Financial and Operational Highlights

The financial and operational highlights for WestJet for the three and nine months ended September 30, 2015, are as follows:

	($ in thousands, unless otherwise noted)	Three months ended September 30			Nine months ended September 30		
		2015	2014	Change	2015	2014	Change
Financial highlights	Revenue	1,045,055	1,009,728	3.5%	3,070,550	2,982,158	3.0%
	Operating expenses	885,537	883,898	0.2%	2,613,484	2,646,294	(1.2%)
	Earnings from operations	159,518	125,830	26.8%	457,066	335,864	36.1%
	Operating margin (per cent)	15.3%	12.5%	2.8 pts.	14.9%	11.3%	3.6 pts.
	EBT	146,295	71,401	104.9%	427,630	265,491	61.1%
	Adjusted EBT(i)	146,295	116,860	25.2%	427,630	310,950	37.5%
	EBT margin (per cent)(i)	14.0%	7.1%	6.9 pts.	13.9%	8.9%	5.0 pts.
	Adjusted EBT margin (per cent)(i)	14.0%	11.6%	2.4 pts.	13.9%	10.4%	3.5 pts.
	Taxes	44,492	19,210	131.6%	123,536	72,247	71.0%
	Net earnings	101,803	52,191	95.1%	304,094	193,244	57.4%
	Adjusted net earnings(i)	101,803	85,422	19.2%	304,094	226,475	34.3%
	Earnings per share:						
	Basic	0.82	0.41	100.0%	2.42	1.51	60.3%
	Diluted	0.82	0.40	105.0%	2.40	1.50	60.0%
	Diluted (adjusted) (i)	0.82	0.66	24.2%	2.40	1.76	36.4%
	ROIC (per cent)(i)	16.1%	13.8%	2.3 pts.	16.1%	13.8%	2.3 pts.

		Three months ended September 30			Nine months ended September 30		
		2015	2014	Change	2015	2014	Change
Operational highlights	ASMs	6,904,193,981	6,498,320,506	6.2%	20,377,438,384	19,205,786,059	6.1%
	RPMs	5,646,514,106	5,401,025,233	4.5%	16,411,790,259	15,747,552,319	4.2%
	Load factor	81.8%	83.1%	(1.3 pts.)	80.5%	82.0%	(1.5 pts.)
	Yield (cents)	18.51	18.70	(1.0%)	18.71	18.94	(1.2%)
	RASM (cents)	15.14	15.54	(2.6%)	15.07	15.53	(3.0%)
	CASM (cents)	12.83	13.60	(5.7%)	12.83	13.78	(6.9%)
	CASM, excluding fuel and employee profit share (cents)(i)	9.35	8.90	5.1%	9.27	9.13	1.5%
	Fuel consumption (litres)	326,531,738	305,320,905	6.9%	960,602,171	913,746,054	5.1%
	Fuel costs per litre (cents)	63	94	(33.0%)	66	93	(29.0%)
	Segment guests	5,517,289	5,246,819	5.2%	15,388,356	14,825,828	3.8%
	Average stage length (miles)	881	910	(3.2%)	918	939	(2.2%)
	Departures	55,715	50,661	10.0%	156,486	144,182	8.5%
	Utilization (hours)	11.7	11.8	(0.8%)	11.7	11.9	(1.7%)
	Full-time equivalent employees at period end	9,103	8,560	6.3%	9,103	8,560	6.3%
	Fleet size at period end	132	123	7.3%	132	123	7.3%

(i) Please refer to page 29 of this MD&A for a reconciliation of non-GAAP measures and additional GAAP measures.

