chorus
aviation inc.

First Quarter 2019

Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2019

chorus aviation inc.

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	March 31, 2019 $	As at December 31, 2018 $	January 1, 2018 $
		(Restated - Note 3)	(Restated - Note 3)
Assets			
Current assets			
Cash	67,595	92,592	78,007
Accounts receivable – trade and other	88,672	77,097	77,397
Inventories	59,614	55,691	51,543
Prepaid expenses and deposits	15,134	7,801	6,523
Current portion of lease receivables	5,150	5,190	4,511
Income tax receivable	90	704	2,268
	236,255	239,075	220,249
Restricted cash	19,544	20,081	13,625
Lease receivables	12,271	13,865	17,522
Property and equipment (note 6)	2,111,032	1,997,552	1,736,927
Intangibles	2,012	2,088	2,392
Goodwill	7,150	7,150	7,150
Deferred income tax asset (note 9)	4,581	4,295	3,022
Other long-term assets	56,304	40,222	32,153
	2,449,149	2,324,328	2,033,040
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	203,902	188,522	213,431
Current portion of lease liabilities	6,536	6,719	6,179
Current portion of long-term incentive plan	4,733	4,087	5,844
Current portion of long-term debt (note 8)	140,517	142,652	118,567
Dividends payable	6,337	5,657	5,014
Income tax payable	2,519	930	—
	364,544	348,567	349,035
Lease liabilities	14,081	15,910	20,932
Long-term debt (note 8)	1,060,396	1,102,783	995,062
Convertible units	194,490	194,294	193,540
Deferred income tax liability	179,204	172,262	135,577
Other long-term liabilities	82,778	60,705	57,294
	1,895,493	1,894,521	1,751,440
Equity	553,656	429,807	281,600
	2,449,149	2,324,328	2,033,040

Contingencies (note 12)
Economic dependence (note 13)
Subsequent event (note 15)

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

Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Exchange differences on foreign operations $	Contributed surplus $	Equity component of convertible units $	Total $
Balance - December 31, 2017	32,412	(788,918)	(5,279)	1,040,826	2,981	282,022
Adjustment on initial adoption of IFRS 16 (net of tax) (note 3)	—	(422)	—	—	—	(422)
Restated balance - January 1, 2018	32,412	(789,340)	(5,279)	1,040,826	2,981	281,600
Net income for the period	—	5,230	—	—	—	5,230
Other comprehensive income for the period (net of tax)	—	7,640	6,738	—	—	14,378
Comprehensive income for the period	—	12,870	6,738	—	—	19,608
Dividends	—	(15,617)	—	—	—	(15,617)
Issuances of shares, net of transaction costs and related tax	108,373	—	—	—	—	108,373
Dividend reinvestment plan	597	(31)	—	—	—	566
Expense related to stock-based compensation plans	—	—	—	84	—	84
Balance - March 31, 2018 (restated - note 3)	141,382	(792,118)	1,459	1,040,910	2,981	394,614
Net income for the period	—	62,200	—	—	—	62,200
Other comprehensive income for the period (net of tax)	—	(2,844)	14,391	—	—	11,547
Comprehensive income for the period	—	59,356	14,391	—	—	73,747
Dividends	—	(50,598)	—	—	—	(50,598)
Issuances of shares, net of transaction costs and related tax	125	—	—	—	—	125
Dividend reinvestment plan	11,792	(433)	—	—	—	11,359
Stock options exercised	370	—	—	(25)	—	345
Expense related to stock-based compensation plans	—	—	—	215	—	215
Balance - December 31, 2018 (restated - note 3)	153,669	(783,793)	15,850	1,041,100	2,981	429,807
Net income for the period	—	33,447	—	—	—	33,447
Other comprehensive income for the period (net of tax)	—	9,566	(6,426)	—	—	3,140
Comprehensive income for the period	—	43,013	(6,426)	—	—	36,587
Dividends	—	(18,303)	—	—	—	(18,303)
Issuance of shares	97,260	—	—	—	—	97,260
Dividend reinvestment plan	4,133	(189)	—	—	—	3,944
Stock options exercised	4,625	—	—	(317)	—	4,308
Expense related to stock-based compensation plans	—	—	—	53	—	53
Balance - March 31, 2019	259,687	(759,272)	9,424	1,040,836	2,981	553,656

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

Consolidated Statements of Income
For the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars, except earnings per share)

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $ (Restated - Note 3)
Operating revenue (note 13)	343,867	323,663
Operating expenses (note 13)		
Salaries, wages and benefits	127,962	117,487
Depreciation and amortization	32,250	29,106
Aircraft maintenance materials, supplies and services	59,327	53,770
Airport and navigation fees	40,294	39,573
Terminal handling services	6,124	6,258
Other	37,791	32,481
	303,748	278,675
Operating income	40,119	44,988
Non-operating (expenses) income		
Interest revenue	796	371
Interest expense	(16,537)	(14,210)
Gain on disposal of property and equipment	36	8
Foreign exchange gain (loss)	14,250	(19,793)
	(1,455)	(33,624)
Income before income taxes	38,664	11,364
Income tax expense (note 9)		
Current income tax	(2,220)	(448)
Deferred income tax	(2,997)	(5,686)
	(5,217)	(6,134)
Net income	33,447	5,230
Earnings per share, basic	0.22	0.04
Earnings per share, diluted	0.22	0.04

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

Consolidated Statements of Comprehensive Income
For the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2019	**2018**
	$	**$**
		(Restated - Note 3)
Net income	33,447	5,230
Other comprehensive income		
Items that will not be subsequently reclassified to the statements of income		
Actuarial income on employee benefit liabilities, net of tax expense of $3,976 (2018 - $2,353)	10,284	6,104
Change in fair value of financial assets, net of tax (recovery) expense of ($103) (2018 - $219)	(718)	1,536
Items that will be subsequently reclassified to the statements of income		
Exchange differences on translation of foreign operations	(6,426)	6,738
Comprehensive income	36,587	19,608

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

chorus aviation inc.

