)	186,189	54,355
Change in restricted cash		34,766	25,647	46,970	38,543
Change in other assets		10,445	212	7,753	(1,163)
Change in other liabilities		(4)	(524)	(7)	(848)
Purchase of shares pursuant to compensation plans		(3,080)	(3,021)	(3,215)	(3,036)
Maintenance provision settlements		(9,133)	(5,963)	(17,261)	(24,208)
		200,449	125,881	613,554	399,072
<b>Investing activities:</b>					
Aircraft additions		(114,937)	(187,559)	(631,588)	(336,781)
Aircraft disposals		6,257	565	7,293	4,875
Proceeds from sale-and-leaseback transaction		-	-	577,143	-
Other property and equipment and intangible additions and disposals		(9,142)	(9,966)	(31,594)	(32,222)
Purchases of marketable securities		-	(32,739)	(33,922)	(33,908)
Maturities of marketable securities		25,000	50,000	58,047	50,000
Change in non-cash working capital		3,022	11,871	907	26,207
		(89,800)	(167,828)	(53,714)	(321,829)
<b>Financing activities:</b>					
Increase in long-term debt		-	20,576	-	41,131
Repayment of long-term debt		(37,920)	(39,719)	(64,461)	(77,342)
Repayment of long-term lease obligations		(39,207)	(35,115)	(82,715)	(68,534)
Shares repurchased	10	-	(2,386)	-	(2,386)
Dividends paid	11	(16,149)	(15,970)	(32,102)	(31,940)
Cash interest paid		(25,466)	(19,889)	(45,441)	(37,152)
Change in non-cash working capital		(4,376)	(4,725)	(5,755)	(7,044)
		(123,118)	(97,228)	(230,474)	(183,267)
Cash flow from operating, investing and financing activities		(12,469)	(139,175)	329,366	(106,024)
Effect of foreign exchange on cash and cash equivalents		(7,036)	6,400	(12,892)	13,631
Net change in cash and cash equivalents		(19,505)	(132,775)	316,474	(92,393)
Cash and cash equivalents, beginning of period		1,521,785	1,187,458	1,185,806	1,147,076
Cash and cash equivalents, end of period		1,502,280	1,054,683	1,502,280	1,054,683
<b>Supplemental disclosure of operating cash flows</b>					
Cash interest received		9,939	7,211	19,417	13,991
Cash taxes paid, net		(3,283)	(14,891)	(7,026)	(34,531)

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

<sup>(i)</sup> Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.



## Condensed Consolidated Statements of Changes in Equity

For the six months ended June 30

(Stated in thousands of Canadian dollars)

(Unaudited)

	Note	2019	2018 <sup>(i)</sup>
<b>Share capital:</b>			
Balance, beginning of period	10	548,979	548,977
Issuance of shares pursuant to compensation plans	10	25,053	584
Shares repurchased		-	(600)
		574,032	548,961
<b>Equity reserves:</b>			
Balance, beginning of period		106,655	97,514
Share-based payment expense	10	5,800	8,391
Issuance of shares pursuant to compensation plans		(27,451)	(3,617)
		85,004	102,288
<b>Hedge reserves:</b>			
Balance, beginning of period		6,856	(1,902)
Other comprehensive income		(9,300)	3,817
		(2,444)	1,915
<b>Retained earnings:</b>			
Balance, beginning of period		1,586,657	1,558,328
Dividends declared	11	(32,102)	(31,940)
Shares repurchased		-	(1,786)
Purchase of shares pursuant to compensation plans		(758)	(3)
Net earnings		89,894	18,374
		1,643,691	1,542,973
<b>Total shareholders' equity</b>		<b>2,300,283</b>	<b>2,196,137</b>

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

<sup>(i)</sup> Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.



## Condensed Consolidated Statements of Comprehensive Income

For the three and six months ended June 30

(Stated in thousands of Canadian dollars)

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2019	2018 <sup>(i)</sup>	2019	2018 <sup>(i)</sup>
Net earnings (loss)	44,279	(15,826)	89,894	18,374
<b>Items to be reclassified to net earnings:</b>				
Other comprehensive income, net of tax:				
Net unrealized gain (loss) on foreign exchange derivatives <sup>(ii)</sup>	(1,927)	3,391	(6,670)	7,485
Reclassification of net realized (gain) loss on foreign exchange derivatives <sup>(iii)</sup>	(1,038)	350	(3,219)	779
Net unrealized gain (loss) on interest rate derivatives <sup>(iv)</sup>	(503)	(7)	(1,717)	348
Reclassification of net realized (gain) loss on interest rate derivatives <sup>(v)</sup>	(297)	(38)	(711)	67
Net unrealized gain (loss) on cross-currency swap derivatives <sup>(vi)</sup>	3,571	(886)	3,221	(4,730)
Reclassification of net realized gain on cross-currency swap derivatives <sup>(vii)</sup>	(204)	(132)	(204)	(132)
	(398)	2,678	(9,300)	3,817
<b>Total comprehensive income (loss)</b>	<b>43,881</b>	<b>(13,148)</b>	<b>80,594</b>	<b>22,191</b>

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

(i) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.

(ii) Net of income taxes of \$713 and \$2,468 (2018 – \$(1,255) and \$(2,771)).

(iii) Net of income taxes of \$385 and \$1,192 (2018 – \$(130) and \$(289)).

(iv) Net of income taxes of \$186 and \$636 (2018 – \$2 and \$(129)).

(v) Net of income taxes of \$110 and \$263 (2018 – \$14 and \$(25)).

(vi) Net of income taxes of \$(1,323) and \$(1,193) (2018 – \$328 and \$1,752).

(vii) Net of income taxes of \$76 and \$76 (2018 – \$49 and \$49).



## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

### 1. Statement of significant accounting policies

The condensed consolidated interim financial statements of WestJet Airlines Ltd. (the Corporation) for the three and six months ended June 30, 2019 and 2018, were authorized for issue by the Board of Directors on July 26, 2019. The Corporation is a public company incorporated and domiciled in Canada. The Corporation provides airline services 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 condensed consolidated interim financial statements and the notes thereto have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the 2018 consolidated annual financial statements. The Corporation has retrospectively adopted IFRS 16 Leases (IFRS 16) with an initial application date of January 1, 2019. In addition, and as a result of the adoption of IFRS 16, accounting of maintenance on leased aircraft has also changed. Refer to note 2 of these condensed consolidated interim financial statements for the impacts of the changes. Additionally, the Corporation incurred expenses related to the proposed acquisition of WestJet by Onex Corporation which have been classified as other non-operating. There have been no other changes to the Corporation's significant accounting policies from those disclosed in the 2018 consolidated annual financial statements other than those noted below.