Expenses

	Expense ($ in thousands)			CASM (cents)		
	Three months ended Sept. 30			Three months ended Sept. 30		
	2015	2014	Change	2015	2014	Change
Aircraft fuel	206,924	286,817	(27.9%)	3.00	4.41	(32.0%)
Airport operations	142,176	128,381	10.7%	2.06	1.98	4.0%
Flight operations and navigational charges	126,821	112,886	12.3%	1.84	1.74	5.7%
Sales and distribution	98,351	94,764	3.8%	1.43	1.46	(2.1%)
Depreciation and amortization	69,739	56,620	23.2%	1.01	0.87	16.1%
Marketing, general and administration	58,604	50,647	15.7%	0.85	0.78	9.0%
Maintenance	62,347	48,062	29.7%	0.89	0.74	20.3%
Inflight	47,029	43,600	7.9%	0.68	0.67	1.5%
Aircraft leasing	40,572	43,082	(5.8%)	0.59	0.66	(10.6%)
Employee profit share	32,974	19,039	73.2%	0.48	0.29	65.5%
Total operating expenses	**885,537**	**883,898**	**0.2%**	**12.83**	**13.60**	**(5.7%)**
Total, excluding fuel and profit share	**645,639**	**578,042**	**11.7%**	**9.35**	**8.90**	**5.1%**

During the three months ended September 30, 2015, operating expenses remained flat compared to the same period in 2014. On an ASM basis, operating expenses decreased by 5.7 per cent to 12.83 cents from 13.60 cents in the same period in 2014. This decrease was driven largely by a decrease in aircraft fuel expense partially offset by the increases in our employee profit share expense, maintenance expense and depreciation and amortization expense.

Our CASM, excluding fuel and profit share, increased by 5.1 per cent, which was outside of our previously disclosed guidance of up 3.5 to 4.0 per cent, primarily as the result of lower than expected ASMs during the quarter in addition to a weaker Canadian dollar.

	Expense ($ in thousands)			CASM (cents)		
	Nine months ended Sept. 30			Nine months ended Sept. 30		
	2015	2014	Change	2015	2014	Change
Aircraft fuel	632,317	846,514	(25.3%)	3.10	4.41	(29.7%)
Airport operations	412,510	377,178	9.4%	2.02	1.96	3.1%
Flight operations and navigational charges	372,560	339,616	9.7%	1.83	1.77	3.4%
Sales and distribution	285,304	282,598	1.0%	1.40	1.47	(4.8%)
Depreciation and amortization	189,684	172,044	10.3%	0.93	0.90	3.3%
Marketing, general and administration	175,108	164,030	6.8%	0.86	0.85	1.2%
Maintenance	171,599	151,612	13.2%	0.84	0.79	6.3%
Inflight	150,098	130,410	15.1%	0.74	0.68	8.8%
Aircraft leasing	132,208	136,904	(3.4%)	0.65	0.71	(8.5%)
Employee profit share	92,096	45,388	102.9%	0.46	0.24	91.7%
Total operating expenses	**2,613,484**	**2,646,294**	**(1.2%)**	**12.83**	**13.78**	**(6.9%)**
Total, excluding fuel and profit share	**1,889,071**	**1,754,392**	**7.7%**	**9.27**	**9.13**	**1.5%**

During the nine months ended September 30, 2015, operating expenses decreased by 1.2 per cent to $2,613.5 million as compared to $2,646.3 million in the same period in 2014, primarily driven by the year-over-year decrease in aircraft fuel expense, partially offset by the increase in our employee profit share expense.

On an ASM basis, operating expenses for the nine months ended September 30, 2015 decreased by 6.9 per cent to 12.83 cents from 13.78 cents in the same period in 2014. Included in the first half of 2014 is a fuel value added tax recovery (VAT recovery) of $20.1 million, $17.6 million in aircraft fuel expense and $2.5 million in airport operations expense, related to the periods 2009 to 2013. Excluding the VAT recovery from the comparable period, CASM would have decreased by 7.6 per cent and CASM, excluding fuel and profit share would have increased by 1.3 per cent over the same period in 2014.

Aircraft fuel

	Three months ended September 30			Nine months ended September 30		
	2015	2014	Change	2015	2014	Change
Aircraft fuel expense ($ in thousands)	206,924	286,817	(27.9%)	632,317	846,514	(25.3%)
Aircraft fuel expense as a percent of operating expenses	23.0%	32.0%	(9.0 pts.)	24.0%	32.0%	(8.0 pts.)
Fuel consumption (litres)	326,531,738	305,320,905	6.9%	960,602,171	913,746,054	5.1%
Fuel cost per litre (cents)	63	94	(33.0%)	66	93	(29.0%)
Average market price for jet fuel in US dollars (per barrel)	65	120	(45.8%)	71	123	(42.3%)
Average market price for jet fuel in Canadian dollars (per barrel)	85	131	(35.1%)	89	134	(33.6%)

