Management's Discussion and Analysis of Financial Results

For the three months ended March 31, 2014

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ADVISORIES

The following Management's Discussion and Analysis of Financial Results (MD&A), dated May 5, 2014, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as the unaudited condensed consolidated interim financial statements and notes thereto for the three months ended March 31, 2014 and 2013, and the audited consolidated financial statements and notes thereto, for the years ended December 31, 2013 and 2012. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "WestJet," "the Corporation," "the Company", "we," "us" or "our" mean WestJet Airlines Ltd. and its subsidiaries and consolidated structured entities, unless the context otherwise requires. Additional information relating to WestJet, including periodic quarterly and annual reports and Annual Information Forms (AIF), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at westjet.com.

Cautionary statement regarding forward-looking information

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

The disclosure found under the heading "Outlook" in this MD&A, including the guidance summary for the three months ended June 30, 2014 and the year ended December 31, 2014 may contain forward-looking information that constitutes a financial outlook. The forward-looking information, including any financial outlook, contained in this MD&A, is provided to assist investors in understanding our assessment of WestJet's future plans, operations and expected results. The forward-looking information, including without limitation, the disclosure found under the heading "Outlook", contained in this MD&A may not be appropriate for other purposes and is expressly qualified by this cautionary statement. Please refer to page 19 of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development. Our assumptions and estimates relating to the forward-looking information referred to above are updated in conjunction with filing our quarterly and annual MD&A and, except as required by law, we do not undertake to update any other forward-looking information.

Non-GAAP and additional GAAP measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by generally accepted accounting principles (GAAP) and, therefore, are considered non-GAAP measures. These measures are provided to enhance the reader's overall understanding of our financial performance or current financial condition. They are included to provide investors and management with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a more consistent basis for comparison between periods. These measures are not in accordance with, or an alternative to, GAAP and do not have standardized meanings. Therefore, they may not be comparable to similar measures presented by other entities.

Please refer to page 22 of this MD&A for a reconciliation of non-GAAP measures, including cost per available seat mile (CASM), excluding fuel and employee profit share; return on invested capital (ROIC); free cash flow; free cash flow per share; and diluted operating cash flow per share and for a reconciliation of additional GAAP measures, including adjusted debt-to-equity; adjusted net debt to earnings before interest, taxes, depreciation and aircraft rent (EBITDAR).

Definitions

Various terms used throughout this MD&A are defined at page 21 under the title "Definition of key operating indicators".

OVERVIEW

Our 2014 first quarter financial results represent our 36th consecutive quarter of reported profitability with net earnings of $89.3 million and diluted earnings per share of $0.69. During the quarter, revenue increased by 7.7 per cent year over year to end the quarter at $1,042.1 million driven primarily by an increase in traffic of 6.5 per cent, year over year. These results include pre-tax recoveries related to value-added tax (VAT) in a foreign jurisdiction of $17.6 million associated with fuel costs and $2.5 million associated with airport costs from 2009 to 2013 discussed further under the section titled *Expenses*, as found on page 5 of this MD&A.

During the first quarter of 2014, we announced a multi-year agreement with Panasonic Avionics Corporation to provide us with a new inflight entertainment system, we took delivery of two Bombardier Q400 aircraft, we continued to implement and execute on cost-saving measures we identified in 2013 as part of our business transformation initiative and we expanded the WestJet network through the addition of one new destination and as of the date of this MD&A, two new airline partnerships.

We returned approximately $40.0 million to our shareholders through our dividend and share buy-back programs in the first quarter of 2014. Since these programs began we have returned nearly five hundred million dollars to our shareholders. Our 12-month ROIC of 13.7 per cent at March 31, 2014 continues to surpass our goal of a sustainable 12 per cent ROIC and represents a slight decrease of 0.2 percentage points compared to our 2013 full-year ROIC of 13.9 per cent.

First quarter overview

- Recognized total revenues of $1,042.1 million, an increase of 7.7 per cent from $967.2 million in the first quarter of 2013.
- Increased capacity, measured in available seat miles (ASMs), by 8.0 per cent over the first quarter of 2013.
- Increased traffic, measured in revenue passenger miles (RPMs), by 6.5 per cent over the first quarter of 2013.
- Increased yield by 1.2 per cent over the first quarter of 2013.
- Realized RASM of 16.00 cents, down 0.2 per cent from 16.03 cents in the first quarter of 2013.
- Realized CASM of 13.98 cents, up 1.0 per cent from 13.84 cents in the first quarter of 2013.
- Realized CASM, excluding fuel and employee profit share, of 9.28 cents, up 3.8 per cent from 8.94 cents in the first quarter of 2013.
- Recorded an operating margin of 12.6 per cent, down 1.1 percentage points from 13.7 per cent in the first quarter of 2013.
- Recorded an earnings before tax (EBT) margin of 11.8 per cent, down 1.2 percentage points from 13.0 per cent in the first quarter of 2013.
- Reported net earnings of $89.3 million, a decrease of 2.0 per cent from $91.1 million in the first quarter of 2013.
- Reported diluted earnings per share of $0.69, an increase of 1.5 per cent from $0.68 per share in the first quarter of 2013.

Please refer to page 22 of this MD&A for a reconciliation of the non-GAAP measures and additional GAAP measures.

Operational overview

	Three months ended March 31		
	2014	2013	Change
ASMs	6,514,585,070	6,032,096,070	8.0%
RPMs	5,416,228,403	5,087,902,060	6.5%
Load factor	83.1%	84.3%	(1.2pts.)
Yield (cents)	19.24	19.01	1.2%
RASM (cents)	16.00	16.03	(0.2%)
CASM (cents)	13.98	13.84	1.0%
CASM, excluding fuel and employee profit share (cents)	9.28	8.94	3.8%
Fuel consumption (litres)	315,579,567	290,772,269	8.5%
Fuel costs per litre (dollars)	0.90	0.93	(3.2%)
Segment guests	4,806,685	4,493,324	7.0%
Average stage length (miles)	993	1,037	(4.2%)
Utilization (hours)	12.3	12.5	(1.6%)
Number of full-time equivalent employees at period end	8,424	8,007	5.2%
Fleet size at period end	115	103	11.7%

WestJetters

WestJetters are at the core of our strong quarterly results. During the first quarter of 2014, we welcomed on board over 4.8 million segment guests, an increase of 7.0 per cent over the first quarter of the prior year. In March 2014, we announced that Brand Finance, a brand valuation consultancy based out of London, England, ranked WestJet 74th among the top 100 Canadian brands. Subsequent to March 31, 2014, we announced that both WestJet and WestJet Vacations received top marks in brand recognition from the 2013 Harris Poll Canada EquiTrend® Study. These accomplishments are a testament to the commitment and care delivered by nearly 10,000 WestJetters.

In June 2014, we will be welcoming a new Executive Vice-President and Chief Information Officer, Rocky Wiggins.

Network expansion

Subsequent to March 31, 2014, we announced our newest destination, Penticton, British Columbia with scheduled daily service on our Bombardier Q400s (Q400), operated by WestJet Encore, to begin on October 26, 2014. As of the date of this MD&A, WestJet, including WestJet Encore, offers scheduled service to 89 destinations in North America, Central America, the Caribbean and most recently in Europe, to Dublin, Ireland with seasonal daily service beginning June 15, 2014 through to October 5, 2014.

We continued to strategically grow our airline through new and increased service across our scheduled network. In January 2014, we announced a comprehensive schedule for the summer of 2014 that reflects the varied needs of our guests, including a focus on those guests travelling for business who require additional flight frequency and convenience. In addition, we continue to anticipate WestJet Encore's expansion further east with flights to Thunder Bay, Ontario via Toronto, Ontario and Winnipeg, Manitoba, also to begin in the summer of 2014.

We entered into two additional interline agreements, one during the first quarter of 2014 and one subsequent to March 31, 2014, which brings our total airline partnership agreements to 35 as of the date of this MD&A. Establishing strong airline partnerships is a key strategy of ours and these partnerships enable our guests to access over 150 destinations via WestJet.

Guest experience and service enhancements

During the first quarter of 2014, we announced a multi-year agreement with Panasonic Avionics Corporation to provide us with a new inflight entertainment system that features wireless satellite internet connectivity, live streaming television, on-demand movies, magazines and more, throughout North America, the Caribbean, Central America, and Europe. Guests will be able to use their own personal electronic devices to receive live and stored content streamed wirelessly from a server on board each Boeing 737 NG aircraft. Airtime packages will also be available to provide guests with the ability to surf the internet, access email or plan a vacation on westjet.com. For those guests not travelling with a device, we plan to make tablets or other similar electronic devices available for rent on board the aircraft.

