



Condensed Consolidated Interim Financial Statements and Notes

For the three and nine months ended September 30, 2019 and 2018



Condensed Consolidated Interim Statements of Earnings

For the three and nine months ended September 30

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

(Unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018 ⁽ⁱ⁾	2019	2018 ⁽ⁱ⁾
Revenue:					
Guest	3	1,347,872	1,215,223	3,689,407	3,363,847
Other		45,067	45,679	174,108	176,352
		1,392,939	1,260,902	3,863,515	3,540,199
Operating expenses:					
Aircraft fuel		304,616	343,276	902,828	926,688
Salaries and benefits		263,101	249,733	799,796	752,517
Rates and fees		182,866	185,999	533,921	530,553
Depreciation and amortization		157,209	141,931	473,932	434,614
Sales and marketing		118,253	107,059	351,271	325,509
Maintenance		58,431	30,708	159,359	116,339
Other		100,034	93,007	325,326	288,886
Employee profit share		20,692	8,276	27,482	11,403
		1,205,202	1,159,989	3,573,915	3,386,509
Earnings from operations		187,737	100,913	289,600	153,690
Non-operating income (expense):					
Finance income		8,270	6,862	27,973	20,763
Finance cost	13	(22,132)	(12,857)	(78,112)	(41,916)
Gain (loss) on foreign exchange		(6,398)	7,731	17,239	(5,088)
Gain (loss) on disposal of property and equipment		(155)	1,333	16,810	4,145
Gain (loss) on derivatives		1,817	(21)	(1,666)	14
Other non-operating	1	(2,244)	–	(12,638)	–
		(20,842)	3,048	(30,394)	(22,082)
Earnings before income tax		166,895	103,961	259,206	131,608
Income tax expense:					
Current		18,642	4,507	28,686	4,734
Deferred		28,865	29,395	21,238	38,441
		47,507	33,902	49,924	43,175
Net earnings		119,388	70,059	209,282	88,433
Earnings per share:					
Basic	12	1.03	0.61	1.82	0.78
Diluted	12	1.02	0.61	1.80	0.77

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.



Condensed Consolidated Interim Statements of Financial Position

(Stated in thousands of Canadian dollars)

(Unaudited)

	Note	September 30 2019	December 31 2018 ⁽¹⁾
Assets			
Current assets:			
Cash and cash equivalents	5	1,330,211	1,185,806
Marketable securities	5	34,343	93,771
Total cash, cash equivalents and marketable securities		1,364,554	1,279,577
Restricted cash	6	87,244	115,615
Accounts receivable		174,213	145,544
Prepaid expenses, deposits and other		177,300	190,224
Inventory		56,138	39,742
		1,859,449	1,770,702
Non-current assets:			
Property and equipment	7	5,566,236	5,312,995
Intangible assets		46,029	54,851
Other assets		91,020	102,537
Total assets		7,562,734	7,241,085
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		803,966	658,067
Advance ticket sales		838,071	695,367
Deferred rewards program		257,272	224,608
Non-refundable guest credits		62,326	62,914
Current portion of maintenance provisions	8	39,150	22,576
Current portion of long-term debt and lease obligations	9	470,116	675,953
		2,470,901	2,339,485
Non-current liabilities:			
Maintenance provisions	8	376,535	387,023
Long-term debt and lease obligations	9	1,870,034	1,850,007
Other liabilities		11,231	10,263
Deferred income tax		423,858	405,160
Total liabilities		5,152,559	4,991,938
Shareholders' equity:			
Share capital	10	576,690	548,979
Equity reserves		86,663	106,655
Hedge reserves		(8)	6,856
Retained earnings		1,746,830	1,586,657
Total shareholders' equity		2,410,175	2,249,147
Total liabilities and shareholders' equity		7,562,734	7,241,085