Consolidated Statements of Cash Flows
For the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2019 $	2018 $ (Restated - Note 3)
Cash provided by (used in)		
Operating activities		
Net income	33,447	5,230
Charges (credits) to operations not involving cash		
Depreciation and amortization	32,250	29,106
Amortization of prepaid aircraft rent and related fees	671	253
Gain on disposal of property and equipment	(36)	(8)
Unrealized foreign exchange (gain) loss	(16,753)	17,974
Realized foreign exchange loss	2,616	1,607
Effect of foreign exchange rate changes on cash	490	(1,095)
Deferred income tax expense	2,997	5,686
Other	283	616
	55,965	59,369
Net changes in non-cash balances related to operations (note 14)	(6,007)	(23,089)
	49,958	36,280
Financing activities		
Repayment of lease liabilities	(1,891)	(1,102)
Repayment of long-term borrowings	(32,861)	(28,817)
Long-term borrowings, net of financing fees	14,982	45,162
Issuance of shares, net of transaction costs	97,260	106,959
Proceeds on stock options exercised	4,308	—
Dividends	(13,678)	(14,505)
	68,120	107,697
Investing activities		
Increase in security deposits and maintenance reserves	20,783	2,272
Additions to property and equipment	(164,557)	(71,310)
Payments received on lease receivables	1,635	521
Proceeds on disposal of property and equipment	36	8
Decrease in restricted cash	113	310
	(141,990)	(68,199)
Effect of foreign exchange rate changes on cash	(1,085)	2,132
Net change in cash during the periods	(24,997)	77,910
Cash – Beginning of periods	92,592	78,007
Cash – End of periods	67,595	155,917

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

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

1 General information

Chorus Aviation Inc. ("Chorus") is a holding company with various aviation interests incorporated on September 27, 2010, pursuant to the *Canada Business Corporations Act* (the "CBCA"). The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6200, P.O. Box 50, Toronto, Ontario, M5X 1B8 and its country of domicile is Canada.

The accompanying unaudited interim condensed consolidated financial statements (the "financial statements") are of Chorus. References to Chorus in the following notes to the consolidated financial statements refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries.

Chorus' primary business activities include contract flying, aircraft leasing and maintenance, repair and overhaul services.

Contract flying is currently Chorus' primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement which was effective on a retroactive basis to January 1, 2019 (the "CPA") under which Air Canada purchases substantially all of Jazz's fleet capacity at pre-determined rates. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada (refer to note 13 - Economic dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

On February 4, 2019, the capacity purchase agreement between Jazz Aviation LP and Air Canada was amended and extended for an additional 10 years ending December 31, 2035 (the "CPA Amendments"). The CPA Amendments include changes to the Covered Aircraft fleet for a total fleet of 105 Covered Aircraft for the period from January 1, 2019 to December 31, 2025. Following 2025, Air Canada will determine the composition of the Covered Aircraft fleet on the condition that the fleet must have a minimum of 80 aircraft with 75 to 78 seats for the remainder of the extended term of the CPA. The CPA Amendments also include changes to Jazz's compensation under the CPA which include (i) removal of the Infrastructure Fee, (ii) reductions in the Fixed Margin per Covered Aircraft Payment and the available Performance Incentive Payments, (iii) changes to the flight crew and cabin crew Block Hour Rates, (iv) reclassification of certain overhead costs into newly-established rate categories, (v) treatment of capital expenditures relating to certain airports or hangar facilities as Pass-Through Costs, (vi) provisions setting out Air Canada's commitment to reimburse Jazz for certain wage costs, and (vii) provisions which limit Jazz's respective exposures to $2,000 annually for variances between the revenue Jazz receives from Air Canada to cover controllable costs and Jazz's actual controllable costs. The CPA Amendments became effective on a retroactive basis to January 1, 2019.

On the same day, Chorus issued 15,561,600 Class B Voting Shares to Air Canada for gross proceeds of $97,260, and Chorus and Air Canada entered an investor rights agreement (the "Investor Rights Agreement"). Chorus' Material Change Reports dated January 24, 2019 and February 13, 2019 describing the foregoing transactions in further detail are available on SEDAR at www.sedar.com. Furthermore, copies of the term sheet setting out the CPA Amendments, the subscription agreement in respect of the share issuance to Air Canada, and the Investor Rights Agreement are all available on SEDAR at www.sedar.com.

Chorus also conducts business in regional aircraft leasing and continues to grow this business.

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. Seasonality has little effect on the operations of Voyageur, Chorus Aviation Capital Corp. ("CAC"), and other lines of business carried on by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with demand in the short-term.

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2018. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2018.

These financial statements have been authorized for issuance by the Board of Directors on May 8, 2019.

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2018.

Significant accounting judgements and estimation uncertainty

Operating revenue

Under the CPA, Chorus and Air Canada are to re-set certain rates applicable to the year ending December 31, 2019. The new rates will be retroactive to January 1, 2019. The negotiation of these rates has not been completed. As a result, Chorus used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three-month period ended March 31, 2019. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to those rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. As such, Chorus' revenue is subject to judgement and estimate uncertainty. If the negotiated rates were to differ 1% from the current estimate being used, the amount of operating revenue recognized under the CPA for the three months ended March 31, 2019 would change by $2,200.