We will also install USB/110 volt power outlets in new, slimmer seats on our Boeing 737 NG aircraft to enable guests to charge their devices while using the entertainment system. With a mix of free and paid content, the new system offerings will create an enhanced experience for our guests and additional ancillary revenue opportunities for WestJet.

DISCUSSION OF OPERATIONS

Revenue

	Three months ended March 31		
($ in thousands)	2014	2013	Change
Guest	936,829	879,394	6.5%
Other	105,261	87,848	19.8%
	1,042,090	967,242	7.7%
RASM (cents)	16.00	16.03	(0.2%)

During the first quarter of 2014, total revenue increased by 7.7 per cent to $1,042.1 million compared to $967.2 million in the same quarter of 2013. The overall increase in total revenue was driven mainly by the 6.5 per cent year-over-year increase in traffic, a slight improvement in yield and a significant increase in other revenue mainly driven by ancillary revenue. On an ASM basis, revenue remained relatively flat at 16.00 cents from 16.03 cents in the same quarter of 2013. Contributing to this result was the year-over-year slight improvement in yield offset by our lower load factor compared to the three months ended March 31, 2013. This is consistent with our revised RASM guidance for the first quarter of 2014, as disclosed in our press release dated March 7, 2014.

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

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

	Three months ended March 31				
	2014		2013		Change
	ASMs	% of total	ASMs	% of total	ASMs
Domestic	2,663,618,920	40.9%	2,450,968,268	40.6%	8.7%
Transborder and international	3,850,966,150	59.1%	3,581,127,802	59.4%	7.5%
Total	6,514,585,070	100.0%	6,032,096,070	100.0%	8.0%

For the three months ended March 31, 2014, our overall capacity increased by 8.0 per cent over the same period in 2013. In addition to two Bombardier Q400 aircraft deliveries in the first quarter of 2014, our overall capacity as at March 31, 2014 compared to the same quarter in 2013 has grown as a result of the completion of our seat reconfiguration program on our Boeing 737 NG 800 series aircraft and the impact of WestJet Encore after its launch, both of which occurred after the first quarter of 2013. Our domestic to transborder and international capacity mix remained relatively unchanged. During the first quarter of 2014, 59.1 per cent of ASMs were allocated to the transborder and international markets, which represents a 7.5 per cent increase in ASMs in those markets versus the first quarter of 2013.

During the three months ended March 31, 2014, our domestic traffic, measured in RPMs, increased by 4.1 per cent year over year as compared to the 8.7 per cent increase in capacity. This is consistent with the disclosure made on March 7, 2014, regarding revised guidance due to slightly softer domestic demand. With regards to our transborder and international markets, RPMs increased by 8.0 per cent over the first quarter of 2013, relatively in line with our increase in capacity to these areas of 7.5 per cent.

Other revenue

Included in other revenue are amounts related to ancillary revenue, WestJet Vacations' non-air revenue and our charter and cargo operations. During the first quarter of 2014, other revenue increased by 19.8 per cent to $105.3 million from $87.8 million in the same quarter of the prior year. This increase was driven mainly by an increase in ancillary revenue.

Ancillary revenue, which includes service fees, onboard sales, and program revenue, provides an opportunity to maximize our profits through the sale of higher-margin goods and services while enhancing our overall guest experience by providing guests with additional products and services to meet their needs. For the three months ended March 31, 2014 ancillary revenue was $50.7 million, an increase of approximately 37.0 per cent from $37.0 million in the same quarter of the prior year, mainly due to improvements associated with an increase in the number of guest bookings, pre-reserved seating and Plus seating upgrade sales as well as continued penetration of our WestJet RBC MasterCard program. On a per guest basis, ancillary fees for the quarter increased by $2.31 or 28.0 per cent to $10.55 per guest, from $8.24 per guest during the three months ended March 31, 2013. This change is mainly attributable to the timing of when we introduced our fare bundles, in late March 2013, and when we commercially launched our Plus product in the third quarter of 2013. Under this new structure we have implemented year-over-year increases to certain change and cancel fees and pre-reserved seating fees and offered Plus-seating upgrade opportunities as part of our product offering.

WestJet Vacations continues to be successful in generating additional revenue and supporting WestJet's overall network. The land component, which mainly includes hotels, attractions and car rentals, is reported on the condensed consolidated statement of earnings at the net amount received. In the first quarter of 2014, WestJet Vacations' non-air revenue component grew, however this growth was partially offset by the weaker Canadian dollar throughout the first quarter of 2014 compared to the same period in the prior year. The majority of the land components are paid in US dollars, which is netted against the gross revenue collected in Canadian dollars.

Expenses

	Expense ($ in thousands) Three months ended March 31			CASM (cents) Three months ended March 31		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Aircraft fuel	284,836	271,048	5.1%	4.37	4.49	(2.7%)
Airport operations	127,361	115,275	10.5%	1.96	1.91	2.6%
Flight operations and navigational charges	116,145	101,875	14.0%	1.78	1.69	5.3%
Sales and distribution	101,310	91,310	11.0%	1.55	1.51	2.6%
Depreciation and amortization	61,022	48,019	27.1%	0.94	0.79	19.0%
Maintenance	52,795	39,697	33.0%	0.81	0.66	22.7%
Marketing, general and administration	52,221	49,515	5.5%	0.80	0.82	(2.4%)
Aircraft leasing	49,108	47,509	3.4%	0.75	0.79	(5.1%)
Inflight	44,702	46,319	(3.5%)	0.69	0.77	(10.4%)
Employee profit share	20,998	24,311	(13.6%)	0.33	0.41	(19.5%)
Total operating expenses	910,498	834,878	9.1%	13.98	13.84	1.0%
Total, excluding fuel and profit share	604,664	539,519	12.1%	9.28	8.94	3.8%

During the three months ended March 31, 2014, operating expenses increased by 9.1 per cent to $910.5 million as compared to $834.9 million in the same period in 2013, primarily driven by the 8.0 per cent period-over-period increase in capacity, the devaluation of the Canadian dollar as well as the increase in depreciation and amortization expense, and maintenance expense, offset by a VAT recovery.

In the first quarter of 2014 we recorded a VAT recovery from a foreign jurisdiction of $23.1 million ($20.2 million recorded in aircraft fuel expense and $2.9 million recorded in airport operations expense), based on the recent outcome of previously filed claims with these tax authorities. Included in this amount, is $20.1 million of VAT recovery related to the years 2009 through to the end of 2013 ($17.6 million in aircraft fuel expense and $2.5 million in airport operations expense).

On an ASM basis, operating expenses increased by 1.0 per cent to 13.98 cents from 13.84 cents in the same period in 2013. Excluding the VAT recovery related to the periods 2009 to 2013, total CASM would have increased by 3.3 per cent and CASM, excluding fuel and profit share would have increased by 4.3 per cent over the same period in 2013, which is consistent with previous guidance provided in the *Outlook* section of the 2013 annual MD&A. These increases are driven largely by increases in flight operations and navigational charges, maintenance costs, and depreciation and amortization expense on an ASM basis.

Aircraft fuel

Fuel remains our most significant cost representing 31.3 per cent of total operating expenses for the three months ended March 31, 2014 (three months ended March 31, 2013 – 32.5 per cent). Aircraft fuel expense increased by 5.1 per cent to $284.8 million from $271.0 million for the three months ended March 31, 2014, primarily due to the 8.5 per cent year-over-year increase in our overall fuel consumption in line with our ASM growth, offset by the VAT recovery.

Fuel costs per ASM for the first quarter of 2014, were 4.37 cents, compared to 4.49 cents in the same quarter of 2013, a decrease of 2.7 per cent year over year. However, fuel costs per ASM excluding the VAT recovery related to the years 2009 through to the end of 2013 was 4.64 cents, compared to 4.49 cents in the same quarter of 2013 representing an increase of 3.3 per cent year over year. This increase was driven by the overall increase in the Canadian market price of jet fuel.