#### (b) 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 partially reducing the effects of seasonality on net earnings.

#### (c) Leases

At inception of a contract, the Corporation assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to perform this assessment, the Corporation determines whether:

- (i) The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (ii) The Corporation has the right to direct the use of the identified asset.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates consideration in the contract to each lease component on the basis of their respective stand-alone prices. The Corporation has elected not to separate non-lease components from lease components for its real estate leases. The Corporation will account for each lease component and any associated non-lease components as a single lease component.

#### Accounting for Lessee arrangements

The Corporation recognizes a right-of-use asset and a lease obligation at the lease commencement date.

Most of the Corporation's aircraft leases contain extension options exercisable by the Corporation.

Many of the real estate contracts have early termination and extension options. Some leased space agreements contain extension options exercisable by the Corporation.

The Corporation assesses at lease commencement whether it is reasonably certain to exercise the extension options. It reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Right-of use assets are initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right-of-use assets are componentized in the same manner as owned assets and depreciated using the straight-line method from the commencement date to the earlier of the end the useful life or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of Property and equipment. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements on the related lease obligation.



## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

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### 1. Statement of significant accounting policies (continued)

#### (c) Leases (continued)

##### Accounting for Lessee arrangements (continued)

Lease obligations are initially measured at the present value of future lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if not readily determinable, the Corporation's incremental borrowing rate.

Lease payments included in the measurement of the lease obligation are comprised of fixed payments, including in-substance fixed payments, and variable lease payments that depend on an index or rate; initially measured using the index or rate at the commencement date.

Lease obligations are subsequently measured at amortized cost using the effective interest method. Lease obligations are remeasured when there is a lease modification, and a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation presents right-of-use assets in Property and equipment and lease obligations in Long-term debt and lease obligations in the Consolidated Statement of Financial Position. The current portion of lease obligations are presented as Current portion of long-term debt and lease obligations.

##### Short-term leases and leases of low-value assets

The Corporation has elected not to recognize right-of-use assets and lease obligations for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in other operating expenses. The amount recognized in other operating expenses was not significant.

##### Sale-and-leaseback

At times, the Corporation enters into sale-and-leaseback transactions of aircraft to help fund capital commitment requirements. When control is transferred to the lessor, the Corporation first applies the requirements of IFRS 15 to qualify the sale of the aircraft. The Corporation then recognizes a right-of-use asset and a lease obligation in accordance with IFRS 16 for the lease in the same way as for other right-of-use assets and lease obligations. Gains or losses on the sale are recognized in the condensed consolidated interim statement of earnings for only the amount that relates to the portion of rights transferred to the lessor. Gains or losses relating to the right-of-use retained by the lessee are recognized as part of the right-of-use asset.

#### (d) Maintenance

##### 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 lease agreements require leased aircraft to be returned to the lessor in a specified operating condition, in the form of end of lease usage payments or a completion of an overhaul prior to return. This obligation requires the Corporation to record a maintenance provision liability for certain end of lease return conditions specified in the 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 amendments or extensions to lease agreements may impact the expected future cost and the expected timing of the future outflows and will be recognized in the statement of earnings at the time of the change.

**Notes to the Condensed Consolidated Interim Financial Statements**

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

**1. Statement of significant accounting policies** (continued)

**(e) Property and equipment**

Property and equipment includes any major overhaul expenditures that occur mid-lease on the leased aircraft and will be capitalized as a leasehold improvement and depreciated over the shorter of the expected life of the overhaul or the remaining lease term. Leased aircraft are also componentized upon lease inception in a similar manner as owned aircraft, resulting in an embedded overhaul component. The expected useful lives and depreciation methods for the right-of-use assets and the leasehold improvements are as follows:

<b>Asset class</b>	<b>Basis</b>	<b>Rate</b>
Right-of-use asset - aircraft	Straight-line	15 to 25 years/Term of lease
Right-of-use asset - engine, airframe and landing gear overhaul	Straight-line	3 to 13 years/Term of lease
Right-of-use asset - real estate	Straight-line	Term of lease
Leasehold improvements	Straight-line	5 to 12 years/Term of lease

**(f) Critical accounting judgments and estimates**

**Estimates**

(i) Discount rate on lease obligations

The Corporation applies the incremental borrowing rate to calculate the lease obligation upon execution of a lease agreement, when the implicit rate of the lease is not readily determinable. The Corporation estimates the incremental borrowing rate at the time an agreement is signed evaluating several factors such as risk-free rate at inception of lease, the Corporation's credit strength, currency of the lease, term of the lease, and the security of the underlying asset.

(ii) Maintenance provisions

The Corporation has a legal obligation to adhere to certain maintenance conditions set out in its aircraft 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 or usage payment, 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.

**2. New accounting standards and interpretations**

**Adoption of New Accounting Standards**

The Corporation has adopted IFRS 16 Leases (IFRS 16) with an initial application date of January 1, 2019. The Corporation has implemented the standard using the full retrospective method, which requires restatement of the prior year financial statements and disclosures. Impacts prior to January 1, 2018 are reflected as an adjustment to opening 2018 retained earnings.

**(a) Definition of a lease**

Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 1.

On transition to IFRS 16, the Corporation applied the definition of a lease to all contracts in place at December 31, 2017.

**(b) Accounting policy change for lessee arrangements**

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease obligations for all contracts that are or contain a lease based on the revised definition described in note 1(c).