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

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



Condensed Consolidated Interim Statements of Cash Flows

For the three and nine months ended September 30

(Stated in thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018 ⁽ⁱ⁾	2019	2018 ⁽ⁱ⁾
Operating activities:					
Net earnings		119,388	70,059	209,282	88,433
Items not involving cash:					
Depreciation and amortization		157,209	141,931	473,932	434,614
Change in maintenance provisions		12,996	(17,373)	39,554	(15,256)
Amortization of transaction costs		834	999	2,752	3,267
Unrealized (gain) loss on derivatives		(5)	22	469	(212)
(Gain) loss on disposal of property and equipment		155	(1,333)	(16,810)	(4,145)
Share-based payment expense	10	4,392	3,279	10,192	11,670
Deferred income tax expense		28,865	29,395	21,238	38,441
Unrealized foreign exchange (gain) loss		8,190	(2,042)	(15,460)	3,554
Change in non-cash working capital		151,219	106,136	337,408	160,491
Change in restricted cash		(18,599)	(17,781)	28,371	20,762
Change in other assets		(6,572)	(901)	1,181	(2,064)
Change in other liabilities		(46)	1,585	(53)	737
Purchase of shares pursuant to compensation plans		(137)	(167)	(3,352)	(3,203)
Maintenance provision settlements		(4,490)	(9,490)	(21,751)	(33,698)
		453,399	304,319	1,066,953	703,391
Investing activities:					
Aircraft additions		(132,703)	(117,037)	(764,291)	(453,818)
Aircraft disposals		2	1,334	7,295	6,209
Proceeds from sale-and-leaseback transaction		–	–	577,143	–
Other property and equipment and intangible additions and disposals		(9,557)	(38,769)	(41,151)	(70,991)
Purchases of marketable securities		–	–	(33,922)	(33,908)
Maturities of marketable securities		32,646	32,968	90,693	82,968
Change in non-cash working capital		12,956	12,437	13,863	38,644
		(96,656)	(109,067)	(150,370)	(430,896)
Financing activities:					
Increase in long-term debt		–	–	–	41,131
Repayment of long-term debt		(449,236)	(37,953)	(513,697)	(115,295)
Repayment of long-term lease obligations		(41,596)	(44,041)	(124,311)	(112,575)
Shares repurchased	10	–	–	–	(2,386)
Dividends paid	11	(16,207)	(15,953)	(48,309)	(47,893)
Cash interest paid		(22,242)	(17,526)	(67,683)	(54,678)
Change in non-cash working capital		(4,869)	(2,091)	(10,624)	(9,135)
		(534,150)	(117,564)	(764,624)	(300,831)
Cash flow from operating, investing and financing activities		(177,407)	77,688	151,959	(28,336)
Effect of foreign exchange on cash and cash equivalents		5,338	(5,774)	(7,554)	7,857
Net change in cash and cash equivalents		(172,069)	71,914	144,405	(20,479)
Cash and cash equivalents, beginning of period		1,502,280	1,054,683	1,185,806	1,147,076
Cash and cash equivalents, end of period		1,330,211	1,126,597	1,330,211	1,126,597
Supplemental disclosure of operating cash flows					
Cash interest received		8,580	6,568	27,997	20,559
Cash taxes paid, net		9,190	35,771	2,164	1,240

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.



Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended September 30

(Stated in thousands of Canadian dollars)

(Unaudited)

	Note	2019	2018 ⁽ⁱ⁾
Share capital:			
Balance, beginning of period		548,979	548,977
Issuance of shares pursuant to compensation plans	10	27,711	584
Shares repurchased		–	(600)
		576,690	548,961
Equity reserves:			
Balance, beginning of period		106,655	97,514
Share-based payment expense	10	10,192	11,670
Issuance of shares pursuant to compensation plans		(30,184)	(3,783)
		86,663	105,401
Hedge reserves:			
Balance, beginning of period		6,856	(1,902)
Other comprehensive income		(6,864)	1,011
		(8)	(891)
Retained earnings:			
Balance, beginning of period		1,586,657	1,558,328
Dividends declared	11	(48,309)	(47,893)
Shares repurchased		–	(1,786)
Purchase of shares pursuant to compensation plans		(800)	(4)
Net earnings		209,282	88,433
		1,746,830	1,597,078
Total shareholders' equity		2,410,175	2,250,549

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.