Fuel remains a significant cost representing 23.0 per cent and 24.0 per cent of total operating expenses for the three and nine months ended September 30, 2015 (three and nine months ended September 30, 2014 – 32 per cent). Fuel prices continue to be volatile due to global economic and geopolitical factors which we can neither control nor accurately predict. For the three and nine months ended September 30, 2015, aircraft fuel expense decreased by 27.9 per cent and 25.3 per cent to $206.9 million and $632.3 million from $286.8 million and $846.5 million, respectively, primarily due to the year-over-year decrease in the Canadian market price for jet fuel.

Fuel costs per ASM for the three and nine months ended September 30, 2015, were 3.00 cents and 3.10 cents, compared to 4.41 cents for both comparable periods of 2014, a decrease of 32.0 per cent and 29.7 per cent, respectively year over year. Excluding the VAT recovery from the nine months ended September 30, 2014, fuel costs per ASM would have been 4.50 cents, a decrease of 31.1 per cent year over year. This decrease was driven by the overall decrease in the Canadian market price of jet fuel.

Our fuel costs per litre for the three and nine months ended September 30, 2015 decreased by 33.0 per cent and 29.0 per cent to 63 cents and 66 cents per litre. On average, the market price for jet fuel was US $65 per barrel in the third quarter of 2015 versus US $120 per barrel in the third quarter of 2014, a decrease of approximately 45.8 per cent. The benefit from the lower market price of US-dollar jet fuel on a year-over-year basis was partially offset by the weaker Canadian dollar as the average market price for jet fuel in Canadian dollars decreased by only 35.1 per cent to $85 per barrel from $131 per barrel in the third quarter of 2014.

Similarly, on average, the market price for jet fuel was US $71 per barrel for the nine months ended September 30, 2015 versus US $123 per barrel in the same period of the prior year, a decrease of approximately 42.3 per cent while jet fuel in Canadian dollars decreased by only 33.6 per cent to $89 per barrel from $134 per barrel in the same period of 2014.

For 2015, we estimate our sensitivity of fuel costs to changes in crude oil to be approximately US $8.0 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 $13.0 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 $5.9 million on fuel costs.

As at September 30, 2015, we have no fuel derivative contracts outstanding. We will continue to monitor and adjust to movements in fuel prices and may re-visit our hedging strategy as changing markets and competitive conditions warrant.

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 September 30			Nine months ended September 30		
($ in thousands)	2015	2014	Change	2015	2014	Change
Salaries and benefits	171,586	153,103	12.1%	526,255	468,468	12.3%
Employee share purchase plan	22,101	19,809	11.6%	64,274	57,953	10.9%
Employee profit share	32,974	19,039	73.2%	92,096	45,388	102.9%
Share-based payment plans	4,125	4,548	(9.3%)	12,875	14,310	(10.0%)
Total	**230,786**	**196,499**	**17.4%**	**695,500**	**586,119**	**18.7%**
Presentation on the Condensed Consolidated Statement of Earnings:						
Airport operations	30,916	28,145	9.8%	88,292	81,055	8.9%
Flight operations and navigational charges	67,549	59,891	12.8%	206,913	184,607	12.1%
Sales and distribution	19,436	17,512	11.0%	55,928	53,358	4.8%
Marketing, general and administration	27,058	22,818	18.6%	85,419	73,941	15.5%
Inflight	36,116	33,838	6.7%	116,294	101,921	14.1%
Maintenance	16,737	15,256	9.7%	50,558	45,849	10.3%
Employee profit share	32,974	19,039	73.2%	92,096	45,388	102.9%
Total	**230,786**	**196,499**	**17.4%**	**695,500**	**586,119**	**18.7%**