New accounting standards adopted during the period

IFRS 16 - *Leases*

On January 1, 2019, Chorus adopted IFRS 16 *Leases* ("IFRS 16") using the retrospective transition approach with restatement to comparative periods. The impacts from adoption of the new standard are outlined below.

Aircraft leased from Air Canada and subleased to Air Canada under the CPA - Refer to adjustment (a) in the transition impact table below.

Lease components embedded in the CPA related to providing Air Canada the right to use the Covered Aircraft were previously accounted for as operating leases. The associated lease income generated was included in revenue in the statement of income.

3 Significant accounting policies, judgements and estimation uncertainty (continued)

Chorus leases 35 aircraft and six spare engines from Air Canada that are used as part of the Covered Aircraft to fulfill its obligations under the CPA. Chorus has determined that these lease agreements with Air Canada and the CPA meet the contract combination requirements in IFRS 16 and therefore should be accounted for as a single contract. When viewing the agreements as one contract, Chorus does not have the right to direct the use of the aircraft and therefore, no leases have been identified.This conclusion resulted in revenue and operating expenses being reduced by equal amounts, corresponding to the amount of lease payments.

Chorus previously recorded leasehold improvements, deferred lease inducements, deferred transaction fees and prepaid rent related to certain of these 35 aircraft and six engines. Given that a lease no longer exists, these assets and liabilities have been re-characterized. On application of IFRS 16, work performed related to these leasehold improvements is viewed as services provided by Chorus to Air Canada that are accounted for under IFRS 15. The deferred transaction costs, deferred lease inducements and prepaid rent have been recognized on a net basis as a receivable from or payable to Air Canada. These changes primarily impacted certain classifications of assets and liabilities on the balance sheet.

Aircraft leased from third parties and subleased to Air Canada under the CPA - Refer to adjustment (b) in the transition impact table below.

Chorus supplies Air Canada with five aircraft that are leased from third parties under the CPA. These third party leases were previously classified as a mix of operating and finance leases. Chorus has determined that it is subleasing the aircraft to Air Canada and therefore assessed the classification of these leases by reference to the right-of-use asset arising from the head lease rather than the underlying asset. As a result, the classification of the operating subleases changed to finance leases.

As the lessee, Chorus has a right-of-use asset and lease liability related to the head lease. However, as the intermediate lessor to Air Canada, Chorus derecognized the right-of-use asset and recognized a lease receivable. Due to the change in classification of the sublease, interest income is recognized rather than lease income from Air Canada. In addition, due to the recognition of the lease liability, interest expense is recognized rather than straight-line lease expense.

The new standard did not result in any adjustments in relation to the remainder of the Covered Aircraft used under the CPA, which are owned by Chorus.

Facilities - Refer to adjustment (c) in the transition impact table below.

Chorus has leases related to airport terminal operations that represent Chorus' right to use designated facility space at airport locations. On adoption of IFRS 16, right-of-use assets and lease liabilities have been recognized in relation to facilities that are not short-term leases.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Significant accounting policies, judgements and estimation uncertainty (continued)

Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 16 on Chorus' consolidated financial statements.

Consolidated Statements of Financial Position

January 1, 2018	As previously reported	IFRS 16 adoption	Adjustments	As restated
Prepaid expenses and deposits	12,920	(6,397)	*(a),(b)*	6,523
Current portion of lease receivables	—	4,511	*(b)*	4,511
Lease receivables	—	17,522	*(b)*	17,522
Property and equipment	1,742,674	(5,747)	*(b),(c)*	1,736,927
Other long-term assets	33,647	(1,494)	*(a),(b)*	32,153
Accounts payable and accrued payables	215,196	(1,765)	*(a)*	213,431
Current portion of lease liabilities	2,762	3,417	*(b),(c)*	6,179
Lease liabilities	5,219	15,713	*(b),(c)*	20,932
Deferred income tax liability	135,740	(163)		135,577
Other long-term liabilities	65,679	(8,385)	*(a)*	57,294
Equity	282,022	(422)		281,600

Consolidated Statements of Financial Position

December 31, 2018	As previously reported	IFRS 16 adoption	Adjustments	As restated
Prepaid expenses and deposits	13,535	(5,734)	*(a),(b)*	7,801
Current portion of lease receivables	—	5,190	*(b)*	5,190
Lease receivables	—	13,865	*(b)*	13,865
Property and equipment	2,001,099	(3,547)	*(b),(c)*	1,997,552
Other long-term assets	41,693	(1,471)	*(a),(b)*	40,222
Accounts payable and accrued payables	190,311	(1,789)	*(a)*	188,522
Current portion of lease liabilities	3,117	3,602	*(b),(c)*	6,719
Lease liabilities	2,558	13,352	*(b),(c)*	15,910
Deferred income tax liability	172,254	8		172,262
Other long-term liabilities	67,595	(6,890)	*(a)*	60,705
Equity	429,787	20		429,807

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Significant accounting policies, judgements and estimation uncertainty (continued)

Consolidated Statements of Income

Three months ended March 31, 2018	As previously reported	IFRS 16 adoption	Adjustments	As restated
Operating revenue	347,550	(23,887)	*(a),(b)*	323,663
Depreciation and amortization	29,655	(549)	*(a),(b),(c)*	29,106
Aircraft rent [(1)]	24,247	(22,959)	*(a),(b)*	1,288
Other	31,611	(418)	*(c)*	31,193
Foreign exchange loss	(20,000)	207	*(b)*	(19,793)
Deferred income tax	(5,618)	(68)		(5,686)
Net income	5,052	178		5,230
Earnings per share, basic	0.04	—		0.04
Earnings per share, diluted	0.04	—		0.04

[(1)] The remainder of aircraft rent, after the IFRS 16 adjustments, relates to short-term and/or variable engine lease contracts and as a result has been reclassified to other expense.