Our fuel costs per litre decreased by 3.2 per cent to 90 cents per litre during the first quarter of 2014 from 93 cents per litre in the same period of 2013. However, excluding the effect of the VAT recovery related to the years 2009 through to the end of 2013, our fuel costs per litre increased by 3.2 per cent to 96 cents per litre during the first quarter of 2014, which is consistent with previous guidance provided in the *Outlook* section of the 2013 annual MD&A. On average, the market price for jet fuel was US $125 per barrel in the first quarter of 2014 versus US $131 per barrel in the first quarter of 2013, a decrease of approximately 4.6 per cent. The benefit from the lower market price of US-dollar jet fuel on a year-over-year basis was more than offset by the weaker Canadian dollar as the average market price for jet fuel in Canadian dollars increased by 4.5 per cent to $138 per barrel from $132 per barrel in the first quarter of 2013.

As at March 31, 2014 we have no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

For 2014, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately $9.0 million annually for every one US-dollar change per barrel of West Texas Intermediate (WTI) crude oil. Additionally, we estimate our sensitivity to changes in fuel pricing to be approximately $12.0 million for every one-cent change per litre of fuel. We estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $10.3 million on fuel costs.

Flight operations and navigational charges

Flight operations costs and navigational charges are comprised mainly of salaries and benefits, navigation fees, costs related to flight delays, cancellations, and related accommodations for displaced guests. For the three months ended March 31, 2014 flight operations and navigational charges were $116.1 million, a $14.2 million or 14.0 per cent increase from $101.9 million in the same period of 2013. Flight operations and navigational charges per ASM were 1.78 cents in the first quarter of 2014, an increase of 5.3 per cent from 1.69 cents in the same period in 2013. These increases were primarily attributable to severe weather conditions experienced during the month of January 2014 which drove up salaries and benefit costs related to overtime as well as costs related to guest recovery.

Depreciation and amortization

Depreciation and amortization expense for the three months ended March 31, 2014 was $61.0 million, a $13.0 million or 27.1 per cent increase from $48.0 million in the comparable period of 2013 and depreciation and amortization expense per ASM was 0.94 cents in the first quarter of 2014, representing an increase of 19.0 per cent from 0.79 cents in the same period of the prior year. These year-over-year increases were mainly driven by our fleet growth and accelerated depreciation expense associated with the early overhaul of certain engines. These overhauls were completed during the quarter, at the recommendation of one of our suppliers.

Maintenance

Maintenance expense for the three months ended March 31, 2014 was $52.8 million, a $13.1 million or 33.0 per cent increase from $39.7 million in the comparable period of 2013. Our maintenance cost per ASM was 0.81 cents in the first quarter of 2014, representing an increase of 22.7 per cent from 0.66 cents in the same period of the prior year. This year-over-year increase was mainly attributable to an increase in the number of maintenance events, the addition of WestJet Encore and an increase in our maintenance provision. As our fleet continues to grow and mature, we performed more maintenance on our aircraft and with the addition of WestJet Encore, our fleet type has expanded requiring new maintenance support. As well, the year-over-year increase in our maintenance provision for leased aircraft was mainly driven by change in timing and scope of maintenance for certain leased engines, lower discount rates and, as most of our liabilities are in US dollars, an unfavorable foreign exchange impact. Our provision is calculated based on the best information available to us and includes estimates on maintenance cycle timing, total cost and discount rates.

Compensation

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

	Three months ended March 31		
($ in thousands)	2014	2013	Change
Salaries and benefits	161,179	146,805	9.8%
Employee share purchase plan	18,797	17,152	9.6%
Employee profit share	20,998	24,311	(13.6%)
Share-based payment plans	3,858	3,575	7.9%
	204,832	191,843	6.8%
Presentation on the Consolidated Statement of Earnings:			
Airport operations	26,136	23,068	13.3%
Flight operations and navigational charges	64,252	57,147	12.4%
Sales and distribution	18,271	15,888	15.0%
Marketing, general and administration	24,723	22,485	10.0%
Inflight	35,275	35,558	(0.8%)
Maintenance	15,177	13,386	13.4%
Employee profit share	20,998	24,311	(13.6%)
	204,832	191,843	6.8%

Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During the first quarter of 2014, salaries and benefits increased by 9.8 per cent to $161.2 million from $146.8 million in the same period of 2013. This increase was primarily due to an increase in our total number of full-time equivalent employees to 8,424 employees at March 31, 2014 (March 31, 2013 – 8,007 employees) as well as our annual market and merit increases. Salaries and benefits expense for each department is included in the respective department's operating expense line item, as presented in the table above.

Employee share purchase plan (ESPP)

The ESPP encourages employees to become owners of WestJet shares and provides employees with the opportunity to significantly enhance their earnings. Under the terms of the ESPP, WestJetters may, dependent on their employment agreement, be eligible to contribute up to a maximum of 10 per cent or 20 per cent of their gross salary to acquire voting shares of WestJet at the current fair market value. The contributions are matched by WestJet and are required to be held within the ESPP for a period of one year. At March 31, 2014, approximately 85.3 per cent of our eligible active employees participated in the ESPP, contributing an average of 14.4 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 first quarter ended 2014, our matching expense was $18.8 million, a 9.6 per cent increase from $17.2 million in the same period in 2013, driven largely by the increase in salaries and benefits compared to the prior year.

Employee profit share

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost, employees receive larger awards when we are more profitable. Conversely, the amount distributed to employees is reduced and adjusted in less profitable periods. Our profit share expense for the three months ended March 31, 2014, was $21.0 million, a 13.6 per cent decrease from $24.3 million in the same period of the prior year. The year-over-year decrease was directly attributable to lower earnings eligible for profit share versus the prior year.

Share-based payment plans

We have three equity-settled share-based payment plans whereby either stock options, restricted share units (RSUs) or performance share units (PSUs) may be awarded to pilots, senior executives and certain non-executive employees. Our equity-settled share-based payments are measured at the fair value of the instrument granted and recognized as compensation expense with a corresponding increase in equity reserves on a straight-line basis over the related service period based on the number of awards expected to vest. For the three months ended March 31, 2014, share-based payment expense totaled $3.9 million, representing an increase of 7.9 per cent over the $3.6 million recognized in the same period in the prior year. This increase related primarily to a revision to the estimate of the number of PSUs expected to vest over the next year based on past financial performance. Share-based payment expense related to pilots' awards is included in flight operations and navigational charges, while the expense related to senior executives' and certain non-executive employees' awards is included in marketing, general and administration expense.

Foreign exchange

The gain or loss on foreign exchange included in our condensed consolidated statement of earnings is mainly attributable to the effect of the changes in the value of our US-dollar-denominated net monetary liabilities. These net monetary liabilities consist mainly of monetary assets of US-dollar cash and cash equivalents, security deposits on various leased aircraft, and maintenance reserves paid to lessors, offset by monetary liabilities of US-dollar accounts payable and accrued liabilities and maintenance provisions. At March 31, 2014, US-dollar-denominated net monetary liabilities totaled approximately US $10.2 million compared to $0.3 million at December 31, 2013. This increase in net monetary liabilities compared to year end is largely due to the increase in US-dollar accounts payable and accrued liabilities. With the weakening of the Canadian dollar, we reported a foreign exchange loss of $1.5 million for the three months ended March 31, 2014 (three months ended March 31, 2013 – $0.1 million gain) on the revaluation of our US-dollar-denominated net monetary liabilities.

We periodically use financial derivatives to manage our exposure to foreign exchange risk. At March 31, 2014, to fix the exchange rate on a portion of our US-dollar-denominated aircraft lease payments, we entered into foreign exchange forward contracts for an average of US $13.3 million per month for the period of April 2014 to March 2015 for a total of US $159.4 million at a weighted average contract price of 1.0636 Canadian dollars to one US dollar. Upon proper qualification, we designated the forward contracts as effective cash flow hedges for accounting purposes. Under cash flow hedge accounting, the effective portion of the change in the fair value of the hedging instrument is recognized in hedge reserves. Upon maturity of the derivative instrument, the effective gains and losses previously recognized in hedge reserves are recorded in net earnings as a component of aircraft leasing expense. At March 31, 2014, no portion of the forward contracts was considered ineffective.

The following table presents the financial impact and statement presentation of our foreign exchange derivatives on the condensed consolidated statement of financial position at March 31, 2014 and December 31, 2013 and on the condensed consolidated statement of earnings for the three months ended March 31, 2014 and 2013.

($ in thousands)	**Statement presentation**	**March 31 2014**	**December 31 2013**
Statement of Financial Position:			
Fair value	Prepaid expenses, deposits and other	7,475	4,187
Fair value	Accounts payable and accrued liabilities	(62)	(29)
Unrealized gain	Hedge reserves (before tax)	7,413	4,158

		Three months ended March 31	
($ in thousands)	**Statement presentation**	**2014**	**2013**
Statement of Earnings:			
Realized gain (loss)	Aircraft leasing	2,849	(10)

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.