The Corporation elected to apply the recognition exemptions for all asset categories to short-term leases and leases for which the underlying asset is of low value. In addition, the Corporation has elected not to separate non-lease components from lease components for real estate leases. Instead, the Corporation will account for each lease component and any associated non-lease components as a single lease component.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

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### 2. New accounting standards and interpretations (continued)

#### Adoption of New Accounting Standards (continued)

##### (b) Accounting policy change for lessee arrangements (continued)

For all leases that have not been covered by the recognition exemptions elected by the Corporation and described above, the Corporation recognized right-of-use assets and lease obligations measured under IFRS 16. Additionally, as a result of IFRS 16, certain qualifying mid-life maintenance events performed on leased aircraft that were previously provided for and recognized as maintenance expense have been capitalized as leasehold improvements. The maintenance provision now only provides for certain end of lease return conditions, which could be in the form of an end of lease usage payment or completion of an overhaul prior to return.

##### (c) Leases identified under IFRS 16

###### (i) Leased aircraft

As of January 1, 2018, the Corporation had 41 leased aircraft classified as operating leases and two leased aircraft under the capacity purchase agreement. Effective January 1, 2018, the Corporation has recorded such aircraft as right-of-use assets and lease obligations in accordance with the requirements of IFRS 16.

###### (ii) Real estate leases

The Corporation has real estate contracts for leased office space at airports, land leases, storage space, hangar storage space, parking space and leased space for corporate head offices.

##### (d) Impacts on financial statements

Upon adoption of IFRS 16, qualifying operating leases are no longer expensed as aircraft leasing expense or other operating expenses. These lease contracts are now being recognized as right-of-use assets which are depreciated and a lease obligation liability which now includes a portion of the lease payments being recognized as finance costs. Certain lease contracts that are short-term or are comprised of variable lease payments and do not meet the criteria for recognition as a lease in the statement of financial position continue to be expensed on a straight-line basis over the lease term and presented in other operating expenses.

In the statement of cash flows, repayments of lease obligations have been reclassified from operating cash flow to financing cash flow in accordance with IFRS 16.

The cumulative effect of the impacts of adopting IFRS 16, including the impact of the change in accounting policy for the maintenance provision, are presented in the tables below:

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

### 2. New accounting standards and interpretations (continued)

#### Adoption of New Accounting Standards (continued)

#### (d) Impacts on financial statements (continued)

Consolidated Statement of Financial Position At December 31, 2018	As previously reported	IFRS 16 adjustments	As restated
Prepaid expenses, deposits and other	190,242	(18)	190,224
Property and equipment	4,814,200	498,795	5,312,995
Other assets	118,284	(15,747)	102,537
Total assets	6,758,055	483,030	7,241,085
Accounts payable and accrued liabilities	654,422	3,645	658,067
Current portion of maintenance provision	101,852	(79,276)	22,576
Current portion of long-term debt and lease obligations	536,044	139,909	675,953
Total current liabilities	2,275,207	64,278	2,339,485
Maintenance provision	278,898	108,125	387,023
Long-term debt and lease obligations	1,442,913	407,094	1,850,007
Other liabilities	33,512	(23,249)	10,263
Deferred income tax	424,958	(19,798)	405,160
Total liabilities	4,455,488	536,450	4,991,938
Retained earnings	1,640,077	(53,420)	1,586,657
Total shareholders' equity	2,302,567	(53,420)	2,249,147
Total liabilities and shareholders' equity	6,758,055	483,030	7,241,085

Consolidated Statement of Earnings For the three months ended June 30, 2018	As previously reported	IFRS 16 adjustments	As restated
Depreciation and amortization	108,599	37,585	146,184
Aircraft leasing	36,889	(36,889)	-
Maintenance	52,992	(17,356)	35,636
Other	95,509	(2,764)	92,745
Total operating expenses	1,115,147	(19,424)	1,095,723
Earnings (loss) from operations	(27,574)	19,424	(8,150)
Finance cost	(13,284)	(2,243)	(15,527)
Gain (loss) on foreign exchange	4,707	(10,425)	(5,718)
Earnings (loss) before income tax	(28,395)	6,756	(21,639)
Income tax expense (benefit) – Deferred	(40)	1,824	1,784
Net earnings (loss)	(20,758)	4,932	(15,826)
Earnings per share – Basic	(0.18)	0.04	(0.14)
Earnings per share – Diluted	(0.18)	0.04	(0.14)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

### 2. New accounting standards and interpretations (continued)

#### Adoption of New Accounting Standards (continued)

#### (d) Impacts on financial statements (continued)

<b>Consolidated Statement of Earnings</b> For the six months ended June 30, 2018	<b>As previously reported</b>	<b>IFRS 16 adjustments</b>	<b>As restated</b>
Depreciation and amortization	216,496	76,187	292,683
Aircraft leasing	74,373	(74,373)	-
Maintenance	107,913	(22,282)	85,631
Other	200,195	(4,316)	195,879
Total operating expenses	2,251,304	(24,784)	2,226,520
Earnings from operations	27,993	24,784	52,777
Finance cost	(24,394)	(4,665)	(29,059)
Gain (loss) on foreign exchange	4,652	(17,471)	(12,819)
Earnings before income tax	24,999	2,648	27,647
Income tax expense – Deferred	8,332	714	9,046
Net earnings	16,440	1,934	18,374
Earnings per share – Basic	0.14	0.02	0.16
Earnings per share – Diluted	0.14	0.02	0.16

<b>Consolidated Statement of Cash Flows Position</b> For the three months ended June 30, 2018	<b>As previously reported</b>	<b>IFRS 16 adjustments</b>	<b>As restated</b>
<b>Operating activities:</b>			
Earnings (loss) for the period	(20,758)	4,932	(15,826)
Adjustments for:			
Depreciation and amortization	108,599	37,585	146,184
Net cash from operating activities	87,727	38,154	125,881
<b>Financing activities:</b>			
Repayment of long-term lease obligations	-	(35,115)	(35,115)
Cash interest paid	(16,465)	(3,424)	(19,889)
Net cash from financing activities	(58,689)	(38,539)	(97,228)

<b>Consolidated Statement of Cash Flows Position</b> For the six months ended June 30, 2018	<b>As previously reported</b>	<b>IFRS 16 adjustments</b>	<b>As restated</b>
<b>Operating activities:</b>			
Earnings for the period	16,440	1,934	18,374
Adjustments for:			
Depreciation and amortization	216,496	76,187	292,683
Net cash from operating activities	332,667	66,405	399,072
<b>Financing activities:</b>			
Repayment of long-term lease obligations	-	(68,534)	(68,534)
Cash interest paid	(30,492)	(6,660)	(37,152)
Net cash from financing activities	(108,073)	(75,194)	(183,267)



## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018

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

(Unaudited)

### 3. Revenue

The Corporation has disaggregated revenue transactions into categories that reflects the similar nature, amounts, timing, and uncertainty of revenue and cash flows that are affected by similar economic factors. Domestic guest revenue and transborder and international guest revenue represent flight tickets which are purchased in advance of the travel date and flown, however these geographies are impacted by different seasonal, economic and competitive factors. Ancillary goods and services are typically purchased on or near the date of the flight and provide an opportunity to enhance the overall experience for less price sensitive guests through the sale of higher margin goods and services.