Consolidated Statements of Cash Flows

Three months ended March 31, 2018	As previously reported	IFRS 16 adoption	Adjustments	As restated
Net income	5,052	178		5,230
Depreciation and amortization	29,655	(549)	*(a),(b),(c)*	29,106
Amortization of prepaid aircraft rent and related fees	648	(395)	*(a)*	253
Deferred income tax expense	5,618	68		5,686
Net changes in non-cash balances related to operations	(23,681)	592		(23,089)
Net cash from operating activities	36,386	(106)		36,280
Repayment of lease liabilities	(687)	(415)	*(b),(c)*	(1,102)
Net cash from financing activities	108,112	(415)		107,697
Payments received on lease receivables	—	521	*(b)*	521
Net cash from investing activities	(68,720)	521		(68,199)

Leases

At the inception of a contract, Chorus assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This includes the identification of embedded leases in service contracts. Chorus' lease arrangements relate to aircraft, engines and facilities. Chorus is either the lessor or intermediate lessor in aircraft and engine leases and typically is the lessee in facilities leases.

Aircraft and engines - As a lessee and intermediate lessor

Chorus leases aircraft and engines from third parties to provide charter and contract flying services to Air Canada and third parties. Under the CPA, Chorus has determined that it is subleasing aircraft to Air Canada.

3 Significant accounting policies, judgements and estimation uncertainty (continued)

When Chorus is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Upon subleasing a right-of-use asset that is classified as a finance sublease, a lease receivable will be recognized and the underlying asset that is leased from the head lessor will be derecognized. Interest income is recognized on the lease receivable balance.

Aircraft and engines - As a lessor

Chorus leases owned aircraft and engines to Air Canada and third parties in its contract flying services as well as leases owned aircraft to third parties in its Regional Aircraft Leasing segment. As a lessor, Chorus determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, Chorus makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Chorus considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, Chorus applies IFRS 15 to allocate the consideration in the contract. Chorus recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of operating revenue.

Facilities

Chorus' leased facilities are designated spaces at airports, for which it makes fixed monthly payments. Shared spaces for which Chorus' capacity portion does not represent substantially all of the capacity of the asset are not identified assets under IFRS 16 and therefore no lease exists. Leases with reciprocal termination rights with no more than an insignificant penalty, subject to a notice period of less than 12 months, are considered short-term leases.

Chorus recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and adjusted for certain remeasurements of the lease liability. Chorus presents right-of-use assets in property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease payments included in the measurement of the lease liability comprise of fixed payments, variable lease payments that depend on an index or a rate, lease payments in a renewal period if Chorus is reasonably certain to renew, and penalties for early termination unless Chorus is reasonably certain not to terminate early. Chorus' leases do not provide an implicit rate, Chorus uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments and if there is a change in Chorus' assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Chorus has elected not to recognize right-of-use assets and lease liabilities for facility leases that have a lease term of 12 months or less and for leases of low-value assets. Chorus recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3 Significant accounting policies, judgements and estimation uncertainty (continued)

Critical accounting estimates and judgments

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. Chorus exercises judgment when assessing whether renewal options are reasonably certain to be exercised and when assessing whether an arrangement contains a lease.

4 Segmented information

Chorus' reportable operating segments have been identified on the basis of services provided and are in alignment with Chorus' strategic direction and vision of delivering regional aviation services to customers around the world and are consistent with the internal reporting provided to the Chief Executive Officer and Chief Financial Officer (the "chief operating decision makers").

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that is carried on by both Jazz and Voyageur. This segment also includes corporate expenses, such as interest on convertible units, executive and share-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Q400s, five CRJ900s, eight Dash 8-300s which have completed the extended service program, or ESP, as well as five engines which are owned by Chorus.

- The Regional Aircraft Leasing segment leases aircraft to third parties through Chorus Aviation Capital and has grown significantly since its inception at the end of 2016. Its current portfolio of leased aircraft includes 35 aircraft comprising 10 ATR 72-600s, 13 Q400s, four CRJ1000s, two CRJ900s, four E190s and two E195s.

Chorus evaluates the performance of each reportable segment using a different measure for each segment. Adjusted EBITDA is used to evaluate the Regional Aviation Services segment and Adjusted EBT is used to evaluate the Regional Aircraft Leasing segment. Adjusted EBITDA and Adjusted EBT are non-GAAP financial measures. These non-GAAP financial measures are generally numerical measures of a company's financial performance, financial position or cash flows, that include or exclude amounts from the most comparable GAAP measure. As such, these measures are not recognized for financial statement presentation under GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

Adjusted EBITDA refers to earnings before net interest expense, income taxes, and depreciation and amortization, signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains or losses. Adjusted EBT refers to earnings before income tax, signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains and losses.

The accounting policies and practices for each of the segments are the same as those described in Note 3 of these financial statements. All inter-segment and intra-segment revenues are eliminated and all segment revenues presented in the tables below are from external customers.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Segmented information (continued)

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the periods ended March 31, 2019 and March 31, 2018, the Regional Aviation Services segment reported revenue from one significant customer. See note 13 "Economic dependence" for a discussion of transactions between Air Canada, and its subsidiary (Air Canada Capital Ltd.). A number of current leasing customers represent 10% or more of the Regional Aircraft Leasing segment due to the early life cycle of this segment.