Condensed Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30

(Stated in thousands of Canadian dollars)

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2019	2018 ⁽ⁱ⁾	2019	2018 ⁽ⁱ⁾
Net earnings	119,388	70,059	209,282	88,433
Items to be reclassified to net earnings:				
Other comprehensive income, net of tax:				
Net unrealized gain (loss) on foreign exchange derivatives ⁽ⁱⁱ⁾	1,350	(2,991)	(5,320)	4,494
Reclassification of net realized (gain) loss on foreign exchange derivatives ⁽ⁱⁱⁱ⁾	(498)	(1,988)	(3,717)	(1,209)
Net unrealized gain (loss) on interest rate derivatives ^(iv)	21	1,107	(1,696)	1,455
Reclassification of net realized (gain) loss on interest rate derivatives ^(v)	(231)	(114)	(942)	(47)
Net unrealized gain (loss) on cross-currency swap derivatives ^(vi)	1,795	1,180	5,016	(3,550)
Reclassification of net realized gain on cross-currency swap derivatives ^(vii)	(1)	–	(205)	(132)
	2,436	(2,806)	(6,864)	1,011
Total comprehensive income	121,824	67,253	202,418	89,444

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 \$(500) and \$1,968 (2018 – \$1,107 and \$(1,664)).

(iii) Net of income taxes of \$184 and \$1,376 (2018 – \$736 and \$447).

(iv) Net of income taxes of \$(8) and \$628 (2018 – \$(410) and \$(539)).

(v) Net of income taxes of \$86 and \$349 (2018 – \$43 and \$18).

(vi) Net of income taxes of \$(665) and \$(1,858) (2018 – \$(437) and \$1,315).

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



Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 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 nine months ended September 30, 2019 and 2018, were authorized for issue by the Board of Directors on October 28, 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 nine months ended September 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)

(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 *Revenue from Contracts with Customers* 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 nine months ended September 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:

Asset class	Basis	Rate
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 nine months ended September 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)

(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 and subsequently amortized. 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 nine months ended September 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 September 30, 2018	As previously reported	IFRS 16 adjustments	As restated
Depreciation and amortization	104,644	37,287	141,931
Aircraft leasing	32,612	(32,612)	-
Maintenance	54,826	(24,118)	30,708
Other	96,302	(3,295)	93,007
Total operating expenses	1,182,727	(22,738)	1,159,989
Earnings from operations	78,175	22,738	100,913
Finance cost	(12,967)	110	(12,857)
Gain (loss) on foreign exchange	(2,588)	10,319	7,731
Earnings before income tax	70,794	33,167	103,961
Income tax expense – Deferred	20,432	8,963	29,395
Net earnings	45,855	24,204	70,059
Earnings per share – Basic	0.40	0.21	0.61
Earnings per share – Diluted	0.40	0.21	0.61

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 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 Earnings For the nine months ended September 30, 2018	As previously reported	IFRS 16 adjustments	As restated
Depreciation and amortization	321,140	113,474	434,614
Aircraft leasing	106,985	(106,985)	-
Maintenance	162,739	(46,400)	116,339
Other	296,497	(7,611)	288,886
Total operating expenses	3,434,031	(47,522)	3,386,509
Earnings from operations	106,168	47,522	153,690
Finance cost	(37,361)	(4,555)	(41,916)
Gain (loss) on foreign exchange	2,064	(7,152)	(5,088)
Earnings before income tax	95,793	35,815	131,608
Income tax expense – Deferred	28,764	9,677	38,441
Net earnings	62,295	26,138	88,433
Earnings per share – Basic	0.55	0.23	0.78
Earnings per share – Diluted	0.54	0.23	0.77

Consolidated Statement of Cash Flows For the three months ended September 30, 2018	As previously reported	IFRS 16 adjustments	As restated
Operating activities:			
Earnings for the period	45,855	24,204	70,059
Adjustments for:			
Depreciation and amortization	104,644	37,287	141,931
Net cash from operating activities	248,203	56,116	304,319
Financing activities:			
Repayment of long-term lease obligations	-	(44,041)	(44,041)
Cash interest paid	(13,929)	(3,597)	(17,526)
Net cash from financing activities	(69,926)	(47,638)	(117,564)

Consolidated Statement of Cash Flows For the nine months ended September 30, 2018	As previously reported	IFRS 16 adjustments	As restated
Operating activities:			
Earnings for the period	62,295	26,138	88,433
Adjustments for:			
Depreciation and amortization	321,140	113,474	434,614
Net cash from operating activities	580,870	122,521	703,391
Financing activities:			
Repayment of long-term lease obligations	-	(112,575)	(112,575)
Cash interest paid	(44,421)	(10,257)	(54,678)
Net cash from financing activities	(177,999)	(122,832)	(300,831)



Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 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 reflect 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 September 30	
	2019	2018
Guest revenue:		
Domestic guest ticket	815,882	743,222
Transborder and international guest ticket	401,052	346,510
Ancillary	130,938	125,491
	1,347,872	1,215,223

	Nine months ended September 30	
	2019	2018
Guest revenue:		
Domestic guest ticket	1,899,937	1,761,106
Transborder and international guest ticket	1,408,002	1,258,500
Ancillary	381,468	344,241
	3,689,407	3,363,847

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.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

4. Capital management (continued)

	September 30 2019	December 31 2018 ^(v)	Change
Cash to trailing 12 months revenue			
Cash, cash equivalents and marketable securities	1,364,554	1,279,577	84,977
Trailing 12 months revenue	5,056,777	4,733,462	323,315
Cash to trailing 12 months revenue ^(iv)	27.0%	27.0%	0.0 pts
Adjusted debt-to-equity			
Long-term debt and lease obligations ⁽ⁱ⁾	2,340,150	2,525,960	(185,810)
Total shareholders' equity	2,410,175	2,249,147	161,028
Add (deduct): Hedge reserves	8	(6,856)	6,864
Adjusted equity	2,410,183	2,242,291	167,892
Adjusted debt-to-equity ^(iv)	0.97	1.13	(14.2%)
Net debt to EBITDA			
Debt (as above)	2,340,150	2,525,960	(185,810)
Less: Cash, cash equivalents and marketable securities	(1,364,554)	(1,279,577)	84,977
Net debt	975,596	1,246,383	(270,787)
Trailing 12 months net earnings	214,832	93,984	120,848
Add:			
Net finance cost ⁽ⁱⁱ⁾	67,077	38,090	28,987
Taxes	52,088	45,341	6,747
Depreciation and amortization	619,948	580,630	39,318
Other ⁽ⁱⁱⁱ⁾	18,118	26,126	(8,008)
EBITDA	972,063	784,171	187,892
Net debt to EBITDA ^(iv)	1.00	1.59	(37.1%)

(i) At September 30, 2019, long-term debt and lease obligations includes the current portion of long-term debt and lease obligations of \$470,116 (December 31, 2018 – \$675,953) and long-term debt and lease obligations of \$1,870,034 (December 31, 2018 – \$1,850,007).

(ii) At September 30, 2019, net finance cost includes the trailing 12 months of finance income of \$36,630 (December 31, 2018 – \$29,421) and the trailing 12 months of finance cost of \$103,707 (December 31, 2018 – \$67,511).

(iii) At September 30, 2019, other includes non-operating acquisition costs of \$12,638 (December 31, 2018 – \$nil), the trailing 12 months foreign exchange loss of \$5,046 (December 31, 2018 – loss of \$27,373) and trailing 12 months non-operating loss on derivatives of \$434 (December 31, 2018 – gain of \$1,247).

(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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

5. Cash, cash equivalents and marketable securities

	September 30 2019	December 31 2018
Bank balances ⁽ⁱ⁾	445,843	224,699
Short-term investments ⁽ⁱⁱ⁾	884,368	961,107
Total cash and cash equivalents	1,330,211	1,185,806
Marketable securities ⁽ⁱⁱⁱ⁾	34,343	93,771
	1,364,554	1,279,577

(i) Included in these balances, at September 30, 2019, the Corporation has US-dollar cash and cash equivalents totaling US \$29,691 (December 31, 2018 – US \$11,709).

(ii) Included in these balances, at September 30, 2019, the Corporation has US-dollar short-term investments totaling US \$104,205 (December 31, 2018 – US \$207,562).

(iii) Included in these balances, at September 30, 2019, the Corporation has US-dollar marketable securities totaling US \$25,936 (December 31, 2018 – US \$50,430).