	Three months ended June 30	
	2019	2018
Guest revenue:		
Domestic guest ticket	618,110	565,692
Transborder and international guest ticket	420,719	364,337
Ancillary	124,410	109,288
	1,163,239	1,039,317

  

	Six months ended June 30	
	2019	2018
Guest revenue:		
Domestic guest ticket	1,084,055	1,017,884
Transborder and international guest ticket	1,006,950	911,990
Ancillary	250,530	218,750
	2,341,535	2,148,624

### 4. Capital management

The Corporation's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain the future development of the airline. The Corporation manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to manage the capital structure, the Corporation may, from time to time, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, pay dividends and adjust current and projected debt levels.

In the management of capital, the Corporation includes shareholders' equity (excluding hedge reserves), long-term debt and lease obligations and cash, cash equivalents and marketable securities, all of which are presented in detail in the following table.

The Corporation monitors its capital structure on a number of bases, including cash to trailing 12 months revenue, adjusted debt-to-equity and net debt to earnings before net finance cost, taxes, depreciation and amortization and other items (EBITDA). EBITDA is a non-GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in tax jurisdictions. In addition, the Corporation will adjust EBITDA for non-operating gains and losses on derivatives, foreign exchange, impairment losses and other items. The calculation of EBITDA 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 defines net debt as debt less cash, cash equivalents and marketable securities. The Corporation defines equity as total shareholders' equity, excluding hedge reserves.

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(Unaudited)

### 4. Capital management (continued)

	June 30 2019	December 31 2018 <sup>(v)</sup>	Change
<b>Cash to trailing 12 months revenue</b>			
Cash, cash equivalents and marketable securities	1,568,967	1,279,577	289,390
Trailing 12 months revenue	4,924,741	4,733,462	191,279
Cash to trailing 12 months revenue <sup>(iv)</sup>	31.9%	27.0%	4.9 pts
<b>Adjusted debt-to-equity</b>			
Long-term debt and lease obligations <sup>(i)</sup>	2,813,609	2,525,960	287,649
Total shareholders' equity	2,300,283	2,249,147	51,136
Add (deduct): Hedge reserves	2,444	(6,856)	9,300
Adjusted equity	2,302,727	2,242,291	60,436
Adjusted debt-to-equity <sup>(iv)</sup>	1.22	1.13	8.0%
<b>Net debt to EBITDA</b>			
Debt (as above)	2,813,609	2,525,960	287,649
Less: Cash, cash equivalents and marketable securities	(1,568,967)	(1,279,577)	(289,390)
Net debt	1,244,642	1,246,383	(1,741)
Trailing 12 months net earnings	165,505	93,984	71,521
Add:			
Net finance cost <sup>(ii)</sup>	59,211	38,090	21,121
Taxes	38,484	45,341	(6,857)
Depreciation and amortization	604,671	580,630	24,041
Other <sup>(iii)</sup>	3,583	26,126	(22,543)
EBITDA	871,454	784,171	87,283
Net debt to EBITDA <sup>(iv)</sup>	1.43	1.59	(10.1%)

(i) At June 30, 2019, long-term debt and lease obligations includes the current portion of long-term debt and lease obligations of \$897,250 (December 31, 2018 – \$675,953) and long-term debt and lease obligations of \$1,916,359 (December 31, 2018 – \$1,850,007).

(ii) At June 30, 2019, net finance cost includes the trailing 12 months of finance income of \$35,222 (December 31, 2018 – \$29,421) and the trailing 12 months of finance cost of \$94,433 (December 31, 2018 – \$67,511).

(iii) At June 30, 2019, other includes the trailing 12 months foreign exchange gain of \$9,083 (December 31, 2018 – loss of \$27,373), trailing 12 months non-operating loss on derivatives of \$2,272 (December 31, 2018 – gain of \$1,247) and trailing 12 months non-operating expenses of \$10,394 (December 31, 2018 – \$nil).

(iv) 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 a net debt to EBITDA measure of no more than 2.5. The Corporation's internal guidelines are not related to any covenants.

(v) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion

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(Unaudited)

### 5. Cash, cash equivalents and marketable securities

	June 30 2019	December 31 2018
Bank balances <sup>(i)</sup>	356,844	224,699
Short-term investments <sup>(ii)</sup>	1,145,436	961,107
Total cash and cash equivalents	1,502,280	1,185,806
Marketable securities <sup>(iii)</sup>	66,687	93,771
	1,568,967	1,279,577

(i) Included in these balances, at June 30, 2019, the Corporation has US-dollar cash and cash equivalents totaling US \$56,321 (December 31, 2018 – US \$11,709).

(ii) Included in these balances, at June 30, 2019, the Corporation has US-dollar short-term investments totaling US \$235,098 (December 31, 2018 – US \$207,562).

(iii) Included in these balances, at June 30, 2019, the Corporation has US-dollar marketable securities totaling US \$50,936 (December 31, 2018 – US \$50,430).