For 2014, we estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $12.9 million on our annual unhedged operating costs (approximately $10.3 million for fuel and $2.6 million related to other US-dollar-denominated operating expenses).

Income taxes

Our effective consolidated income tax rate for the three months ended March 31, 2014 remained at 27 per cent consistent with the same period of 2013. For 2014, we anticipate that our annual effective tax rate will remain in the range of 27 to 29 per cent.

SUMMARY OF QUARTERLY RESULTS

($ in thousands, except per share data)	Three months ended Mar. 31 2014	 Dec. 31 2013	 Sept. 30 2013	 Jun. 30 2013
Total revenue	1,042,090	926,417	924,844	843,694
Net earnings	89,291	67,807	65,107	44,735
Basic earnings per share	0.70	0.52	0.50	0.34
Diluted earnings per share	0.69	0.52	0.50	0.34

($ in thousands, except per share data)	Three months ended Mar. 31 2013	 Dec. 31 2012	 Sept. 30 2012	 Jun. 30 2012
Total revenue	967,242	860,640	866,537	809,282
Net earnings	91,073	60,944	70,648	42,479
Basic earnings per share	0.69	0.46	0.53	0.31
Diluted earnings per share	0.68	0.46	0.52	0.31

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

GUEST EXPERIENCE

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

Key performance indicators

On-time performance and completion rates are calculated based on the US Department of Transportation's standards of measurement for the North American airline industry. On-time performance, indicating the percentage of flights that arrive within 15 minutes of their scheduled time, is a key factor in measuring our guest experience. The completion rate indicator represents the percentage of flights completed from flights originally scheduled. Our bag ratio represents the number of delayed or lost baggage claims made per 1,000 guests.

	Three months ended March 31 2014	 2013	 Change
On-time performance	67.9%	63.4%	4.5 pts.
Completion rate	97.5%	97.3%	0.2 pts.
Bag ratio	6.02	3.29	83.0%

For the three months ended March 31, 2014, our bag ratio increased considerably by 83.0 per cent on a year-over-year basis. This increase is mainly attributable to a high volume of displaced baggage as a result of the harsh winter conditions experienced at Toronto Pearson International Airport, one of our key domestic airports, during the month of January 2014. These weather disruptions were some of the most significant that WestJet has had to deal with in its history which resulted in a significant number of inconvenienced guests. One of our strategies for getting guests and their baggage home and left-behind baggage to their owners involved chartering a Boeing 747.

The harsh winter weather clearly had an impact on our operations however, our teams focused on delivering safe on-time performance that resulted in a quarter-over-quarter increase of 4.5 percentage points and resulted in an improved completion rate, compared to the same period of the prior year. The results of these two key indicators is telling of our ability to complete our originally scheduled flights and ensure our guests reach their final destinations even when faced with numerous and severe weather and maintenance events. We continue to place our internal focus and efforts on safely performing on time.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The airline industry is highly sensitive to unpredictable circumstances and, as such, maintaining a strong financial position is imperative to an airline's success. Our consistent and strong financial results enable us to maintain a healthy balance sheet. We completed the first quarter of 2014 with a cash and cash equivalents balance of $1,112.5 million, compared to $1,256.0 million at December 31, 2013. The decrease in our cash position was a result of $146.7 million spent on capital expenditures, $57.9 million in aircraft financing outflows, including cash interest paid, and a combined total of $40.0 million spent on our dividend and share buy-back programs offset by our positive cash flow from operations of $62.3 million and aircraft financing inflows of $32.4 million.

Part of our cash and cash equivalents balance relates to cash collected with respect to advance ticket sales, for which the balance at March 31, 2014, was $518.5 million, a decrease of 5.9 per cent from $551.0 million at December 31, 2013. We have cash and cash equivalents on hand to have sufficient liquidity to meet our liabilities, when due, under both normal and stressed conditions. At March 31, 2014, we had cash on hand of 2.15 (December 31, 2013 – 2.28) times our advance ticket sales balance.

We monitor capital on a number of measures, including adjusted debt-to-equity and adjusted net debt to EBITDAR. Our adjusted debt-to-equity ratio at March 31, 2014 was 1.34, which took into consideration $1.3 billion in off-balance-sheet aircraft operating leases. Our adjusted debt-to-equity ratio of 1.34 at March 31, 2014, decreased slightly from 1.38 at December 31, 2013, due to an increase in adjusted equity from strong net earnings compared with a relatively unchanged level of adjusted net debt. At March 31, 2014, our adjusted net debt to EBITDAR ratio of 1.37 increased by 12.3 per cent compared to 1.22 at December 31, 2013, due to a larger increase in adjusted net debt from lower cash balances compared to a relatively smaller increase in EBITDAR over the same period.

Our current ratio, defined as current assets over current liabilities, was 1.03 at March 31, 2014 as compared to 1.09 at December 31, 2013, a decrease of 5.0 per cent due mostly to a decrease in cash and cash equivalents.

Select cash flow information

	Three months ended March 31		
($ in thousands)	2014	2013	Change
Cash provided by operating activities	62,299	171,254	(108,955)
Less:			
Cash used by investing activities	(146,662)	(148,471)	1,809
Cash used by financing activities	(65,857)	(68,525)	2,688
Cash flow from operating, investing and financing activities	(150,220)	(45,742)	(104,478)
Effect of foreign exchange on cash and cash equivalents	6,699	2,343	4,356
Net change in cash and cash equivalents	(143,521)	(43,399)	(100,122)
Cash and cash equivalents, beginning of period	1,256,005	1,408,199	(152,194)
Cash and cash equivalents, end of period	1,112,484	1,364,800	(252,316)

Operating cash flows

For the quarter ended March 31, 2014, our cash flow from operations decreased 63.6 per cent to $62.3 million compared to $171.3 million in the same quarter of the prior year. Similarly, on a per share basis, for the quarter ended March 31, 2014, our cash flow from operations decreased 62.5 per cent to $0.48 per share compared to $1.28 per share in the same period of the prior year (please refer to page 22 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures). This year-over-year decrease was mainly the result of an increase in cash taxes paid and a decrease in non-cash working capital, most notably, related to accounts payable and accrued liabilities.

At March 31, 2014, restricted cash consisted of $36.4 million (December 31, 2013 – $48.5 million) for cash held in trust by WestJet Vacations; $8.8 million (December 31, 2013 – $8.3 million) for security on letters of guarantee; and, in accordance with U.S. regulatory requirements, $1.4 million (December 31, 2013 – $1.3 million) for cash not yet remitted for passenger facility charges.

Investing cash flows

For the quarter ended March 31, 2014, cash flow used for investing activities totaled $146.7 million as compared to $148.5 million in the same period of the prior year. The majority of our investing activities during the first quarter of 2014 related to the delivery of two Q400 aircraft, additional deposits for future Q400, Boeing 737 NG and Boeing 737 MAX aircraft and overhauls of owned engines.

Financing cash flows

For the quarter ended March 31, 2014, our financing cash outflows totaled $65.9 million as compared to $68.5 million in the same period of the prior year. Our financing activities in the first quarter of 2014 consisted mainly of cash inflows of $32.4 million related to the financing of two Q400 aircraft, offset by cash outflows related to long-term debt repayments of $47.7 million, cash interest paid of $10.2 million, dividends paid of $15.3 million and shares repurchased pursuant to our normal course issuer bid of $24.7 million.

Free cash flow

Free cash flow is a measure that represents the cash that a company is able to generate after meeting its requirements to maintain or expand its asset base. It is a calculation of operating cash flow, less the amount of cash used in investing activities related to property and equipment. Our free cash flow for the quarter ended March 31, 2014, was a negative $84.0 million or negative $0.65 per share, as compared to a positive $22.8 million or positive $0.17 per share in the same period of the prior year. This decrease is due to the decrease in operating cash flow year over year, which, as described above, is due to an increase in cash taxes paid and a decrease in non-cash working capital. In the short-term, when capital and investing activities are expected to be high due to aircraft and aircraft related expenditures, we expect to have negative free cash flow, which we are able to manage through our cash and cash equivalents. However, over a longer period of time, we expect our operating cash flows to sufficiently fund all our capital and investing activities.

Please refer to page 22 of this MD&A for a reconciliation of non-GAAP and additional GAAP measures.