Salaries and benefits

Salaries and benefits are determined via a framework of job levels based on internal experience and external market data. During the three and nine months ended September 30, 2015, salaries and benefits increased by 12.1 per cent and 12.3 per cent to $171.6 million and $526.3 million, from $153.1 million and $468.5 million in the same periods of 2014. These increases were primarily due to the 6.3 per cent increase in our total number of full-time equivalent employees to 9,103 employees at September 30, 2015 (September 30, 2014 – 8,560 employees), and our annual market and merit increases as a result of our growth. 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 and provides employees with the opportunity to significantly enhance their earnings. Under the terms of the ESPP, WestJetters may, dependent on their employment agreement, contribute up to a maximum of 10 per cent 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 September 30, 2015, approximately 83.8 per cent of our eligible active employees participated in the ESPP, contributing an average of 14.1 per cent of their gross salaries, which remains relatively unchanged from the same period of the prior year. Under the terms of the ESPP, we acquire voting shares on behalf of employees through open market purchases. For the three and nine months ended September 30, 2015, our matching expense was $22.1 million and $64.3 million, an 11.6 per cent and 10.9 per cent increase, respectively, from $19.8 million and $58.0 million in the same periods of 2014, driven largely by the increased number of eligible employees compared to the prior year as well as the overall increase in salaries, as discussed above under the heading *Salaries and benefits*.

Employee profit share

All employees are eligible to participate in the employee profit sharing plan. As the profit share system is a variable cost, employees receive larger awards when we are more profitable. Conversely, the amount distributed to employees is reduced in less profitable periods. Our profit share expense for the three months ended September 30, 2015, was $33.0 million, representing a 73.2 per cent increase from $19.0 million in the same period of the prior year. This year-over-year increase is

Fleet

During the third quarter of 2015, we took delivery of one Q400 aircraft, one Boeing 737 NG 800 series aircraft and our first Boeing 767-300ERW aircraft to end the quarter with a registered fleet of 132 aircraft with an average age of 6.7 years.
As we continue to increase the proportion of Q400s in our fleet, our combined average stage length, calculated using a departures based methodology in line with industry standards, will be negatively impacted until such time that the aircraft mix in our fleet is stable. Our Q400s are used for short-haul flying which results in an increase in the number of departures compared to our Boeing 737 NG aircraft. For the three and nine months ended September 30, 2015, our combined average stage length of 881 and 918 miles decreased by 3.2 per cent and 2.2 per cent, respectively, compared to the combined average stage length of 910 miles and 939 miles for the same periods in 2014. On a fleet basis, for the three and nine months ended September 30, 2015, our Bombardier Q400 average stage length increased by 4.5 per cent and 9.7 per cent and our Boeing NG 737 stage length increased by 2.2 per cent and 3.2 per cent, respectively.

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

The following table illustrates our Boeing 737, Boeing 767 and Bombardier Q400 fleet as at September 30, 2015 and December 31, 2014 as well as our firm commitments through to 2027.

	Total		Future Deliveries							Total
	Dec. 31, 2014	Sep. 30, 2015	Q4 2015	2016	2017	2018-20	2021-23	2024-27	Total	2027
Boeing narrow body										
737-600 NG	13	13	—	—	—	—	—	—	—	13
737-700 NG(i)	64	59	—	—	—	—	—	—	—	59
737-800 NG(ii)	30	36	6	5	1(iii)	—	—	—	12	48
737 MAX 7(iv)(v)	—	—	—	—	—	6	4	15	25	25
737 MAX 8(iv)(v)	—	—	—	—	4	19	11	6	40	40
Boeing wide body										
767-300 ERW	—	1	2	1	—	—	—	—	3	4
Boeing aircraft	**107**	**109**	**8**	**6**	**5**	**25**	**15**	**21**	**80**	**189**
Lease expiries	—	—	—	(3)	(6)	(21)	(14)	—	(44)	(44)
Boeing aircraft after lease expiries	**107**	**109**	**8**	**3**	**(1)**	**4**	**1**	**21**	**36**	**145**
Bombardier										
Q400 NextGen(vii)	15	23	2	9	2	—	—	—	13	36
Fleet	**122**	**132**	**10**	**15**	**7**	**25**	**15**	**21**	**93**	**225**
Fleet after lease expiries	**122**	**132**	**10**	**12**	**1**	**4**	**1**	**21**	**49**	**181**

(i) At September 30, 2015, of the 59 Boeing 737 NG 700 aircraft in our fleet, 30 are leased (Dec. 31, 2014 – 30) and 29 are owned (Dec. 31, 2014 – 34).
(ii) At September 30, 2015, of the 36 Boeing 737 NG 800 aircraft in our fleet, 14 are leased (Dec. 31, 2014 – 14) and 22 are owned (Dec. 31, 2014 – 16).
(iii) We have an option to convert this Boeing 737 NG 800 future delivery to a Boeing 737 NG 700 aircraft.
(iv) We have options to purchase an additional 10 Boeing 737 MAX aircraft between the years 2020 and 2021.
(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 9 Bombardier Q400 aircraft for delivery between the years 2017 to 2018.