### 6. Restricted cash

	June 30 2019	December 31 2018
Cash held in trust for WestJet Vacations Inc.	32,504	79,403
Security on facilities for letters of guarantee	35,011	34,684
Passenger facility charges	1,131	1,528
	68,646	115,615

### 7. Property and equipment

	January 1 2019 <sup>(iv)</sup>	Net Additions	Depreciation	Transfers	June 30 2019
Aircraft <sup>(v)</sup>	3,696,825	(172,412)	(190,393)	275,098	3,609,118
Ground property and equipment	72,319	6,356	(10,435)	10,460	78,700
Spare engines and rotables	254,608	12,008	(14,425)	12,542	264,733
Deposits on aircraft	538,249	177,279	-	(231,770)	483,758
Buildings	95,788	(1,822)	(1,983)	48,633	140,616
Leasehold improvements <sup>(ii)</sup>	83,933	2,189	(17,392)	515	69,245
Assets under development	113,301	102,762	-	(115,478)	100,585
Right-of-use assets – aircraft <sup>(iii)</sup>	404,251	449,382	(70,241)	-	783,392
Right-of-use assets – real estate	53,721	(212)	(5,450)	-	48,059
	5,312,995	575,530	(310,319)	-	5,578,206

	January 1 2018 <sup>(iv)</sup>	Net Additions <sup>(iv)</sup>	Depreciation <sup>(iv)</sup>	Transfers <sup>(iv)</sup>	December 31 2018 <sup>(iv)</sup>
Aircraft <sup>(i)</sup>	3,479,739	44,608	(360,646)	533,124	3,696,825
Ground property and equipment	72,946	19,651	(20,278)	-	72,319
Spare engines and rotables	195,929	31,307	(24,677)	52,049	254,608
Deposits on aircraft	650,487	380,098	-	(492,336)	538,249
Buildings	99,309	-	(3,521)	-	95,788
Leasehold improvements <sup>(ii)</sup>	76,192	36,368	(31,190)	2,563	83,933
Assets under development	51,524	157,177	-	(95,400)	113,301
Right-of-use assets – aircraft <sup>(iii)</sup>	352,296	167,464	(115,509)	-	404,251
Right-of-use assets – real estate	50,558	13,860	(10,697)	-	53,721
	5,028,980	850,533	(566,518)	-	5,312,995

(i) Aircraft includes (a) owned aircraft (b) engine, airframe and landing gear core and overhaul components, and (c) inflight entertainment systems. For the three and six months ended June 30, 2019, total aircraft depreciation expense for overhaul components was \$36,594 and \$74,580 (June 30, 2018 – \$38,903 and \$81,171).

(ii) Leasehold improvements includes engine, airframe and landing gear overhaul components for leased aircraft. For the three and six months ended June 30, 2019, total leasehold improvements depreciation expense for overhaul components was \$7,406 and \$15,120 (June 30, 2018 – \$6,431 and \$12,456).

(iii) Right-of-use assets – aircraft includes (a) aircraft (b) engine, airframe and landing gear core and overhaul components. For the three and six months ended June 30, 2019, total right-of-use assets – aircraft depreciation expense for overhaul components was \$6,462 and \$12,548 (June 30, 2018 – \$6,003 and \$13,937).

(iv) Certain numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.

(v) Included in net additions are disposals of \$179,585 related to the sale-and-leaseback of the Boeing 787 aircraft.



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### 7. Property and equipment (continued)

<b>June 30, 2019</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value<sup>(i)</sup></b>
Aircraft	5,692,764	(2,083,646)	3,609,118
Ground property and equipment	204,019	(125,319)	78,700
Spare engines and rotables	410,990	(146,257)	264,733
Deposits on aircraft	483,758	-	483,758
Buildings	180,794	(40,178)	140,616
Leasehold improvements- facilities and leased aircraft	131,817	(62,572)	69,245
Assets under development	100,585	-	100,585
Right-of-use assets – aircraft	965,772	(182,380)	783,392
Right-of-use assets – real estate	63,837	(15,778)	48,059
	<b>8,234,336</b>	<b>(2,656,130)</b>	<b>5,578,206</b>

<b>December 31, 2018</b>	<b>Cost<sup>(ii)</sup></b>	<b>Accumulated depreciation<sup>(ii)</sup></b>	<b>Net book value<sup>(i)(ii)</sup></b>
Aircraft	5,606,097	(1,909,272)	3,696,825
Ground property and equipment	188,003	(115,684)	72,319
Spare engines and rotables	389,504	(134,896)	254,608
Deposits on aircraft	538,249	-	538,249
Buildings	136,780	(40,992)	95,788
Leasehold improvements- facilities and leased aircraft	94,324	(10,391)	83,933
Assets under development	113,301	-	113,301
Right-of-use assets – aircraft	519,760	(115,509)	404,251
Right-of-use assets – real estate	64,418	(10,697)	53,721
	<b>7,650,436</b>	<b>(2,337,441)</b>	<b>5,312,995</b>

(i) The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was \$1,096,683 at June 30, 2019 (December 31, 2018 – \$1,158,566).

(ii) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.

### 8. Maintenance provisions and reserves

	<b>June 30 2019</b>	<b>December 31 2018<sup>(iii)</sup></b>
Opening balance	409,599	397,606
Additions	24,193	42,434
Change in estimate <sup>(i)</sup>	(2,203)	(36,757)
Foreign exchange	(16,298)	29,297
Accretion <sup>(ii)</sup>	4,624	10,827
Settled	(17,261)	(33,808)
Ending balance	402,654	409,599
Current portion	(42,704)	(22,576)
Long-term portion	359,950	387,023

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

(ii) At June 30, 2019, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.61% (December 31, 2018 – 1.89%) to reflect the weighted average remaining term of approximately 44 months (December 31, 2018 – 36 months) until cash outflow.

(iii) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion

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### 9. Long-term debt and lease obligations

	June 30 2019	December 31 2018 <sup>(viii)</sup>
Term loans – purchased aircraft <sup>(i)</sup>	9,938	20,007
Term loans – purchased aircraft <sup>(ii)</sup>	125,460	136,010
Term loans – purchased aircraft <sup>(iii)</sup>	594,061	625,657
Senior unsecured notes <sup>(iv)</sup>	399,964	399,685
Non-revolving facility <sup>(v)</sup>	243,623	254,765
USD senior unsecured notes <sup>(vi)</sup>	521,585	542,833
Lease obligations <sup>(vii)</sup>	918,978	547,003
Ending balance	2,813,609	2,525,960
Current portion of long-term debt and lease obligations	(897,250)	(675,953)
Long-term portion	1,916,359	1,850,007