6. Restricted cash

	September 30 2019	December 31 2018
Cash held in trust for WestJet Vacations Inc.	52,556	79,403
Security on facilities for letters of guarantee	33,305	34,684
Passenger facility charges	1,383	1,528
	87,244	115,615

7. Property and equipment

	January 1 2019 ^(iv)	Net Additions ^(v)	Depreciation	Transfers	September 30 2019
Aircraft ^{(i)(v)}	3,696,825	(173,202)	(282,217)	300,547	3,541,953
Ground property and equipment	72,319	9,132	(15,897)	10,887	76,441
Spare engines and rotables	254,608	17,847	(21,494)	12,605	263,566
Deposits on aircraft	538,249	261,127	-	(231,770)	567,606
Buildings	95,788	(1,819)	(3,139)	48,634	139,464
Leasehold improvements ⁽ⁱⁱ⁾	83,933	19,085	(26,572)	4,630	81,076
Assets under development	113,301	136,238	-	(145,533)	104,006
Right-of-use assets – aircraft ⁽ⁱⁱⁱ⁾	404,251	449,642	(107,644)	-	746,249
Right-of-use assets – real estate	53,721	(212)	(7,634)	-	45,875
	5,312,995	717,838	(464,597)	-	5,566,236

	January 1 2018 ^(iv)	Net Additions ^(iv)	Depreciation ^(iv)	Transfers ^(iv)	December 31 2018 ^(iv)
Aircraft ⁽ⁱ⁾	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 ⁽ⁱⁱ⁾	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 ⁽ⁱⁱⁱ⁾	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 nine months ended September 30, 2019, total aircraft depreciation expense for overhaul components was \$35,190 and \$109,770 (September 30, 2018 – \$34,262 and \$115,434).

(ii) Leasehold improvements includes engine, airframe and landing gear overhaul components for leased aircraft. For the three and nine months ended September 30, 2019, total leasehold improvements depreciation expense for overhaul components was \$8,106 and \$23,226 (September 30, 2018 – \$6,431 and \$19,465).

(iii) Right-of-use assets – aircraft includes (a) aircraft (b) engine, airframe and landing gear core and overhaul components. For the three and nine months ended September 30, 2019, total right-of-use assets – aircraft depreciation expense for overhaul components was \$7,275 and \$19,823 (September 30, 2018 – \$5,120 and \$19,057).

(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.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

7. Property and equipment (continued)

September 30, 2019	Cost	Accumulated depreciation	Net book value⁽ⁱ⁾
Aircraft	5,710,382	(2,168,429)	3,541,953
Ground property and equipment	205,318	(128,877)	76,441
Spare engines and rotables	416,830	(153,264)	263,566
Deposits on aircraft	567,606	–	567,606
Buildings	180,797	(41,333)	139,464
Leasehold improvements – facilities and leased aircraft	152,846	(71,770)	81,076
Assets under development	104,006	–	104,006
Right-of-use assets – aircraft	965,806	(219,557)	746,249
Right-of-use assets – real estate	63,837	(17,962)	45,875
	8,367,428	(2,801,192)	5,566,236

December 31, 2018	Cost⁽ⁱⁱ⁾	Accumulated depreciation⁽ⁱⁱ⁾	Net book value⁽ⁱ⁾⁽ⁱⁱ⁾
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
	7,650,436	(2,337,441)	5,312,995

(i) The net book value of the property and equipment pledged as collateral for the Corporation's long-term debt was \$1,015,735 at September 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

	September 30 2019	December 31 2018⁽ⁱⁱⁱ⁾
Opening balance	409,599	397,606
Additions	36,573	42,434
Change in estimate ⁽ⁱ⁾	(2,723)	(36,757)
Foreign exchange	(11,759)	29,297
Accretion ⁽ⁱⁱ⁾	5,746	10,827
Settled	(21,751)	(33,808)
Ending balance	415,685	409,599
Current portion	(39,150)	(22,576)
Long-term portion	376,535	387,023

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

(ii) At September 30, 2019, the Corporation's aircraft lease maintenance provisions are discounted using a weighted average risk-free rate of approximately 1.46% (December 31, 2018 – 1.89%) to reflect the weighted average remaining term of approximately 42 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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