Share Capital

Outstanding share data

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

	October 31 2015	September 30 2015
Issued and outstanding:		
Common voting shares	106,764,703	106,582,264
Variable voting shares	16,516,378	16,693,435
Total voting shares issued and outstanding	**123,281,081**	**123,275,699**
Stock options	5,550,556	5,564,980
RSUs – Key employee plan	276,048	276,048
RSUs – Executive share unit plan	122,996	122,996
PSUs – Executive share unit plan	269,302	269,302
Total voting shares potentially issuable	**6,218,902**	**6,233,326**
Total outstanding and potentially issuable voting shares	**129,499,983**	**129,509,025**

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 November 2, 2015, the Board of Directors declared our 2015 fourth quarter dividend of $0.14 per common voting share and variable voting share payable on December 31, 2015 to shareholders of record on December 16, 2015. This remains consistent with the $0.14 per share declared and paid during our first three quarters of 2015. We believe this demonstrates our confidence in delivering continued profitable results and is consistent with our objective of creating and returning value to our shareholders.

Normal course issuer bid

On May 8, 2015, as previously disclosed, the Toronto Stock Exchange (TSX) accepted our notice to make a normal course issuer bid to purchase up to 2,000,000 Common Voting Shares and Variable Voting Share (the Shares) on the open market in accordance with TSX rules (representing approximately 1.6 per cent of our then issued and outstanding Shares) during the period of May 13, 2015 to May 12, 2016 or until such time as the bid is completed or terminated at our option. On July 28, 2015, the TSX approved an amendment to the 2015 bid to increase the maximum number of Shares authorized for repurchase from 2,000,000 to 4,000,000 Shares (representing approximately 3.2 per cent of our issued and outstanding Shares at the time of the original notice) (collectively, the 2015 bid). Any Shares purchased under the 2015 bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the 2015 bid will be cancelled. In the three months ended September 30, 2015, we repurchased and cancelled 2,000,000 Shares under the 2015 bid, for total consideration of $47.9 million.

During the nine months ended September 30, 2015, we repurchased and cancelled 3,000,000 Shares, equal to 75.0 per cent of the maximum number of shares we are authorized to repurchase under the 2015 bid, for total consideration of $74.7 million. This is in addition to repurchasing and cancelling 1,519,690 Shares under a 2014 normal course issuer bid (that expired on May 7, 2015), for total consideration of $45.1 million. These Shares were purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. As of the date of this MD&A, there are 1,000,000 Shares remaining for purchase under the 2015 bid.

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

Condensed Consolidated Statement of Earnings
(Stated in thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Note	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Revenue:					
Guest		928,821	930,103	2,714,676	2,714,386
Other		116,234	79,625	355,874	267,772
		1,045,055	1,009,728	3,070,550	2,982,158
Operating expenses:					
Aircraft fuel		206,924	286,817	632,317	846,514
Airport operations		142,176	128,381	412,510	377,178
Flight operations and navigational charges		126,821	112,886	372,560	339,616
Sales and distribution		98,351	94,764	285,304	282,598
Depreciation and amortization		69,739	56,620	189,684	172,044
Marketing, general and administration		58,604	50,647	175,108	164,030
Maintenance		62,347	48,062	171,599	151,612
Inflight		47,029	43,600	150,098	130,410
Aircraft leasing		40,572	43,082	132,208	136,904
Employee profit share	3	32,974	19,039	92,096	45,388
		885,537	883,898	2,613,484	2,646,294
Earnings from operations		159,518	125,830	457,066	335,864
Non-operating income (expense):					
Finance income		3,550	4,220	12,020	12,349
Finance cost	12	(13,314)	(14,588)	(40,712)	(37,646)
Gain (loss) on foreign exchange		(549)	1,377	(236)	407
Loss on disposal of property and equipment		(2,766)	(45,438)	(364)	(45,483)
Loss on derivatives		(144)	–	(144)	–
		(13,223)	(54,429)	(29,436)	(70,373)
Earnings before income tax		146,295	71,401	427,630	265,491
Income tax expense (recovery):					
Current		39,645	18,829	106,066	86,298
Deferred		4,847	381	17,470	(14,051)
		44,492	19,210	123,536	72,247
Net earnings		101,803	52,191	304,094	193,244
Earnings per share:					
Basic	11	0.82	0.41	2.42	1.51
Diluted	11	0.82	0.40	2.40	1.50