- (i) Seven individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$5,062, at an effective weighted average fixed rate of 5.97%, maturing between 2019 and 2020. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by seven Boeing 737 Next Generation aircraft. There are no financial covenants related to these term loans.
- (ii) Seven individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$5,576, in addition to a floating rate of interest at the three month Canadian Dealer Offered Rate plus a basis point spread, with an effective weighted average floating interest rate of 3.59% at June 30, 2019, 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. There are no financial covenants related to these term loans.
- (iii) 45 individual term loans, amortized over a 12-year term, repayable in quarterly principal instalments totaling \$16,035, at an effective weighted average fixed rate of 3.24%, maturing between 2025 and 2030. Each term loan is secured by one Q400 aircraft. 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 June 30, 2019, 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. Subsequent to the quarter, the notes were repaid in full and subsequently cancelled.
- (v) Non-revolving, unsecured term loan repayable in quarterly principal instalments of \$11,250 with an effective weighted average floating interest rate of 3.95% at June 30, 2019, maturing in January 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 June 30, 2019 the Corporation has met both covenants.
- (vi) Senior unsecured notes denominated in US Dollars with semi-annual interest payments and a fixed effective rate of 3.78% at June 30, 2019, 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.
- (vii) Consists of (i) 44 US-dollar aircraft leases, payable monthly at an effective weighted average interest rate of 3.61%, maturing between 2019 and 2031, three aircraft leases under capacity purchase agreement, payable monthly at an effective average interest rate of 3.14%, maturing in 2023 and (iii) 47 real estate and other leases, payable monthly at an effective weighted average interest rate of 4.32%, maturing between 2019 and 2052.
- (viii) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion. The December 31, 2018 current and long-term portions of long-term debt and lease obligations have been recast from those amounts disclosed in the condensed consolidated interim financial statements for the period ending March 31, 2019, whereby the current portion has decreased by \$13,182 and the long-term portion has increased by a corresponding amount from the previously disclosed amounts.

Future scheduled principal and interest repayments of long-term debt and lease obligations at June 30, 2019 are as follows:

	Long-term debt	Lease obligations	Total
Within 1 year	791,367	188,413	979,780
1 – <3 years	758,107	292,822	1,050,929
3 – <5 years	212,251	194,745	406,996
Over 5 years	282,920	408,583	691,503
	2,044,645	1,084,563	3,129,208

The Corporation has an unsecured, revolving syndicated credit facility of \$400,000 available for general corporate purposes, including the funding of future aircraft acquisitions, maturing in June 2022. Funds from the revolving credit facility can be drawn through various debt instruments and interest is calculated by reference to the applicable base rate plus an applicable pricing margin based on the Corporation's debt rating. The Corporation also pays a standby fee for the undisbursed portion of the revolving credit facility. At June 30, 2019, the Corporation has \$nil (December 31, 2018 – \$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 June 30, 2019 the Corporation has met both covenants.

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### 10. Share capital

#### (a) Issued and outstanding

	June 30 2019		December 31 2018	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of period	113,948,623	548,979	114,052,889	548,977
Issuance of shares pursuant to compensation plans	1,580,768	25,053	20,288	602
Shares repurchased	-	-	(124,554)	(600)
Balance, end of period	115,529,391	574,032	113,948,623	548,979

At June 30, 2019, the number of common voting shares outstanding was 69,879,500 (December 31, 2018 – 82,069,418) and the number of variable voting shares was 45,649,891 (December 31, 2018 – 31,879,205).

#### (b) Stock option plan

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Weighted average fair value per option	7.14	3.55	7.10	3.56
Weighted average risk-free interest rate	1.7%	2.3%	1.7%	2.3%
Weighted average expected volatility	36.8%	26.3%	36.6%	26.3%
Expected life of options (years)	3.7	3.6	3.7	3.6
Weighted average dividend yield	2.6%	2.3%	2.6%	2.3%

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

	Three months ended June 30			
	2019		2018	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of period	11,148,274	\$22.12	9,296,307	\$22.96
Granted	757,105	\$29.96	2,802,733	\$19.77
Exercised	(6,337,464)	\$22.56	(17,799)	\$18.72
Forfeited	(19,189)	\$20.22	(57,926)	\$21.59
Expired	(60,641)	\$26.82	(789,936)	\$23.87
Stock options outstanding, end of period	5,488,085	\$22.64	11,233,379	\$22.11
Exercisable, end of period	3,954,813	\$21.57	7,552,902	\$22.99

	Six months ended June 30			
	2019		2018	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of period	11,193,031	\$22.11	9,429,826	\$22.95
Granted	768,696	\$29.83	2,820,905	\$19.80
Exercised	(6,350,530)	\$22.55	(142,602)	\$21.90
Forfeited	(31,966)	\$20.33	(78,376)	\$21.68
Expired	(91,146)	\$25.49	(796,374)	\$23.88
Stock options outstanding, end of period	5,488,085	\$22.64	11,233,379	\$22.11
Exercisable, end of period	3,954,813	\$21.57	7,552,902	\$22.99

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 three and six months ended June 30, 2019, option holders exercised 6,335,282 and 6,348,348 options (three and six months ended June 30, 2018 – 17,799 and 142,602 options) on a cashless basis and received 1,575,194 and 1,578,586 shares (three and six months ended June 30, 2018 – 3,041 and 19,302 shares). For the three and six months ended June 30, 2019, 2,182 options were exercised on a cash basis (three and six months ended June 30, 2018 – nil options).



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### 10. Share capital (continued)

#### (c) Key employee plan

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

	Three months ended June 30			
	2019		2018	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	484,373	\$20.04	240,000	\$22.13
Granted	225,694	\$29.96	328,221	\$19.77
Units granted in lieu of dividends	2,848	\$30.56	3,788	\$18.27
Settled	(84,933)	\$20.36	(63,512)	\$24.73
Forfeited	(3,360)	\$19.74	(12,895)	\$20.83
Units outstanding, end of period	624,622	\$23.63	495,602	\$20.24

	Six months ended June 30			
	2019		2018	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	488,957	\$20.06	231,640	\$22.04
Granted	226,158	\$29.94	336,193	\$19.88
Units granted in lieu of dividends	6,404	\$24.14	5,223	\$19.66
Settled	(91,421)	\$20.38	(64,053)	\$24.71
Forfeited	(5,476)	\$20.22	(13,401)	\$20.84
Units outstanding, end of period	624,622	\$23.63	495,602	\$20.24