9. Long-term debt and lease obligations

	September 30 2019	December 31 2018 ^(viii)
Term loans – purchased aircraft ⁽ⁱ⁾	4,891	20,007
Term loans – purchased aircraft ⁽ⁱⁱ⁾	120,172	136,010
Term loans – purchased aircraft ⁽ⁱⁱⁱ⁾	578,119	625,657
Senior unsecured notes ^(iv)	–	399,685
Non-revolving facility ^(v)	221,186	254,765
USD senior unsecured notes ^(vi)	527,825	542,833
Lease obligations ^(vii)	887,957	547,003
Ending balance	2,340,150	2,525,960
Current portion of long-term debt and lease obligations	(470,116)	(675,953)
Long-term portion	1,870,034	1,850,007

- (i) Four 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 5.78%, maturing between 2019 and 2020. These facilities are guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) and secured by four 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 3.56% at September 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 \$16,098, 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) 3.29% Senior unsecured notes with semi-annual interest payments repaid in full and subsequently cancelled on maturity in July 2019. There were no financial covenants related to these senior unsecured notes.
- (v) Non-revolving, unsecured term loan repayable in quarterly principal instalments of \$22,500 with an effective weighted average floating interest rate of 3.67% at September 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 September 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 September 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) 43 US-dollar aircraft leases, payable monthly at an effective weighted average interest rate of 3.63%, 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) 44 real estate and other leases, payable monthly at an effective weighted average interest rate of 2.98%, maturing between 2019 and 2052.
- (viii) Certain 2018 numbers have been restated for the adoption of IFRS 16. See Note 2 for further discussion.

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

	Long-term debt	Lease obligations	Total
Within 1 year	355,490	186,160	541,650
1 – <3 years	763,218	281,084	1,044,302
3 – <5 years	210,325	185,681	396,006
Over 5 years	259,130	394,138	653,268
	1,588,163	1,047,063	2,635,226

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 September 30, 2019, the Corporation had \$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 September 30, 2019 the Corporation has met both covenants.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

10. Share capital

(a) Issued and outstanding

	September 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	1,807,596	27,711	20,288	602
Shares repurchased	–	–	(124,554)	(600)
Balance, end of period	115,756,219	576,690	113,948,623	548,979

At September 30, 2019, the number of common voting shares outstanding was 66,528,316 (December 31, 2018 – 82,069,418) and the number of variable voting shares was 49,227,903 (December 31, 2018 – 31,879,205).

(b) Stock option plan

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

	Three months ended September 30			
	2019		2018	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Stock options outstanding, beginning of period	5,488,085	22.64	11,233,379	22.11
Granted	–	–	29,599	17.58
Exercised	(714,971)	21.04	–	–
Forfeited	(1,527)	29.96	(35,671)	20.41
Expired	(5,773)	21.04	(14,899)	23.45
Stock options outstanding, end of period	4,765,814	22.88	11,212,408	22.11
Exercisable, end of period	3,246,869	21.67	7,544,078	22.99

	Nine months ended September 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	2,850,504	19.78
Exercised	(7,065,501)	22.39	(142,602)	21.90
Forfeited	(33,493)	20.77	(114,047)	21.29
Expired	(96,919)	25.23	(811,273)	23.87
Stock options outstanding, end of period	4,765,814	22.88	11,212,408	22.11
Exercisable, end of period	3,246,869	21.67	7,544,078	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 nine months ended September 30, 2019, option holders exercised 714,173 and 7,062,521 options (three and nine months ended September 30, 2018 – nil and 142,602 options) on a cashless basis and received 226,030 and 1,804,616 shares (three and nine months ended September 30, 2018 – nil and 19,302 shares). For the three and nine months ended September 30, 2019, 798 and 2,980 options were exercised on a cash basis (three and nine months ended September 30, 2018 – nil options).