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

Condensed Consolidated Statement of Financial Position
(Stated in thousands of Canadian dollars)
(Unaudited)

	Note	September 30 2015	December 31 2014
Assets			
Current assets:			
Cash and cash equivalents	4	1,419,679	1,358,071
Restricted cash	5	57,315	58,149
Accounts receivable		74,218	54,950
Prepaid expenses, deposits and other		98,670	144,192
Inventory		33,540	36,658
Assets held for sale		–	78,306
		1,683,422	1,730,326
Non-current assets:			
Property and equipment	6	3,231,294	2,793,194
Intangible assets		61,975	60,623
Other assets		88,513	62,290
Total assets		5,065,204	4,646,433
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		546,417	415,562
Advance ticket sales		624,509	575,781
Deferred Rewards program		114,034	86,870
Non-refundable guest credits		36,499	45,434
Current portion of maintenance provisions	7	69,809	54,811
Current portion of long-term debt	8	150,264	159,843
		1,541,532	1,338,301
Non-current liabilities:			
Maintenance provisions	7	233,527	191,768
Long-term debt	8	1,047,696	1,028,820
Other liabilities		17,141	13,150
Deferred income tax		314,709	296,892
Total liabilities		3,154,605	2,868,931
Shareholders' equity:			
Share capital	9	583,478	603,287
Equity reserves		78,828	75,094
Hedge reserves		(1,147)	(3,179)
Retained earnings		1,249,440	1,102,300
Total shareholders' equity		1,910,599	1,777,502
Commitments	14		
Total liabilities and shareholders' equity		5,065,204	4,646,433

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

WESTJET

Condensed Consolidated Statement of Cash Flows
(Stated in thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2015	**2014**	**2015**	**2014**
Operating activities:					
Net earnings		101,803	52,191	304,094	193,244
Items not involving cash:					
Depreciation and amortization		69,739	56,620	189,684	172,044
Change in maintenance provisions		13,612	9,444	21,303	19,526
Change in other liabilities		(238)	(144)	45	(371)
Amortization of hedge settlements		350	350	1,050	1,050
Loss on derivatives		144	–	144	–
Loss on disposal of property and equipment		2,766	45,438	364	45,483
Share-based payment expense	9	4,125	4,548	12,875	14,310
Deferred income tax expense (recovery)		4,847	381	17,470	(14,051)
Unrealized foreign exchange gain		(9,772)	(3,185)	(21,541)	(8,311)
Change in non-cash working capital		161,447	102,934	212,392	21,937
Change in restricted cash		(14,697)	(19,152)	835	4,250
Change in other assets		(3,240)	4,695	(9,132)	(6,728)
Purchase of shares pursuant to compensation plans		(601)	(406)	(13,672)	(10,823)
		330,285	253,714	715,911	431,560
Investing activities:					
Aircraft additions		(128,332)	(128,017)	(523,427)	(466,094)
Aircraft disposals		565	–	83,216	58
Other property and equipment and intangible additions		(22,242)	(11,501)	(49,075)	(41,080)
		(150,009)	(139,518)	(489,286)	(507,116)
Financing activities:					
Increase in long-term debt		17,510	416,192	135,380	597,378
Repayment of long-term debt		(42,795)	(167,531)	(125,981)	(263,332)
Shares repurchased		(47,897)	–	(119,803)	(29,575)
Dividends paid	10	(17,258)	(15,342)	(52,465)	(45,979)
Issuance of shares pursuant to compensation plans		–	–	36	40
Cash interest paid		(15,540)	(10,284)	(39,369)	(30,086)
Change in non-cash working capital		(3,708)	2,429	(3,734)	2,002
		(109,688)	225,464	(205,936)	230,448
Cash flow from operating, investing and financing activities		70,588	339,660	20,689	154,892
Effect of foreign exchange on cash and cash equivalents		19,539	8,415	40,919	13,849
Net change in cash and cash equivalents		90,127	348,075	61,608	168,741
Cash and cash equivalents, beginning of period		1,329,552	1,076,671	1,358,071	1,256,005
Cash and cash equivalents, end of period		1,419,679	1,424,746	1,419,679	1,424,746
Supplemental disclosure of operating cash flows					
Cash interest received		3,619	3,848	12,772	12,467
Cash taxes paid, net		(27,781)	(23,521)	(89,085)	(193,595)