#### (d) Executive share unit plan

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

	Three months ended June 30							
	2019				2018			
	RSUs		PSUs		RSUs		PSUs	
	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	217,172	\$20.44	413,362	\$20.59	257,715	\$22.48	483,155	\$22.43
Granted	98,959	\$29.96	149,716	\$29.96	118,878	\$19.77	223,719	\$19.77
Units granted in lieu of dividends	1,234	\$30.56	2,100	\$30.56	2,541	\$18.27	4,776	\$18.27
Settled	(37,111)	\$20.63	-	-	(54,651)	\$24.81	(80,756)	\$26.57
Forfeited	(11,867)	\$20.38	(104,657)	\$20.53	(10,067)	\$22.90	(4,027)	\$22.90
Units outstanding, end of period	268,387	\$23.98	460,521	\$23.69	314,416	\$21.00	626,867	\$20.91

	Six months ended June 30							
	2019				2018			
	RSUs		PSUs		RSUs		PSUs	
	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	208,362	\$20.43	403,417	\$20.59	259,672	\$22.46	488,452	\$22.42
Granted	106,181	\$29.36	156,638	\$29.57	118,878	\$19.77	223,719	\$19.77
Units granted in lieu of dividends	2,822	\$24.05	5,123	\$23.74	4,078	\$20.17	7,658	\$20.17
Settled	(37,111)	\$20.63	-	-	(54,651)	\$24.81	(80,756)	\$26.57
Forfeited	(11,867)	\$20.38	(104,657)	\$20.53	(13,561)	\$22.53	(12,206)	\$22.49
Units outstanding, end of period	268,387	\$23.98	460,521	\$23.69	314,416	\$21.00	626,867	\$20.91

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### 10. Share capital (continued)

#### (e) Share-based payment expense

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Stock option plan	(2,313)	1,551	558	4,414
Key employee plan	3,899	3,036	4,524	3,371
Executive share unit plan	744	(74)	718	606
Total share-based payment expense	2,330	4,513	5,800	8,391

### 11. Dividends

On May 6, 2019 the Board of Directors declared the Corporation's 2019 second quarter dividend of \$0.14 per common and variable voting share. For the three and six months ended June 30, 2019, the Corporation paid dividends totaling \$16,149 and \$32,102 (three and six months ended June 30, 2018 – \$15,970 and \$31,940).

### 12. Earnings per share

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Weighted average number of shares outstanding – basic	114,634,597	114,048,874	114,294,439	114,055,186
Effect of dilution	1,600,297	-	1,187,551	987,057
Weighted average number of shares outstanding – diluted	116,234,894	114,048,874	115,481,990	115,042,243

For the three and six months ended June 30, 2019, 760,867 and 1,066,369 employee stock options (three and six months ended June 30, 2018 – 8,073,731 and 3,491,536) and 113,635 and 184,261 restricted share units (three and six months ended June 30, 2018 – 6,068 and nil) were not included in the calculation of dilutive potential shares as the result would have been anti-dilutive.

### 13. Finance cost

	Three months ended June 30		Six months ended June 30	
	2019	2018 <sup>(ii)</sup>	2019	2018 <sup>(ii)</sup>
Interest on long-term debt	16,849	17,780	33,855	35,587
Capitalized interest <sup>(i)</sup>	(3,215)	(4,896)	(6,231)	(9,832)
Interest on lease obligations	8,395	3,569	14,015	6,901
Accretion on maintenance provisions	8,093	(926)	14,341	(3,597)
	30,122	15,527	55,980	29,059

(i) Relates to interest capitalized on deposits paid for Boeing and Bombardier aircraft yet to be delivered using a weighted average interest rate of 3.27%.

(ii) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion

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### 14. Financial instruments and risk management

#### Fair value of financial assets and financial liabilities

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, marketable securities, restricted cash, accounts receivable, derivatives, other deposits that will be settled in cash, accounts payable and accrued liabilities and long-term debt and lease obligations. 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 June 30, 2019 and December 31, 2018:

June 30, 2019	Fair value	Amortized cost		Total	
	Through profit or loss	Financial assets	Financial liabilities	Carrying amount	Fair value
Asset (liability):					
Cash and marketable securities <sup>(i)</sup>	–	1,637,613	–	1,637,613	1,637,613
Accounts receivable	–	162,971	–	162,971	162,971
Foreign exchange derivatives <sup>(ii)</sup>	(4,116)	–	–	(4,116)	(4,116)
Interest rate derivatives <sup>(iii)</sup>	(2,199)	–	–	(2,199)	(2,199)
Cross-currency interest rate swap derivatives <sup>(iv)</sup>	12,160	–	–	12,160	12,160
Other deposits <sup>(v)</sup>	–	89,730	–	89,730	87,171
Accounts payable and accrued liabilities <sup>(vi)</sup>	–	–	(628,788)	(628,788)	(628,788)
Long-term debt <sup>(vii)</sup>	–	–	(1,894,632)	(1,894,632)	(1,849,299)
	5,845	1,890,314	(2,523,420)	(627,261)	(584,487)

December 31, 2018	Fair value	Amortized cost		Total	
	Through profit or loss	Financial assets	Financial liabilities	Carrying amount	Fair value
Asset (liability):					
Cash and marketable securities <sup>(i)</sup>	–	1,395,192	–	1,395,192	1,395,192
Accounts receivable	–	145,544	–	145,544	145,544
Foreign exchange derivatives <sup>(ii)</sup>	13,083	–	–	13,083	13,083
Interest rate derivatives <sup>(iii)</sup>	1,129	–	–	1,129	1,129
Cross-currency interest rate swap derivatives <sup>(iv)</sup>	29,808	–	–	29,808	29,808
Other deposits <sup>(v)</sup>	–	97,752	–	97,752	95,112
Accounts payable and accrued liabilities <sup>(vi)</sup>	–	–	(657,533)	(657,533)	(657,533)
Long-term debt <sup>(vii)</sup>	–	–	(1,978,957)	(1,978,957)	(1,858,404)
	44,020	1,638,488	(2,636,490)	(953,982)	(836,069)

(i) Includes restricted cash of \$68,646 (December 31, 2018 – \$115,615) and marketable securities of \$66,687 (December 31, 2018 – \$93,771).