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

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 September 30			
	2019		2018	
	Number of units	Weighted fair value	Number of units	Weighted fair value
Units outstanding, beginning of period	624,622	23.63	495,602	20.24
Granted	–	–	20,109	17.58
Units granted in lieu of dividends	2,817	30.64	3,458	20.28
Settled	(4,450)	22.41	(8,855)	20.97
Forfeited	(3,765)	29.29	(5,942)	20.58
Units outstanding, end of period	619,224	23.64	504,372	20.11

	Nine months ended September 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	356,302	19.75
Units granted in lieu of dividends	9,221	26.13	8,681	19.91
Settled	(95,871)	20.47	(72,908)	24.25
Forfeited	(9,241)	23.91	(19,343)	20.76
Units outstanding, end of period	619,224	23.64	504,372	20.11

(d) Executive share unit plan

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

	Three months ended September 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	268,387	23.98	460,521	23.69	314,416	21.00	626,867	20.91
Units granted in lieu of dividends	1,226	30.64	2,104	30.64	2,009	20.28	3,535	20.28
Settled	(10)	30.56	–	–	(151)	18.27	(9)	18.27
Forfeited	–	–	–	–	(23,222)	21.49	(114,736)	21.08
Units outstanding, end of period	269,603	24.01	462,625	23.73	293,052	20.96	515,657	20.87

	Nine months ended September 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	4,048	26.05	7,227	25.75	6,087	20.21	11,193	20.21
Settled	(37,121)	20.63	–	–	(54,802)	24.79	(80,765)	26.57
Forfeited	(11,867)	20.38	(104,657)	20.53	(36,783)	21.87	(126,942)	21.22
Units outstanding, end of period	269,603	24.01	462,625	23.73	293,052	20.96	515,657	20.87

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

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 September 30		Nine months ended September 30	
	2019	2018	2019	2018
Stock option plan	2,004	3,048	2,562	7,462
Key employee plan	1,254	804	5,778	4,175
Executive share unit plan	1,134	(573)	1,852	33
Total share-based payment expense	4,392	3,279	10,192	11,670

11. Dividends

On July 26, 2019 the Board of Directors declared the Corporation's 2019 third quarter dividend of \$0.14 per common and variable voting share. For the three and nine months ended September 30, 2019, the Corporation paid dividends totaling \$16,207 and \$48,309 (three and nine months ended September 30, 2018 – \$15,953 and \$47,893).

12. Earnings per share

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Weighted average number of shares outstanding – basic	115,673,497	113,947,637	114,759,177	114,018,942
Effect of dilution	1,831,941	486,593	1,387,047	750,948
Weighted average number of shares outstanding – diluted	117,505,438	114,434,230	116,146,224	114,769,890

For the three and nine months ended September 30, 2019, 427,378 and 1,019,508 employee stock options (three and nine months ended September 30, 2018 – 11,156,250 and 6,796,916) and nil and nil restricted share units (three and nine months ended September 30, 2018 – 6,110 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 September 30		Nine months ended September 30	
	2019	2018 ⁽ⁱⁱ⁾	2019	2018 ⁽ⁱⁱ⁾
Interest on long-term debt	13,992	17,891	47,847	53,478
Capitalized interest ⁽ⁱ⁾	(3,859)	(5,003)	(10,090)	(14,835)
Interest on lease obligations	8,081	3,931	22,096	10,832
Accretion on maintenance provisions	3,918	(3,962)	18,259	(7,559)
	22,132	12,857	78,112	41,916

(i) Relates to interest capitalized on deposits paid for Boeing and Bombardier aircraft yet to be delivered using a weighted average interest rate of 3.26%.

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

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 September 30, 2019 and December 31, 2018:

September 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 ⁽ⁱ⁾	–	1,451,798	–	1,451,798	1,451,798
Accounts receivable	–	174,213	–	174,213	174,213
Foreign exchange derivatives ⁽ⁱⁱ⁾	(992)	–	–	(992)	(992)
Interest rate derivatives ⁽ⁱⁱⁱ⁾	(2,487)	–	–	(2,487)	(2,487)
Cross-currency interest rate swap derivatives ^(iv)	20,584	–	–	20,584	20,584
Other deposits ^(v)	–	66,433	–	66,433	64,088
Accounts payable and accrued liabilities ^(vi)	–	–	(801,632)	(801,632)	(801,632)
Long-term debt ^(vii)	–	–	(1,452,193)	(1,452,193)	(1,410,749)
	17,105	1,692,444	(2,253,825)	(544,276)	(505,177)

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 ⁽ⁱ⁾	–	1,395,192	–	1,395,192	1,395,192
Accounts receivable	–	145,544	–	145,544	145,544
Foreign exchange derivatives ⁽ⁱⁱ⁾	13,083	–	–	13,083	13,083
Interest rate derivatives ⁽ⁱⁱⁱ⁾	1,129	–	–	1,129	1,129
Cross-currency interest rate swap derivatives ^(iv)	29,808	–	–	29,808	29,808
Other deposits ^(v)	–	97,752	–	97,752	95,112
Accounts payable and accrued liabilities ^(vi)	–	–	(657,533)	(657,533)	(657,533)
Long-term debt ^(vii)	–	–	(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 \$87,244 (December 31, 2018 – \$115,615) and marketable securities of \$34,343 (December 31, 2018 – \$93,771).