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

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

13. Financial instruments and risk management (continued)

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

During the three and nine months ended September 30, 2015, and the year ended December 31, 2014, there were no transfers between level 1, level 2 and level 3 financial assets and liabilities measured at fair value.

Cash and cash equivalents: Consist of bank balances and short-term investments, primarily highly liquid instruments, with terms up to 31 days. Classified in level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets. Interest income is recorded in the condensed consolidated statement of earnings as finance income. Due to its short-term nature, the carrying value of cash and cash equivalents approximates its fair value.

Foreign exchange derivatives: Consist of foreign exchange forward contracts where the fair value of the forward contracts is measured based on the difference between the contracted rate and the current forward price obtained from the counterparty. Classified in level 2 as the significant measurement inputs used in the valuation models are observable in active markets.

At September 30, 2015, the weighted average contracted rate on the forward contracts was 1.2930 (December 31, 2014 – 1.1187) Canadian dollars to one US dollar, and the weighted average forward rate used in determining the fair value was 1.3349 (December 31, 2014 – 1.1640) Canadian dollars to one US dollar.

In September 2015, the Corporation entered into additional foreign exchange forward contracts to fix the foreign exchange rate on a portion of US-dollar hotel costs that form part of the Corporation's vacation packages. These contracts are in addition to the existing foreign exchange forward contracts used by the Corporation to fix the US-dollar cost of aircraft leasing. All foreign exchange forward contracts are governed by the Corporation's Foreign Currency Risk Management Policy. There have been no changes to the Corporation's Foreign Currency Risk Management Policy from year end. Where cash flow hedge accounting has been applied, the unrealized, effective, hedging gains and losses on foreign exchange forward contracts have been recorded in other comprehensive income while any realized, effective hedges are recorded in other revenue, where US-dollar hotel costs are reported on a net basis with vacation package revenues. Where hedge accounting has not been applied, the realized and unrealized gains and losses have been reported as a non-operating gain or loss on derivatives.

Interest rate derivatives: Consist of interest rate swap contracts that exchange a floating rate of interest with a fixed rate of interest. The fair value of the interest rate swaps is determined by measuring the difference between the fixed contracted rate and the forward curve for the applicable floating interest rates obtained from the counterparty. Classified in level 2 as the significant measurement inputs used in the valuation models are observable in active markets. At September 30, 2015, the Corporation's swap contracts have a weighted average fixed interest rate of 2.60% (December 31, 2014 – 2.60%). The September 30, 2015, weighted average floating forward interest rate was 1.45% (December 31, 2014 – 1.96%).

Deposits: Relate to purchased aircraft and airport operations and earn a floating market rate of interest. Classified in level 1 as the measurement inputs are unadjusted, observable inputs in active markets.

Accounts receivable and accounts payable and accrued liabilities: The Corporation designates accounts receivable and accounts payable and accrued liabilities as loans and receivables and other financial liabilities, respectively. These items are initially recorded at fair value and subsequently measured at amortized cost. Due to their short-term nature, the carrying value of accounts receivable and accounts payable and accrued liabilities approximate their fair value.

Long-term debt: The fair value of the Corporation's long-term debt is determined by discounting the future contractual cash flows of principal and interest under the current financing arrangements using the Corporation's September 30, 2015 implied Corporate BBB- rate of 4.02% (December 31, 2014 – 4.61%) for a 6.54 year term (December 31, 2014 – 6.48 year term), equal to the weighted average remaining term of the Corporation's long-term debt at September 30, 2015.