Information regarding the quarterly financial results of each reportable operating segment is as follows:

	For the three months ended March 31, 2019			For the three months ended March 31, 2018 (Restated - Note 3)		
	Regional Aviation Services $	Regional Aircraft Leasing $	Total $	Regional Aviation Services $	Regional Aircraft Leasing $	Total $
Operating revenue	317,994	25,873	343,867	306,017	17,646	323,663
Operating expenses	290,636	13,112	303,748	270,071	8,604	278,675
Operating income	27,358	12,761	40,119	35,946	9,042	44,988
Net interest expense	(8,952)	(6,789)	(15,741)	(9,445)	(4,394)	(13,839)
Foreign exchange gain (loss)	14,406	(156)	14,250	(19,997)	204	(19,793)
Other	36	—	36	8	—	8
Earnings before income tax	**32,848**	**5,816**	**38,664**	**6,512**	**4,852**	**11,364**
Income tax expense	(4,509)	(708)	(5,217)	(5,691)	(443)	(6,134)
Net income	**28,339**	**5,108**	**33,447**	**821**	**4,409**	**5,230**

Management uses Adjusted EBITDA and Adjusted EBT to measure the Regional Aviation Services and Regional Aircraft Leasing segment performance, respectively. The following table reconciles operating income to Adjusted EBITDA and earnings before income tax to Adjusted EBT:

	For the three months ended March 31, 2019		For the three months ended March 31, 2018 (Restated - Note 3)	
	Regional Aviation Services $	Regional Aircraft Leasing $	Regional Aviation Services $	Regional Aircraft Leasing $
Operating income - as reported above	**27,358**	**—**	**35,946**	**—**
Depreciation and amortization(1)	23,041	—	22,676	—
Employee separation program(1)	355	—	3,459	—
Signing bonus(1)	2,000	—	—	—
Adjusted EBITDA(2)	**52,754**	**—**	**62,081**	**—**
Earnings before income tax/Adjusted EBT - as reported above(2)	**—**	**5,816**	**—**	**4,852**

(1) Included in operating expenses.
(2) These are non-GAAP financial measures.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

	As at March 31, 2019			As at December 31, 2018 (Restated - Note 3)		
	Regional Aviation Services	**Regional Aircraft Leasing**	**Total**	**Regional Aviation Services**	**Regional Aircraft Leasing**	**Total**
	$	$	$	$	$	$
Additions to property and equipment, net of disposals/ deposits applied [(1)]	14,430	150,127	164,557	94,784	231,928	326,712
Property and equipment	1,129,243	981,789	2,111,032	1,138,315	859,237	1,997,552
Long-term debt (excluding lease liabilities)	851,931	543,472	1,395,403	885,467	554,262	1,439,729

(1) Excludes non-cash transactions of foreign currency adjustments of $18,908 (2018 - $53.259). As well, 2018 includes an adjustment related to the acquisition of Q400s through the issuance of shares in July 2017 of $621.

Revenue from external customers by country, based on where the customer carries on business:

	Three months ended March 31,			
	2019 $	**%**	**2018** $	**%**
			(Restated - Note 3)	
Canada	317,994	92.5%	306,017	94.5%
Other[(1)]	25,873	7.5%	17,646	5.5%
	343,867	100.0%	323,663	100.0%

Property and equipment by country based on where the customer carries on business:

	As at March 31, 2019		As at December 31, 2018	
	$	**%**	**$**	**%**
			(Restated - Note 3)	
Canada	1,134,534	53.7%	1,142,216	57.2%
Other[(1)]	976,498	46.3%	855,336	42.8%
	2,111,032	100.0%	1,997,552	100.0%

(1) No country included in other represents more than 10% of total assets.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

5 Revenue from contracts with customers

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes $66,431 for the three months ended March 31, 2019, (for the three months ended March 31, 2018 - $54,980), in other sources of revenue relating to lease income, including any rights to use specified aircraft that have been identified as lease components embedded in the CPA and contract flying service agreements. Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended March 31, 2019 $	2018 $ (Restated - Note 3)
Controllable revenue	189,925	169,903
Fixed margin and infrastructure fee per Covered Aircraft	15,449	23,439
Incentive revenue	608	3,913
CPA pass-through revenue	51,892	50,517
Other	19,562	20,911
	277,436	268,683

6 Property and equipment

	Flight equipment $	Facilities $	Equipment $	Leaseholds $	Right-of-use assets $	Deposits on aircraft $	Total $
Year ended December 31, 2018 (Restated - Note 3)							
Opening net book value	1,683,431	33,928	11,887	822	4,629	2,230	1,736,927
Additions	281,743	2,875	3,547	780	—	39,163	328,108
Disposals/deposits applied	(559)	—	—	—	—	(1,397)	(1,956)
Non-cash Q400 adjustment	(621)	—	—	—	—	—	(621)
Foreign currency adjustment	53,259	—	—	—	—	—	53,259
Depreciation for the year	(108,652)	(2,056)	(5,768)	(247)	(1,442)	—	(118,165)
Closing net book value	1,908,601	34,747	9,666	1,355	3,187	39,996	1,997,552
Three months ended March 31, 2019							
Opening net book value	1,908,601	34,747	9,666	1,355	3,187	39,996	1,997,552
Additions	144,337	125	1,078	949	—	22,496	168,985
Disposals/deposits applied	—	—	—	—	—	(4,428)	(4,428)
Foreign currency adjustment	(18,147)	—	—	—	—	(761)	(18,908)
Depreciation for the period	(30,007)	(482)	(1,252)	(79)	(349)	—	(32,169)
Closing net book value	2,004,784	34,390	9,492	2,225	2,838	57,303	2,111,032