Aircraft financing

We have grown through acquisitions of Boeing 737 NG and Bombardier Q400 aircraft. During the first quarter of 2014 our two Q400 aircraft deliveries were financed by secured term loans with Export Development Canada (EDC) for approximately 80 per cent of the purchase price of the aircraft. Our Q400 and 737 NG aircraft debt is financed in Canadian dollars, eliminating the foreign exchange exposure on any US-dollar-denominated debt. At March 31, 2014, we had 59 Boeing 737 NG aircraft and 10 Q400 aircraft financed with a remaining debt balance of $863.2 million, net of transaction costs. There are no financial covenant requirements associated with our debt.

To mitigate the earnings impact of changing interest rates on our variable rate loans, we have entered into interest rate swap agreements to fix the interest rates over the term of the loans. Upon proper qualification, we designated the interest rate swap contracts as effective cash flow hedges for accounting purposes. At March 31, 2014, no portion of the interest rate swap agreements was considered ineffective.

The following table presents the financial impact and statement presentation of the interest rate swap agreements on the condensed consolidated statement of financial position at March 31, 2014 and December 31, 2013 and on the condensed consolidated statement of earnings for the three months ended March 31, 2014 and 2013.

($ in thousands)	**Statement presentation**	**March 31 2014**	**December 31 2013**
Statement of Financial Position:			
Fair value	Accounts payable and accrued liabilities	(3,148)	(3,220)
Fair value	Other long-term assets	240	4,103
Unrealized gain (loss)	Hedge reserves (before tax impact)	(2,908)	883

($ in thousands)	**Statement presentation**	**Three months ended March 31 2014**	**2013**
Statement of Earnings:			
Realized loss	Finance costs	829	167

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

We currently have an $820.0 million guaranteed loan agreement with EDC pursuant to which EDC will make available to WestJet Encore financing support for the purchase of Bombardier Q400s. We are charged a non-refundable commitment fee of 0.2 per cent per annum on the undisbursed portion of the commitment. Availability of any undrawn amount will expire at the end of 2018. The expected amount available for each aircraft is up to 80 per cent of the net price with a term to maturity of up to 12 years, payable in quarterly instalments. At March 31, 2014, we have $656.5 million undrawn under the loan agreement.

During the first quarter of 2014, Standard & Poor's Rating Services (S&P) assigned WestJet an issuers 'BBB-' long-term corporate credit rating with a stable outlook. S&P's issuer credit ratings range from a high of AAA to a low of D and are an opinion about an obligor's overall creditworthiness but does not apply to any specific financial obligation. According to the S&P rating system, an obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Our credit rating is 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 rating will remain in effect for any given period of time or that our rating will not be revised or withdrawn entirely by S&P in the future if, in its judgment, circumstances so warrant. We paid a customary fee to S&P for credit rating services.

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

Contractual obligations and commitments

At March 31, 2014, our contractual obligations and commitments are indicated in the following table. All US-dollar amounts have been converted at the period-end closing exchange rate and presented in Canadian dollars in the table.

($ in thousands)	Total	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years
Long-term debt repayments	863,195	188,006	268,400	163,551	243,238
Operating leases and commitments(i)	940,072	230,436	318,974	195,041	195,621
Purchase obligations(ii)	4,693,402	517,918	800,485	974,904	2,400,095
Total contractual obligations	6,496,669	936,360	1,387,859	1,333,496	2,838,954

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

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

Our future US-dollar-denominated purchase commitments, including certain aircraft, are exposed to foreign exchange risk. We plan to meet our contractual obligations and commitments through our current cash and cash equivalents balance combined with cash flows from operations and future sources of aircraft financing. We continuously monitor the capital markets and assess financing alternatives available to us for our future aircraft deliveries. At this time, we are not aware of, nor do we reasonably expect, adverse changes to our future ability to access similar or different sources of liquidity.

Contingencies

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

FLEET

During the first quarter of 2014, we took delivery of two Q400 aircraft to end the quarter with a registered fleet of 115 aircraft with an average age of 6.9 years.

In March 2014, we converted five of our 25 purchase options with Bombardier to firm orders for Q400 aircraft, scheduled for delivery in the second half of 2015. Also during the quarter, we extended all three Boeing 737 NG 700 aircraft leases, previously scheduled to be returned in 2014.

As previously disclosed, we will be delivering to Southwest Airlines 10 of our oldest Boeing 737 NG 700 series aircraft beginning in the second half of 2014 with the final delivery expected in the first half of 2015. As a result of this sale, the non-cash book loss range is anticipated to be between $50 million to $60 million, calculated using an exchange rate of 1.11 Canadian dollars to one US dollar, consistent with our previous disclosure. This non-cash book loss is still anticipated to be recognized closer to the delivery dates of the aircraft.

Looking forward, we have firm commitments to take delivery of an additional 25 Boeing 737 NG aircraft, 65 Boeing MAX aircraft and an additional 15 Bombardier Q400 aircraft. The combination of our firm commitments, the lease renewal options and the sale of the 10 oldest Boeing 737 NG 700 series aircraft to Southwest help us to optimize the size and age of our fleet.

The following table illustrates our Boeing 737 and Bombardier Q400 fleet as at March 31, 2014 and December 31, 2013 as well as our firm commitments by year to 2027.

	Dec. 31, 2013	Mar. 31, 2014	2014	2015	2016	2017	2018-2020	2021-2023	2024-2027	Total	2027
Boeing											
737-600 NG	13	13	—	—	—	—	—	—	—	—	**13**
737-700 NG	69	69(iii)	—	5(ii)	7(ii)	1(ii)	—	—	—	**13**	**82**
737-800 NG	23	23(iv)	7	5	—	—	—	—	—	**12**	**35**
737 MAX 7(i)(v)	—	—	—	—	—	—	6	4	15	**25**	**25**
737 MAX 8(i)(v)	—	—	—	—	—	4	19	11	6	**40**	**40**
Bombardier											
Q400 NextGen(vi)	8	10	6	9	—	—	—	—	—	**15**	**25**
	113	**115**	**13**	**19**	**7**	**5**	**25**	**15**	**21**	**105**	**220**
Disposals(vii)	—	—	(5)	(5)	—	—	—	—	—	**(10)**	**(10)**
Total fleet with lease renewals	**113**	**115**	**8**	**14**	**7**	**5**	**25**	**15**	**21**	**95**	**210**
Lease expiries	—	—	—	(12)	(8)	(6)	(13)	(5)	—	**(44)**	**(44)**
Total fleet without lease renewals	**113**	**115**	**8**	**2**	**(1)**	**(1)**	**12**	**10**	**21**	**51**	**166**

(i) We have options to purchase an additional 10 Boeing 737 MAX aircraft between the years 2020 and 2021.
(ii) We have an option to convert any of these Boeing 737 NG 700 future commitments to Boeing 737 NG 800 aircraft.
(iii) At March 31, 2014, of the 69 Boeing 737 NG 700 aircraft in our fleet, 30 are leased (December 31, 2013 – 30) and 39 are owned (December 31, 2013 – 39).
(iv) At March 31, 2014, of the 23 Boeing 737 NG 800 aircraft in our fleet, 14 are leased (December 31, 2013 – 14) and 9 are owned (December 31, 2013 – 4).
(v) WestJet's Boeing 737 MAX 7 and MAX 8 aircraft orders can each be substituted for the other model of aircraft, or for Boeing 737 MAX 9 aircraft.
(vi) We have options to purchase an additional 20 Bombardier Q400 aircraft between the years 2015 and 2018.
(vii) Sale of 10 of our oldest Boeing 737 NG 700 aircraft to Southwest Airlines.

OFF BALANCE SHEET ARRANGEMENTS

Aircraft operating leases

We currently have 44 Boeing 737 aircraft under operating leases. Future cash flow commitments in connection with these aircraft totaled US $585.0 million at March 31, 2014 (December 31, 2013 – US $590.6 million) which we expect to fund through cash from operations. Although the current obligations related to our aircraft operating lease agreements are not recognized on our condensed consolidated statement of financial position, we include an amount equal to 7.5 times our annual aircraft leasing expense in assessing our overall leverage through our adjusted debt-to-equity and adjusted net debt to EBITDAR ratios discussed previously.