(ii) Includes \$537 (December 31, 2018 – \$13,113) classified in prepaid expenses, deposits and other, and \$1,529 (December 31, 2018 – \$30) classified in accounts payable and accrued liabilities.

(iii) Includes \$489 (December 31, 2018 – \$2,743) classified in prepaid expenses, deposits and other, \$805 (December 31, 2018 – \$504) classified in accounts payable and accrued liabilities, \$nil (December 31, 2018 – \$40) classified in other long-term assets, and \$2,171 classified in other long-term liabilities (December 31, 2018 – \$1,150).

(iv) Includes \$318 (December 31, 2018 – \$845) classified in prepaid expenses, deposits and other and \$20,266 (December 31, 2018 – \$28,963) classified in other long-term assets.

(v) Includes \$8,489 (December 31, 2018 – \$38,535) classified in prepaid expenses, deposits and other, and \$57,944 (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 1.52% (December 31, 2018 – 1.90%) for an average term of 4.3 years (December 31, 2018 – 4.0 years).

(vi) Excludes foreign exchange derivative liabilities of \$1,529 (December 31, 2018 – \$30) and interest rate derivative liabilities of \$805 (December 31, 2018 – \$504).

(vii) Includes current portion of long-term debt of \$312,651 (December 31, 2018 – \$536,044) and long-term debt of \$1,139,542 (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 September 30, 2019 implied Corporate BBB- rate of 4.01% (December 31, 2018 – 5.37%) for a 4.35 year term (December 31, 2018 – 4.15 year term), equal to the weighted average remaining term of the Corporation's long term debt at September 30, 2019.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

14. Financial instruments and risk management (continued)

Fair value of financial assets and financial liabilities (continued)

The following items shown in the condensed consolidated interim statement of financial position at September 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.

	September 30, 2019	December 31, 2018
Asset (liability):		
Foreign exchange derivatives	(992)	13,083
Interest rate derivatives	(2,487)	1,129
Cross-currency interest rate swap derivatives	20,584	29,808
	17,105	44,020

During the three and nine months ended September 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 September 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 \$18,070 (December 31, 2018 – US \$20,084) for a total of US \$162,628 (2018 – US \$241,005) at a weighted average contracted rate on the forward contracts of 1.3292 (December 31, 2018 – 1.3070) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.3231 (December 31, 2018 – 1.3613) Canadian dollars to one US dollar. At September 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 September 30, 2019, the Corporation's swap contracts have an outstanding notional value of \$339,049 with a weighted average fixed interest rate of 1.60% (December 31, 2018 – 1.59%). The September 30, 2019, weighted average floating forward interest rate was 1.59% (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-dollar 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

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	162,628	162,628	–	–
Cross-currency interest rate swap derivatives	USD	400,000	–	400,000	–
		562,628	162,628	400,000	–
Interest rate risk:					
Interest rate derivatives	CAD	339,049	243,554	85,203	10,292

15. Commitments

(a) Purchased aircraft and spare engines

At September 30, 2019, the Corporation is committed to purchase seven 787-9 Dreamliner aircraft for delivery between 2019 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	801,706
1 – <3 years	1,430,960
3 – <5 years	851,407
Over 5 years	754,372
	3,838,445

(b) Contractual commitments

The Corporation has entered into contractual commitments for computer hardware, software licenses and inflight entertainment. At September 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	64,771
1 – <3 years	77,500
3 – <5 years	12,882
Over 5 years	3,169
	158,322

(c) Letters of guarantee

At September 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 September 30, 2019, \$33,305 (December 31, 2018 – \$34,684) letters of guarantee were issued under the facility by assigning restricted cash.