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

6 Property and equipment (continued)

	Flight equipment	Facilities	Equipment	Leaseholds	Right-of-use assets	Deposits on aircraft	Total
	$	$	$	$	$	$	$
Year ended December 31, 2018 (Restated - Note 3)							
Cost	2,339,613	47,996	76,873	12,868	10,709	39,996	2,528,055
Accumulated depreciation	(431,012)	(13,249)	(67,207)	(11,513)	(7,522)	—	(530,503)
Net book value	1,908,601	34,747	9,666	1,355	3,187	39,996	1,997,552
At March 31, 2019							
Cost	2,442,898	48,121	78,044	13,849	10,708	57,303	2,650,923
Accumulated depreciation	(438,114)	(13,731)	(68,552)	(11,624)	(7,870)	—	(539,891)
Net book value	2,004,784	34,390	9,492	2,225	2,838	57,303	2,111,032

7 Credit facilities

Operating credit

Chorus has a three year committed operating credit facility that matures on August 30, 2021. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of up to $50,000 with the opportunity to borrow up to a further $25,000 on a demand basis, subject in each case to a borrowing base calculation based principally on the value of certain eligible accounts receivable, inventory and equipment.

The facility bears interest for Canadian dollar advances at USD LIBOR plus 1.75 - 2.25% and for US dollar advances at LIBOR plus 2.75% - 3.25%. As at March 31, 2019, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling $8,953 that reduce the amount available under this facility.

The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. As at March 31, 2019, Chorus was in compliance with these covenants.

Any outstanding balance under this facility may become immediately repayable if Chorus undergoes a change of control without the lender’s consent.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

7 Credit facilities (continued)

Warehouse facility for leased aircraft

Chorus has a US $300,000 committed, revolving credit facility to finance future aircraft acquisitions for its regional aircraft leasing business. The facility provides a revolving period of between 24 and 36 months (depending on the level of utilization in the first 24 months) and a 48-month term-out period. The facility also provides an uncommitted option to expand by US $100,000 to $400,000.

The revolving portion of the facility matures in January 2021 with an option to convert to an amortizing term loan for a further four years maturing in January 2025. During the revolving period, amortization will be 5% annually. During the term-out period, the loans will amortize based on a 12 year straight-line full payout schedule, adjusted for the age of the aircraft at the time of addition to the facility. The facility may be prepaid in part or in full subject to a US $5,000 minimum prepayment.

The facility bears interest at USD LIBOR plus 2.75% during the revolving period and ranging from LIBOR plus 3.0% - 4.75% during the term-out period. As at March 31, 2019, no amounts were drawn on the facility.

The facility is secured by the aircraft financed under the facility, as well as an assignment of the leases, insurance proceeds and other collateral security customary for financings of this nature. All loans under this facility are cross-defaulted, cross-collateralized, and are guaranteed by Chorus Aviation Capital (Ireland) Limited.

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt-to-equity ratio in certain subsidiaries. As at March 31, 2019, Chorus was in compliance with these covenants.

8 Long-term debt

Long-term debt consists of the following:

	As at March 31, 2019 $	As at December 31, 2018 $
Amortizing term loans		
Secured by aircraft[1a]	1,189,274	1,227,716
Secured by engines[1b]	10,330	10,937
Nova Scotia Jobs Fund loan - secured by office building[2]	9,000	9,000
	1,208,604	1,247,653
Less: Deferred financing fees	(7,691)	(2,218)
	1,200,913	1,245,435
Less: Current portion	140,517	142,652
	1,060,396	1,102,783

8 Long-term debt (continued)

The current portion of long-term debt in the above table includes deferred financing fees of $1,984 for the period ended March 31, 2019 (December 31, 2018 - $299).

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 4.067%, maturing between April 2020 and December 2030, each secured primarily by its respective aircraft and engines. These instalments are payable in USD or Euro and have been converted to CAD at period end foreign exchange rates of 1.3363 USD to CAD and 1.5002 Euro to CAD. As at March 31, 2019, the total payable under these term loans in USD and Euros was US $819,259 and €62,991, respectively (December 31, 2018 - US $825,907 and €64,697, respectively), and the net book value of property and equipment pledged as collateral under these term loans was CAD $1,617,168 (December 31, 2018 - CAD $1,623,929).

b) Secured by engines - Individual term loans, repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.433%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. These instalments are payable in USD and have been converted to CAD at a period end foreign exchange rate of 1.3363 USD to CAD. As at March 31, 2019, the net book value of property and equipment pledged as collateral under Q400 engine financing was CAD $12,890 (December 31, 2018 - CAD $13,019).

c) Chorus' debt agreements contain covenants which, if breached and not waived by the relevant lenders, could result in the acceleration of indebtedness. Since some of these agreements are cross-defaulted to other debt agreements, a default or acceleration under one agreement could cause a default or acceleration under another agreement. Therefore, if Chorus were to default under its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects.

The principal financial covenants are as follows:

Amortizing term loans totaling CAD $916,060 have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing Inc. and any entity controlled directly or indirectly by either of them), Voyageur (as successor by amalgamation to the "North Bay Leasing Group" which was comprised of North Bay Leasing Inc., Voyageur Aerotech Inc., Voyageur Airways Limited, Voyageur Aviation Corp. and Voyageur Avparts Inc.), and various subsidiaries of CAC (which hold aircraft acquired for lease to customers outside the Chorus group and the CPA).