(ii) Includes \$309 (December 31, 2018 – \$13,113) classified in prepaid expenses, deposits and other, and \$4,425 (December 31, 2018 – \$30) classified in accounts payable and accrued liabilities.

(iii) Includes \$1,172 (December 31, 2018 – \$2,743) classified in prepaid expenses, deposits and other, \$1,044 (December 31, 2018 – \$504) classified in accounts payable and accrued liabilities, \$nil (December 31, 2018 - \$40) classified in other long-term assets, and \$2,327 classified in other long-term liabilities (December 31, 2018 – \$1,150).

(iv) Includes \$123 (December 31, 2018 - \$845) classified in prepaid expenses, deposits and other, \$32 (December 31, 2018 – \$nil) classified in accounts payable and accrued liabilities, \$12,084 (December 31, 2018 - \$28,963) classified in other long-term assets and \$15 classified in other long-term liabilities (December 31, 2018 – \$nil).

(v) Includes \$33,246 (December 31, 2018 – \$38,535) classified in prepaid expenses, deposits and other, and \$56,484 (December 31, 2018 – \$59,217) classified in other long-term assets. The fair value of the long-term aircraft deposits is determined by discounting the future contractual cash flows using an average rate of 1.44% (December 31, 2018 – 1.90%) for an average term of 4.5 years (December 31, 2018 – 4.0 years).

(vi) Excludes foreign exchange derivative liabilities of \$4,425 (December 31, 2018 – \$30), interest rate derivative liabilities of \$1,044 (December 31, 2018 – \$504) and cross-currency interest rate swap derivative liabilities of \$32 (December 31, 2018 – \$nil).

(vii) Includes current portion of long-term debt of \$738,824 (December 31, 2018 – \$536,044) and long-term debt of \$1,155,808 (December 31, 2018 – \$1,442,913). 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 June 30, 2019 implied Corporate BBB- rate of 3.85% (December 31, 2018 – 5.37%) for a 3.63 year term (December 31, 2018 – 4.15 year term), equal to the weighted average remaining term of the Corporation's long term debt at June 30, 2019.

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### 14. Financial instruments and risk management (continued)

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

The following items shown in the condensed consolidated statement of financial position at June 30, 2019 and December 31, 2018, are measured at fair value on a recurring basis using 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 1 or level 3 (significant unobservable inputs) in the fair value hierarchy.

	June 30, 2019	December 31, 2018
Asset (liability):		
Foreign exchange derivatives	(4,116)	13,083
Interest rate derivatives	(2,199)	1,129
Cross-currency interest rate swap derivatives	12,160	29,808
	5,845	44,020

During the three and six months ended June 30, 2019 and the year ended December 31, 2018, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

**Foreign exchange derivatives:** Classified as level 2, these consist of foreign exchange forward contracts where the fair value of the forward contracts is measured based on the difference between the contracted rate and the current forward price. At June 30, 2019, to fix the exchange rate on a portion of the Corporation's US dollar aircraft lease payments and hotel costs for the next twelve months, the Corporation has entered into foreign exchange contracts with an average monthly notional of US \$18,622 (December 31, 2018 – US \$20,084) for a total of US \$223,459 (2018 – US \$241,005) at a weighted average contracted rate on the forward contracts of 1.3250 (December 31, 2018 – 1.3070) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.3066 (December 31, 2018 – 1.3613) Canadian dollars to one US dollar. At June 30, 2019, a portion of the change in the fair value of foreign exchange derivatives amounting to \$47 (December 31, 2018 – \$nil) was recognized within gain (loss) on derivatives in the consolidated statement of earnings as hedge ineffectiveness.

**Interest rate derivatives:** Classified as level 2, these consist of interest rate swap contracts that exchange a floating rate of interest with a fixed rate of interest. The fair value of the interest rate swaps is determined by measuring the difference between the fixed contracted rate and the forward curve for the applicable floating interest rates. At June 30, 2019, the Corporation's swap contracts have an outstanding notional value of \$355,875 with a weighted average fixed interest rate of 1.60% (December 31, 2018 – 1.59%). The June 30, 2019, weighted average floating forward interest rate was 1.85% (December 31, 2018 – 2.23%).

**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 US \$400,000 notional at 3.50% interest per annum was exchanged for \$511,110 at a 3.56% weighted average interest per annum through the terms of the swaps, which match the maturity of the US-dollar senior unsecured notes. 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.

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### 14. Financial instruments and risk management (continued)

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

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

	Currency	Total	> 1 year	1 – 5 years	Over 5 years
Foreign currency risk:					
Foreign exchange derivatives	USD	223,459	223,459	–	–
Cross-currency interest rate swap derivatives	USD	400,000	–	400,000	–
		623,459	223,459	400,000	–
Interest rate risk:					
Interest rate derivatives	CAD	355,875	254,804	86,816	14,254

### 15. Commitments

#### (a) Purchased aircraft and spare engines

At June 30, 2019, the Corporation is committed to purchase seven 787-9 Dreamliner aircraft for delivery between 2020 and 2021 and 43 737 MAX aircraft for delivery between 2019 and 2027. The Corporation is also committed to purchase a total of six Boeing spare engines for delivery between 2019 and 2026.

The remaining estimated deposits and delivery payments for the 50 aircraft and six spare engines are presented in the table below. Where applicable, US dollar commitments are translated at the period end foreign exchange rate.

Within 1 year	768,503
1 – <3 years	1,396,552
3 – <5 years	861,480
Over 5 years	848,231
	3,874,766

#### (b) Contractual commitments

The Corporation has entered into contractual commitments for computer hardware, software licenses and inflight entertainment. At June 30, 2019, 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	62,694
1 – <3 years	87,338
3 – <5 years	14,920
Over 5 years	3,927
	168,879

#### (c) Letters of guarantee

At June 30, 2019, the Corporation has a revolving letter of credit facility totaling \$50,000 (December 31, 2018 – \$50,000). The facility requires funds to be assigned and held in cash security for the full value of letters of guarantee issued by the Corporation. At June 30, 2019, \$35,011 (December 31, 2018 – \$34,684) letters of guarantee were issued under the facility by assigning restricted cash.