Fuel and de-icing facility corporations

We are a contracted party to 11 fuel facility arrangements and one de-icing facility arrangement whereby we participate under contract in fuel facility corporations and a de-icing corporation, along with other airlines, to obtain fuel services and de-icing services at major Canadian and U.S. airports. The fuel facility and de-icing facility corporations operate on a cost-recovery basis. The purpose of these corporations is to own and finance the systems that distribute fuel and de-icing fluid, respectively, to the contracting airlines, including the leasing of land rights, while providing the contracting airlines with preferential service and pricing over non-participating entities. The operating costs, including the debt service requirements, of the fuel and de-icing facility corporations are shared pro rata among the contracting airlines. The 11 fuel facility corporations and the one de-icing facility are not consolidated within our accounts. In the remote event that all other contracting airlines withdraw from the arrangements and we remained as sole member, we would be responsible for the costs of the fuel facility corporations and de-icing facility corporation, including debt service requirements. At February 28, 2014, the fuel facility corporations have combined total assets of approximately $497.9 million and liabilities of approximately $459.1 million.

RELATED-PARTY TRANSACTIONS

At March 31, 2014, 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:

	April 30, 2014	March 31, 2014
Issued and outstanding:		
Common voting shares	108,551,859	108,380,204
Variable voting shares	19,170,119	19,329,617
Total voting shares issued and outstanding	127,721,978	127,709,821
Voting shares potentially issuable:		
Stock options	2,732,835	2,759,353
RSUs – Key employee and pilot plan	474,182	474,182
RSUs – Executive share unit plan	132,281	132,281
PSUs – Executive share unit plan	177,757	177,757
Total voting shares potentially issuable	3,517,055	3,543,573
Total outstanding and potentially issuable voting shares	131,239,033	131,253,394

Quarterly dividend policy

Our dividend is reviewed against the Corporation's dividend policy on a quarterly basis in light of our financial position, financing policies, cash flow requirements and other factors deemed relevant. On May 5, 2014, the Board of Directors declared our 2014 second quarter dividend of $0.12 per common voting share and variable voting share payable on June 30, 2014 to shareholders of record on June 18, 2014. This remains consistent with the $0.12 per share declared and paid during our first quarter of 2014. We believe this demonstrates our confidence in delivering continued profitable results and is consistent with our objective of creating and returning value to our shareholders.

Normal course issuer bid

During the three months ended March 31, 2014, we repurchased and cancelled 954,840 shares under the normal course issuer bid that expired on February 18, 2014. This amount represents 14.4 per cent of the maximum number of shares we were authorized to repurchase, for total consideration of $24.7 million. As previously disclosed, we were authorized to purchase up to 6,616,543 Common Voting Shares and Variable Voting Shares (representing approximately five per cent of our issued and outstanding shares at the time of the bid) during the period of February 19, 2013 to February 18, 2014 and, during the entire 12 months of the bid we repurchased and cancelled 5,672,550 shares, representing 85.7 per cent of shares we were authorized to repurchase, for total consideration of $137.1 million. These shares were purchased on the open market through the facilities of the Toronto Stock Exchange (TSX) at the prevailing market price at the time of the transaction.

Subsequent to March 31, 2014, on May 5, 2014 we filed a notice with the TSX for a further normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, we are authorized to purchase up to 2,000,000 Common Voting Shares and Variable Voting Shares (representing approximately 1.6 per cent of our issued and outstanding shares at the time of the bid) during the period of May 8, 2014 to May 7, 2015 or until such time as the bid is completed or terminated at our option. Any shares purchased under the bid are purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid will be cancelled.

A shareholder of WestJet may obtain a copy of the notice filed with the TSX in relation to the bid, free of charge, by contacting the Corporate Secretary of WestJet at 22 Aerial Place N.E., Calgary, Alberta T2E 3J1 (telephone: (403) 444-2600) or by faxing a written request to (403) 444-2604.

OUTLOOK

In the first quarter of 2014, our profitable growth continued as we increased our revenue by 7.7 per cent year over year, achieved net earnings of $89.3 million, and welcomed aboard over 4.8 million guests, an increase of 7.0 per cent compared to the same period in the prior year. We remain focused on generating value for our shareholders evidenced by our first quarter ROIC of 13.7 per cent which represents the seventh consecutive quarter in which we exceeded our 12.0 per cent target. During the quarter, our revenue passenger miles grew 6.5 per cent and our system-wide capacity increased 8.0 per cent year over year resulting in a load factor for the quarter of 83.1 per cent, representing our second highest ever first quarter load factor.

We have built flexibility into our fleet plan through lease renewal options and our ability to deploy a mix of Boeing 737 NG and Bombardier Q400 aircraft, allowing us to align our growth with market conditions. In the first quarter we added two new Q400 aircraft to our fleet for a total of 10 Q400s, and will add six more before the end of 2014. In the remainder of the year, we will also take delivery of seven Boeing 737 NG 800 series aircraft and will dispose of five of our oldest Boeing 737 NG 700 series aircraft.

In terms of system-wide capacity, we expect year-over-year growth between 4.5 and 5.0 per cent for the second quarter, and between 5.0 and 6.0 per cent for the full-year 2014. We anticipate domestic capacity to grow between 4.0 and 4.5 per cent for the second quarter and 5.0 to 6.0 per cent year-over-year for the full-year 2014. For the second quarter of 2014, we expect strong revenue and traffic growth and the continuation of the improving positive year-over-year trend in reported RASM over the last four quarters.

For the second quarter of 2014, we expect CASM, excluding fuel and employee profit share, to be up between 3.0 and 4.0 per cent year over year. This increase is primarily as a result of a weaker Canadian to U.S. dollar exchange rate compared to last year, higher maintenance and airport operations expenses, partially offset by lower inflight expenses. In terms of full-year 2014, we expect CASM, excluding fuel and employee profit share, to be up between 2.0 and 2.5 per cent year over year.

We expect fuel costs to range between 94 and 96 cents per litre for the second quarter of 2014 which represents a year-over-year increase of 8.0 to 10.0 per cent. The second quarter 2014 expected fuel costs are based on current forecasted jet fuel prices of US $121 per barrel and an average foreign exchange rate of approximately 1.12 Canadian dollars to one US dollar.

For the full-year 2014, we are now forecasting capital expenditures, net of the proceeds from the sale of the first five aircraft pursuant to the Southwest transaction, of approximately $620 million to $640 million, with spending related primarily to aircraft deliveries, deposits on future aircraft, and engine overhauls. This compares with our previous full year 2014 guidance of $610 million to $630 million, with the difference primarily related to deposits associated with the conversion of options to firm orders for Q400 aircraft. For the second quarter of 2014, we expect our capital expenditures to range between approximately $195 and $205 million.

Guidance summary

	Three months ended June 30, 2014	Year ended December 31, 2014
RASM	Continuation of the improving positive year over year trend reported over the last four quarters	
Fuel cost per litre	94 to 96 cents	
CASM, excluding fuel and profit share	Up 3.0% to 4.0%	Up 2.0% to 2.5%
System capacity	Up 4.5% to 5.0%	Up 5.0% to 6.0%
Domestic capacity	Up 4.0% to 4.5%	Up 5.0% to 6.0%
Effective tax rate		27.0% to 29.0%
Capital expenditures	$195 to $205 million	$620 to $640 million

ACCOUNTING

Critical accounting judgments and estimates

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated financial statements are described in WestJet's 2013 annual MD&A and annual consolidated financial statements for the year ended December 31, 2013. 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. There have been no material changes to our critical accounting estimates and judgments during the three months ended March 31, 2014, other than the change in estimate for our allowance for doubtful accounts relating to value-added tax (VAT) in a foreign jurisdiction (please refer to Note 1 in the condensed consolidated interim financial statements and notes for the three months ended March 31, 2014 and 2013).

Future accounting pronouncements

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standard that has not been applied in preparing our condensed consolidated financial statements and notes thereto, for the three months ended March 31, 2014 as its effective date falls within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date
IFRS 9 – Financial Instruments	A single financial instrument accounting standard addressing: classification and measurement (Phase 1), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – Financial Instruments: Recognition and Measurement; Presentation; Disclosures	The effective date has been deferred, tentatively to January 1, 2018, pending the finalization of the standard's impairment requirements.

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

CONTROLS AND PROCEDURES

Disclosure controls and procedures (DC&P)

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

An evaluation of our DC&P was conducted, as at March 31, 2014, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at March 31, 2014, our DC&P, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), was effective.