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreements with the lender also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Q400s, Q400 spare engines, and CRJ900s. Furthermore, the loans may become immediately repayable if Jazz undergoes a change of control without the lender's consent (however, a change of control of Chorus is deemed not to be a change of control of Jazz for purposes of these financing agreements so long as Chorus' Shares are publicly traded).
- Voyageur is required to maintain prescribed liquidity levels. Prior to its amalgamation on January 1, 2019, the North Bay Leasing Group was also required to maintain a minimum lease coverage ratio.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

8 Long-term debt (continued)

- Subsidiaries of CAC have entered into financing agreements in connection with the acquisition of aircraft. CAC and/or Jazz Leasing Inc. have guaranteed the indebtedness under a substantial number ($687,878) of these financing agreements. Where CAC has provided a guarantee of indebtedness, it is required to maintain a maximum consolidated total debt to tangible net worth ratio and is also prohibited from declaring or paying dividends or other distributions unless its consolidated tangible net worth is equal to at least the prescribed minimum. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing Inc. under its other debt facilities with the lender and is also cross-defaulted and cross-collateralized to any other debt of CAC or its subsidiaries supported by that lender (except debt in respect of which such lender's recourse is generally limited to the borrower entity). Other financing agreements entered into by subsidiaries of CAC are guaranteed by either Chorus Aviation Capital (Ireland) Limited ($14,622) or Chorus Aviation Leasing Inc. ("Chorus Aviation Leasing") ($31,294) and contain similar restrictions on the payment of dividends or other distributions as well as net worth covenants from the guarantor or the right to match financial covenants given by the guarantor to other lenders. Amortizing term loans totaling CAD $108,123 as at March 31, 2019 have minimum lease rent coverage ratio requirements which apply directly to certain subsidiaries of Chorus Aviation Capital.

As at March 31, 2019, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

(2) Nova Scotia Jobs Fund loan

Term loan repayable in annual instalments of $1,000, bearing interest at a fixed rate of 3.33%, maturing August 31, 2027. The loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases.

For the three months ended March 31, 2019, the total interest expense on long-term debt, inclusive of deferred financing expense amortization, was $12,995 (for the three months ended March 31, 2018 - $10,847).

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on March 31, 2019. The timing of future principal payments, excluding deferred financing fees, is as follows:

	$
No later than one year	142,501
Later than one year and no later than five years	635,431
Later than five years	430,672
	1,208,604

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

9 Income taxes

The effective income tax rate on Chorus' earnings before income tax differs from the expected amount that would arise using the combined statutory income tax rates. A reconciliation of the difference is as follows:

	Three months ended March 31, 2019	
	2019	**2018**
	$	**$**
		(Restated - Note 3)
Earnings before income tax	38,664	11,364
Combined statutory tax rate	24.7%	21.8%
Income tax expense at the statutory tax rates	9,550	2,477
Recognition of previously unrecognized cumulative eligible capital	(1,826)	(1,855)
Net impact of capital items(1)	(3,715)	5,297
Non-deductible expenses	1,208	215
Income tax expense	5,217	6,134
Effective tax rate	13.5%	54.0%

(1) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of aircraft. The impact of the non-deductible portion of any unrealized loss (gain) is recognized in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Income tax expense related to unrealized foreign exchange gains recorded in a period is reduced by previously unrecognized income tax assets related to unrealized foreign exchange losses. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $367,704 as at March 31, 2019, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three months ended March 31, 2019 and March 31, 2018, Chorus utilized a total of $6,549 ($1,826 tax effected) and $6,666 ($1,855 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

10 Capital stock

a) Authorized:

An unlimited number of Class A Variable Voting Shares, no par value ("Variable Voting Shares"); and

An unlimited number of Class B Voting Shares, no par value ("Voting Shares")

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2017	125,410,001	32,412
Shares issued through public offering	13,028,000	108,498
Shares issued through equity dividend reinvestment plan	1,695,673	12,389
Shares issued through exercise of stock options	76,500	370
Shares issued and outstanding December 31, 2018	140,210,174	153,669
Shares issued through private offering	15,561,600	97,260
Shares issued through equity dividend reinvestment plan	555,066	4,133
Shares issued through exercise of stock options	957,400	4,625
Shares issued and outstanding March 31, 2019	157,284,240	259,687

Private Offering

On February 4, 2019, Chorus issued 15,561,600 Class B Voting Shares to Air Canada at a price of $6.25 per share by way of a private placement for total gross proceeds of $97,260. Upon closing this transaction, Chorus and Air Canada entered into an Investor Rights Agreement pursuant to which Air Canada acquired the right to nominate a member to Chorus' Board of Directors and agreed, for a period of 60 months and subject to limited exceptions, to hold its shares in Chorus, participate in the dividend reinvestment program and abide by customary standstill provisions, all as more particularly set out in the Investor Rights Agreement (a copy of which is available on SEDAR at www.sedar.com).

Dividend Reinvestment Program ("DRIP")

Chorus implemented a DRIP effective February 1, 2018, which provides shareholders who are resident in Canada the opportunity to purchase additional shares using cash dividends paid on shares enrolled in the DRIP. All shares purchased under the DRIP are newly issued by Chorus from treasury, and the proceeds received by Chorus are used for general corporate purposes.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

10 Capital stock (continued)

b) Earnings per share

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share.

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $ (Restated - Note 3)
Numerator		
Income	33,447	5,230
Denominator		
Weighted average number of shares	150,294,940	128,017,738
Weighted average dilutive shares	1,748,343	4,317,813
Weighted average number of diluted shares	152,043,283	132,335,551

11 Financial instruments and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost. With the exception of the item noted below, all financial instruments have fair value that approximate carrying value due to their short-term nature.

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, asset backed commercial paper, lease receivables, accounts payable and accrued liabilities, dividends payable, long-term incentive plan liability, consideration payable, lease liabilities, long-term debt, and convertible units.

The following financial instruments have a fair value that differs from carrying value:

- Long-term debt

  At March 31, 2019, long-term debt had a fair value of $1,202,640 compared to a carrying value of $1,200,913. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Convertible Units

  At March 31, 2019, the Convertible Units had a fair value of $202,985 versus a book value of $194,490. The fair value was calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

Chorus has entered into interest rate swaps on four of its term loans to convert floating interest rates to fixed rates for the duration of each loan. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. All interest rate swaps are designated and effective as cash flow hedges. The fair value of interest rate swaps was $503 at March 31, 2019 and is recorded in other long-term assets. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the three months ended March 31, 2019, Chorus recognized other comprehensive (loss) income of ($718), net of tax (three months ended March 31, 2018 - $1,536)

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

12 Contingencies

As permitted by the CBCA, the by-laws of Chorus provide that each director or officer will be entitled to indemnification from Chorus in respect of any civil, criminal or administrative, investigative or other proceeding which the director or officer is involved because of his or her association with Chorus or any other entity (if applicable) in respect of which he or she serves in a similar capacity at the request of Chorus, provided that the director or officer acted honestly and in good faith with a view to the best interests of Chorus, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the director or officer had reasonable grounds for believing that his or her conduct was lawful. The directors and officers are also covered by indemnification agreements and directors’ and officers’ liability insurance. The aggregate of all amounts recorded in these financial statements with respect to such indemnifications is not material.

Various lawsuits and claims that have arisen in the normal course of business are pending by and against Chorus. The provisions, if any, that have been recorded are not material. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of Chorus.

Chorus enters into various operating agreements and real estate licenses or leases, which in some cases permit Chorus to use certain premises or operate at certain airports, and which in other cases lease space in Chorus' facilities to its tenants. It is common in such commercial license or lease transactions for the licensee or tenant to agree to indemnify the landlord for tort liabilities that arise out of or relate to its use or occupancy of the licensed or leased premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or wilful misconduct. In addition, the licensee or tenant typically indemnifies the landlord for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

In aircraft, engine and other equipment ("Equipment") financing or leasing agreements, Chorus typically indemnifies the financing or leasing parties, directors acting on their behalf and other related parties against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the Equipment and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, but generally excluding any liabilities caused by their gross negligence or wilful misconduct. In addition, in certain equipment financing or leasing transactions, Chorus typically provides indemnities in respect of certain tax consequences.

When Chorus enters into other types of leases and technical service agreements with service providers, primarily service providers who operate an airline as their main business, Chorus has from time to time agreed to indemnify the other party against liabilities that arise from third party claims, whether or not these liabilities arise out of or relate to the negligence of the other party, but generally excluding liabilities that arise from the other party's gross negligence or wilful misconduct.

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

13 Economic dependence

The transactions between Air Canada, and its subsidiary (Air Canada Capital Ltd.), and Chorus are summarized in the table below:

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $ (Restated - Note 3)
Operating revenue		
Air Canada	294,482	284,484
Operating expenses		
Air Canada	1,590	1,373

The following current balances with Air Canada and its subsidiary (Air Canada Capital Ltd.) are included in the financial statements:

	As at March 31, 2019 $	As at December 31, 2018 $ (Restated - Note 3)
Accounts receivable		
Air Canada	60,840	51,437
Lease receivables		
Air Canada	17,421	19,055
Accounts payable and accrued liabilities		
Air Canada	4,093	3,975
Air Canada Capital Ltd.	13,491	8,793

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

14 Statement of cash flows - supplementary information

a) Net changes in non-cash balances related to operations:

	Three months ended March 31,	
	2019	**2018**
	$	**$**
		(Restated - Note 3)
(Increase) decrease in accounts receivable – trade and other	(11,672)	5,185
(Increase) decrease in inventories	(3,923)	165
Increase in prepaid expenses and deposits	(7,337)	(2,051)
Decrease in income tax receivable	614	671
Increase in other long-term assets	(2,941)	(2,433)
Increase (decrease) in accounts payable and accrued liabilities	15,580	(17,861)
Increase (decrease) in current portion of long-term incentive plan	646	(329)
Increase in income tax payable	1,530	304
Increase (decrease) in other long-term liabilities	1,496	(6,740)
	(6,007)	(23,089)

The above table excludes non-cash transactions related to the foreign currency adjustments.

b) Other

	Three months ended March 31,	
	2019	**2018**
	$	**$**
Cash payments of interest	11,868	16,441
Cash receipts of interest	863	338
Cash payments (receipts) of tax	17	(526)

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

14 Statement of cash flows - supplementary information (continued)

c) Reconciliation between the opening and closing balances for liabilities from financing activities

	Lease liabilities $	Long-term borrowings $	Convertible units $
Balance - December 31, 2018 (Restated - Note 3)	22,629	1,245,435	194,294
Long-term borrowings	—	14,982	—
Repayment of long-term borrowings	—	(32,861)	—
Repayment of lease liabilities	(1,891)	—	—
Total financing cash flow activities	(1,891)	(17,879)	—
Interest expense	—	—	196
Deferred financing fee amortization	—	407	—
Unrealized foreign exchange gain	(121)	(16,646)	—
Realized foreign exchange loss	—	2,616	—
Foreign currency adjustments	—	(13,020)	—
Total financing non-cash activities	(121)	(26,643)	196
Balance - March 31, 2019	20,617	1,200,913	194,490

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (2019 - $19,544; December 31, 2018 - $20,081).

15 Subsequent event

On April 17, 2019, Chorus announced agreements to deliver five new Bombardier Q400 aircraft to SpiceJet of India under a purchase and leaseback transaction. CAC delivered three aircraft and anticipates the remaining aircraft will be delivered by the end of June 2019.