Internal control over financial reporting (ICFR)

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

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

Management, under the supervision of the CEO and the CFO, has evaluated our ICFR using the framework and criteria established in the 1992 Internal Controls – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at March 31, 2014, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the interim period ended March 31, 2014 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: that we expect to welcome a new Executive Vice-President and Chief Information Officer in June 2014, referred to under the heading *WestJetters* on page 3; that our daily service to Penticton, British Columbia will begin on October 26, 2014, that our seasonal daily service to Dublin, Ireland will begin June 15, 2014 through to October 5, 2014 and our anticipation that WestJet Encore will expand further east in the summer of 2014, all referred to under the heading *Network Expansion* on page 3; that our guests will be able to use their own personal electronic device to receive live and stored content streamed wirelessly from a server on board each Boeing 737 NG aircraft, that airtime packages will also be available to provide guests with the ability to surf the internet, access email or plan a vacation on westjet.com, our plan to make tablets or other similar electronic devices available for rent on board the aircraft to those guests not travelling with a device, that we will install USB/110 volt power outlets in new, slimmer seats on our Boeing 737 NG aircraft to enable guests to charge their devices while using the entertainment system, that, with a mix of free and paid content, the new system offerings will create an enhanced experience for our guests and additional ancillary revenue opportunities for WestJet, all referred to under the heading *Guest experience and service enhancements* on pages 3 and 4; that we will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant, referred to under the heading *Aircraft Fuel* on page 5; our estimate of our sensitivity of fuel costs to changes in crude oil of approximately $9.0 million annually for every one US-dollar change per barrel of WTI crude oil, and our estimate of our sensitivity to changes in fuel pricing of approximately $12.0 million for every one-cent change per litre of jet fuel and our estimate of our sensitivity to fluctuations in foreign exchange rates to be approximately $10.3 million for every one-cent change in the value of the Canadian dollar versus the US dollar, all referred to under the heading *Aircraft Fuel* on page 5; our expectation that our compensation philosophy will align corporate and personal success and will encourage employees to become owners in WestJet and have a vested interest in our financial results and operational accomplishments, referred to under the heading *Compensation* on page 7; that the ESPP provides our employees with the opportunity to enhance their earnings by becoming owners of WestJet shares, referred to under the heading *Employee share purchase plan (ESPP)* on page 7; our estimate that every one-cent change in the value of the Canadian dollar versus the US dollar will have an approximate impact of $12.9 million on our annual unhedged operating costs, (approximately $10.3 million for fuel and $2.6 million related to other US-dollar-denominated operating expenses), referred to under the heading *Foreign Exchange* on page 8; that we anticipate our annual effective tax rate will remain in the range of 27 per cent to 29 per cent for 2014, referred to under the heading *Income Taxes* on page 8; our expectation that, in the short-term, capital and investing activities will be high due to aircraft and aircraft related expenditures and that we will have negative free cash flow, and our expectation that, over a longer period of time, our operating cash flows will sufficiently fund all our capital and investing activities, each referred to under the heading *Free cash flow* on page 11; that we expect to receive financing from EDC for up to 80 per cent of the net price for each Bombardier Q400 aircraft, referred to under the heading *Aircraft Financing* on page 11; our expectation that our credit rating will provide WestJet with a range of public and private debt financing options in the future, referred to under the heading *Aircraft Financing* on page 12; that we continue to evaluate the optimum balance and sources of financing available to us, referred to under the heading *Aircraft Financing* on page 12; our expectation that there will not be adverse changes to our future ability to access similar or different sources of liquidity than we historically have, for the purposes of meeting our contractual obligations and commitments, referred to under the heading *Contractual Obligations and Commitments* on page 12; that the future outcome of our current legal proceedings and claims will not have a material effect upon our financial position, results of operations or cash flows, referred to under the heading *Contingencies* on page 12; that we will take delivery of 25 Boeing 737 MAX 7 aircraft and 40 Boeing 737 MAX 8 aircraft between 2017 and 2027, referred to under the heading *Fleet* on page 13; that we will take delivery of our remaining firm commitments for 25 Boeing 737 NG aircraft, with 44 Boeing 737 NG aircraft leases expiring between 2015 and 2021, each with the option to renew, referred to under the heading *Fleet* on page 13; that we will sell 10 of our oldest Boeing 737 NG aircraft between 2014 and 2015 to Southwest Airlines and that we anticipate a non-cash book loss in the range of $50 million to $60 million, calculated using an exchange rate of 1.11 Canadian dollars to one US dollar, to be recognized closer to the time the aircraft are to be delivered, referred to under the heading *Fleet* on page 13; that we expect to fund future aircraft operating lease payments through cash from operations, referred to under the heading *Aircraft Operating Leases* on page 14 that we will pay a dividend on June 30, 2014 to shareholders of record on June 18, 2014, referred to under the heading *Quarterly Dividend Policy* on page 15; our confidence in delivering continued profitable, as referred to under section *Quarterly Dividend Policy* on page 15; that we anticipate strong revenue and traffic growth results in the second quarter of 2014 and the continuation of the improving positive year-over-year trend in reported RASM over the last four quarters, referred to under the heading *Outlook* on page 16; our expectation that we will add six more Bombardier Q400s before the end of 2014, referred to under the heading *Outlook* on page 16; our expectation that we will take delivery of seven Boeing 737 NG 800 series aircraft and will dispose of five of our oldest Boeing 737 NG 700 series aircraft in the remainder of the year, referred to under the heading *Outlook* on page 16; our expectation that system-wide capacity growth will be between 4.5 and 5.0 per cent for the second quarter of 2014, and between 5.0 and 6.0 per cent for the full-year 2014, referred to under the heading *Outlook* on page 16; that we anticipate our domestic capacity to grow between 4.0 and 4.5 per cent for the second quarter of 2014 and between 5.0 to 6.0 per cent year-over-year growth for the full-year 2014, referred to under the heading *Outlook* on page 16; that we expect full-year 2014 CASM, excluding fuel and employee profit share, to be up 2.0 to 2.5 per cent, and second-quarter 2014 CASM, excluding fuel and employee profit share, to be up 3.0 to 4.0 per cent year over year, referred to under the heading *Outlook* on page 16; that we expect fuel costs to range between 94 and 96 cents per litre for the second quarter of 2014, representing an eight to ten per cent year-over-year increase, referred to under the heading *Outlook* on page 16; that for the full-year 2014, we are forecasting capital expenditures between $620 million and $640 million, with spending related primarily to direct owned aircraft deliveries, deposits on future aircraft, overhauls on owned engines, referred to under the heading *Outlook* on page 16; that for the second quarter of 2014, we are forecasting capital expenditures to range between $195 million and $205 million, as referred to under the heading *Outlook* on page 16; our expectation of an effective tax rate of 27.0 per cent to 29.0 per cent, referred to in the Guidance summary chart under the heading *Outlook* on page 16; that we do not anticipate early adopting the new financial instrument standard, referred to under the heading *Future Accounting Pronouncements* on page 17.

Readers are cautioned that our expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. With respect to forward-looking information contained within this MD&A, we have made the following key assumptions:

- That we expect to welcome a new Executive Vice-President and Chief Information Officer in June 2014, is based on the current employment contract;
- That our daily service to Penticton, British Columbia will begin on October 26, 2014, that our seasonal daily service to Dublin, Ireland will begin June 15, 2014 through to October 5, 2014 and our anticipation that WestJet Encore will expand further east in the summer of 2014 is best on our current network plan;
- That our guests will be able to use their own personal electronic device to receive live and stored content streamed wirelessly from a server on board each Boeing 737 NG aircraft, that airtime packages will also be available to provide guests with the ability to surf the internet, access email or plan a vacation on westjet.com, our plan to make tablets or other similar electronic devices available for rent on board the aircraft to those guests not travelling with a device, that we will install USB/110 volt power outlets in new, slimmer seats on our Boeing 737 NG aircraft to enable guests to charge their devices while using the entertainment system, that, with a mix of free and paid content, the new system offerings will create an enhanced experience for our guests and additional ancillary revenue opportunities for our Company is based on our agreements with certain vendors and our strategic plan;
- Our expectation that we will continue to mitigate the risk of movements in fuel prices through our revenue management strategy and that we may re-visit our hedging program is based on our risk management policies;
- Our estimated sensitivity to fuel costs and changes in fuel prices is based on our fuel consumption for our existing schedule and historical fuel burn, as well as a Canadian-US dollar exchange rate assumptions based on the current exchange rate;
- Our expectations that our compensation philosophy will align corporate and personal success is based on our assessment that compensation variability tied to our financial results creates a personal vested interest in our financial and operational performance;
- That employees will have their earnings enhanced by the ESPP is based on our compensation strategy to encourage employees to become WestJet owners;
- Our estimated sensitivity to the change in value of the Canadian dollar versus the US dollar is based on forecasted operating expenses denominated in US dollars, excluding a portion of aircraft leasing expenses hedged under foreign exchange forward contracts, as well as the Canadian-US dollar exchange rate assumptions based on the current exchange rate;

- Our expected annual effective tax rate for 2014 is based on current legislation, and expectations about the timing of when temporary differences between accounting and tax bases will occur;
- Our expectation to receive financing from EDC for up to 80 per cent of the net price for each Bombardier Q400 aircraft is based on our agreement with EDC;
- Our expectation that our credit rating will provide WestJet with a range of public and private debt financing options in the future is based on our credit rating remaining in effect for any given period of time and not being revised or withdrawn;
- Our expectation that we continue to evaluate the optimum balance and sources of financing available to us is based on our internal requirements and capital structure as well as the external environment for aircraft financing;
- Our expectation that there will not be adverse changes to our future ability to access sources of aircraft financing is based on our current financial position, aircraft delivery schedule and strategic plan;
- Our assessment that the outcome of legal proceedings in the normal course of business will not have a material effect on our financial position, results of operations or cash flow is based on a review of current legal proceedings by management and legal counsel;
- That we will take delivery of 25 Boeing 737 MAX 7 aircraft and 40 Boeing 737 MAX 8 aircraft between 2017 and 2027 is based on our current fleet plan and our agreement with Boeing;
- Our expectation that we will take delivery of our remaining firm commitments for Boeing 737 NG aircraft is based on our current fleet plan and our agreement with Boeing;
- That we will sell 10 of our oldest Boeing 737 NG 700 aircraft is based on our agreement with Southwest;
- Our anticipated amount and timing of a non-cash book loss on the sale of 10 Boeing 737 NG 700 aircraft is based on a 1.11 Canadian dollar to US dollar foreign exchange rate, our assessment of when the aircraft will be considered ready for sale and the aircrafts net book value at that time;
- Our expectation that we will fund operating leases and commitments through cash from operations is based on our current strategic plan, budget and forecast;
- Our intention to pay our 2014 second quarter dividend to shareholders of record on June 18, 2014 on June 30, 2014 is based on the declaration and terms of the dividend declared by our Board of Directors;
- Our anticipated strong revenue and traffic growth results in the second quarter of 2014 and the continuation of the improving positive year-over-year trend in reported RASM over the last four quarters is based on our current demand forecast;
- Our expectation that system-wide capacity will be up 4.5 to 5.0 per cent for the second quarter of 2014, and up 5.0 to 6.0 per cent for the full-year 2014, that domestic capacity will increase between 4.0 and 4.5 per cent for the second quarter of 2014, and between 5.0 and 6.0 per cent year-over-year for the full-year 2014, is based on our current network plans and aircraft deliveries;
- Our anticipation that our 2014 full-year CASM, excluding fuel and employee profit share, will be up 2.0 to 2.5 per cent, and second-quarter 2014 CASM, excluding fuel and employee profit share, will be up 3.0 to 4.0 per cent compared to the second quarter of 2013 and the factors contributing thereto is based on our current forecast;
- Our projection of fuel costs to range between 94 and 96 cents per litre for the second quarter of 2014, representing a an 8.0 to 10.0 per cent year-over-year increase is based on current forecasted jet fuel prices of US $121 per barrel and an average foreign exchange rate of approximately 1.12 Canadian dollars to one US dollar;
- Our expectation that full-year 2014 capital expenditures will be between $620 and $640 million and for the second quarter of 2014, will range between $195 to $205 million is based on our 2014 capital forecast and contractual commitments;
- Our expectations that we will not early adopt IFRS 9 – *Financial Instruments* is based on our current accounting policies and the assessment of those standards on our policies.

DEFINITION OF KEY OPERATING INDICATORS

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

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

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

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

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

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

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

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

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

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

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

Utilization: Operating hours per day per operating aircraft.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

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

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

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

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

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

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

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

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

Reconciliation of non-GAAP and additional GAAP measures

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

CASM, excluding fuel and employee profit share

	Three months ended March 31		
($ in thousands)	2014	2013	Change
Operating expenses	910,498	834,878	75,620
Aircraft fuel expense	(284,836)	(271,048)	(13,788)
Employee profit share expense	(20,998)	(24,311)	3,313
Operating expenses, adjusted	604,664	539,519	65,145
ASMs	6,514,585,070	6,032,096,070	8.0%
CASM, excluding above items (cents)	9.28	8.94	3.8%

Adjusted debt-to-equity

($ in thousands)	March 31 2014	December 31 2013	Change
Long-term debt(i)	863,195	878,395	(15,200)
Off-balance-sheet aircraft leases(ii)	1,329,338	1,317,345	11,993
Adjusted debt	2,192,533	2,195,740	(3,207)
Total shareholders' equity	1,637,501	1,589,840	47,661
Add: Hedge reserves	(58)	(105)	47
Adjusted equity	1,637,443	1,589,735	47,708
Adjusted debt-to-equity	1.34	1.38	(2.9%)

(i) At March 31, 2014, long-term debt includes the current portion of long-term debt of $188,004 (December 31, 2013 – $189,191) and long-term debt of $675,191 (December 31, 2013 – $689,204).

(ii) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At March 31, 2014, the trailing 12 months of aircraft leasing costs totaled $177,245 (December 31, 2013 – $175,646).

Adjusted net debt to EBITDAR

($ in thousands)	March 31 2014	December 31 2013	Change
Net earnings	266,940	268,722	(1,782)
Add:			
Net finance costs(i)	26,956	25,599	1,357
Taxes	102,479	103,363	(884)
Depreciation and amortization	213,843	200,840	13,003
Aircraft leasing	177,245	175,646	1,599
Other(ii)	430	(1,136)	1,566
EBITDAR	787,893	773,034	14,859
Adjusted debt	2,192,533	2,195,740	(3,207)
Less: Cash and cash equivalents	(1,112,484)	(1,256,005)	143,521
Adjusted net debt	1,080,049	939,735	140,314
Adjusted net debt to EBITDAR	1.37	1.22	12.3%

(i) At March 31, 2014, net finance costs includes the trailing 12 months of finance income of $17,461 (December 31, 2013 – $17,848) and the trailing 12 months of finance cost of $44,417 (December 31, 2013 – $43,447).

(ii) At March 31, 2014, other includes the trailing 12 months foreign exchange loss of $430 (December 31, 2013 – gain of $1,136) and the trailing 12 months non-operating loss on derivatives of $nil (December 31, 2013 – $nil).

Return on invested capital

($ in thousands)	March 31 2014	December 31 2013	Change
Earnings before income taxes	369,419	372,085	(2,666)
Add:			
Finance costs	44,417	43,447	970
Implicit interest in operating leases(i)	93,054	92,214	840
	506,890	507,746	(856)
Invested capital:			
Average long-term debt(ii)	780,523	808,722	(28,199)
Average obligations under finance leases(iii)	-	-	-
Average shareholders' equity	1,593,465	1,531,073	62,392
Off-balance-sheet aircraft leases(iv)	1,329,338	1,317,345	11,993
	3,703,326	3,657,140	46,186
Return on invested capital	13.7%	13.9%	(0.2 pts.)

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

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

(iii) Average obligations under finance leases include the current portion and long-term portion.

(iv) Off-balance-sheet aircraft leases are calculated by multiplying the trailing 12 months of aircraft leasing expense by 7.5. At March 31, 2014, the trailing 12 months of aircraft leasing costs totaled $177,245 (December 31, 2013 – $175,646).

Operating cash flow per share

	Three months ended March 31		
($ in thousands, except per share data)	**2014**	**2013**	**Change**
Cash flow from operating activities	62,299	171,254	(108,955)
Weighted average number of shares outstanding - diluted	129,357,943	134,049,418	(4,691,475)
Diluted operating cash flow per share	0.48	1.28	(62.5%)

Free cash flow

	Three months ended March 31		
($ in thousands, except per share data)	**2014**	**2013**	**Change**
Cash flow from operating activities	62,299	171,254	(108,955)
Adjusted for:			
Aircraft additions	(136,905)	(125,481)	(11,424)
Other property and equipment and intangible additions	(9,757)	(22,990)	13,233
Free cash flow	(84,363)	22,783	(107,146)
Weighted average number of shares outstanding - diluted	129,357,943	134,049,418	(4,691,475)
Diluted free cash flow per share	(0.65)	0.17	(482.4%)