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GAL MSN 41027 LIMITED
Annual report and financial statements
FOR THE YEAR ENDED 31 DECEMBER 2018

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GAL MSN 41027 LIMITED

Directors and Other Information

Directors	Charles M Leahy (appointed 3 January 2017) MaplesFS UK Corporate Director No 1 Limited (appointed 3 November 2017) MaplesFS UK Corporate Director No 2 Limited (appointed 2 November 2017)
Company secretary	Maples Fiduciary Services (UK) Limited 11th Floor 200 Aldersgate Street, London, EC1A 4HD United Kingdom
Registered number	09320708
Registered office	11th Floor 200 Aldersgate Street, London, EC1A 4HD United Kingdom
Independent auditor	KPMG Chartered Accountants 1 Harbourmaster Place IFSC, Dublin 1 Ireland
Bankers	Citibank Europe Plc 1 North Wall Quay Dublin 1 Ireland
Solicitors	Clifford Chance 10 Upper Bank Street London E14 5JJ United Kingdom
Corporate administrator	Maples Fiduciary Services (UK) Limited (appointed from 5 January 2017) 11th Floor 200 Aldersgate Street London, EC1A 4HD United Kingdom
Lease manager	Goshawk Management (Ireland) Limited 32 Molesworth Street Dublin 2 Ireland

GAL MSN 41027 LIMITED

DIRECTORS' REPORT AND STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their annual report and the audited financial statements of GAL MSN 41027 Limited (the "Company") for the year ended 31 December 2018

Principal Activities, Business Review and Future Developments

The Company was incorporated in England on 20 November 2014 as a special purpose company whose principal activity is the leasing of jet aircraft. The Directors expect these activities to continue for the foreseeable future and will continue to review and seek business opportunities for the Company. The Company is operated and managed as a single operating segment

Principal Risks and Uncertainties

The Company, in the course of its business activities, is exposed to asset, market, credit and liquidity risk. The key risks facing the Company and the manner in which these risks have been dealt with are disclosed in the consolidated financial statements of Goshawk Aviation Limited ("GAL") (whose accounts consolidate the accounts of the Company). The Board of Directors ensures that risks are identified and managed in accordance with the objectives of the Company.

Going Concern

The Directors, having made such inquiries as they considered appropriate, have prepared the Company's financial statements on a going concern basis.

The Company is in a net liability position, however the financial statements have been prepared on a going concern basis subject to continuing support of GAL, ultimate controlling party, as detailed in Note 19, to allow the Company to meet its obligations as they come due.

Key Performance Indicators

The Company's KPIs during the year were as follows:

- Operating income of US\$9,040,256 (2017: US\$9,040,256), and
- Profit before tax of US\$1,275,909 (2017: US\$769,531)

Results for the year and Dividends

The results of the Company for the year ended 31 December 2018 are set out in the Statement of Profit or Loss Account and Other Comprehensive Income on page 8 and in the Balance Sheet on pages 9 - 10. The profit on ordinary activities for the year before taxation amounted to US\$1,275,909 (2017: US\$769,531) and after charging taxation of US\$588,201 (2017: US\$314,304), the profit of US\$687,708 (2017: US\$455,227) was transferred to reserves. Shareholders' deficit at 31 December 2018 amounted to US\$77,434 (2017: US\$765,142). The Directors did not declare any dividends during the year (2017: US\$ Nil).

Total cash and cash equivalents at 31 December 2018 was US\$5,261 (2017: US\$Nil). Total assets at 31 December 2018 was US\$80,307,282 (2017: US\$82,982,737), and total liabilities was US\$80,384,716 (2017: US\$83,747,879).

Directors and Secretary and their Interests

The names of the persons who were Directors at any time during the year ended 31 December 2018 are set out below. In accordance with the Articles of Association the Directors are not required to retire by rotation.

GAL MSN 41027 LIMITED

**DIRECTORS' REPORT AND STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Directors

Charles M Leahy (appointed 3 January 2017)
MaplesFS UK Corporate Director No 1 Limited (appointed 3 November 2017)
MaplesFS UK Corporate Director No.2 Limited (appointed 2 November 2017)

Secretary

Maples Fiduciary Services (UK) Limited (appointed from 3 January 2017)

Interests

The Directors and the company secretary who held office at 31 December 2018 do not have any direct or beneficial interest in the shares, deferred shares, share options and debentures of the Company, or any group company at that date or during the period

Issue of Shares

Share capital consists of 1 ordinary shares of GBP £1 (US\$2) issued on 20 November 2014 to GAL Holdco No 2 Limited

Political Contributions

No political donations were made by the Company during the year (2017 None)

Events after the end of the Reporting Date

There are no significant events affecting the Company since the end of the reporting year

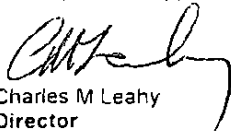
Disclosure of information to auditors

The Directors who held office at the date of approval of this Strategic Report and Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he/ she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Independent Auditor

Pursuant to Section 485 of the Companies Act 2006, the auditor, KPMG, Chartered Accountants, will be deemed to be reappointed and will therefore continue in office. The Directors have appointed KPMG as the Company's Auditor

This report was approved by the board on 28 June 2019 and signed on its behalf


Charles M Leahy
Director

GAL MSN 41027 LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND
THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

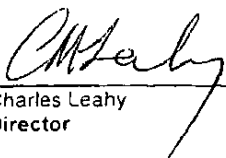
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit for that year. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2006.

Approved by the board and authorised for issue on 28 June 2019


Charles Leahy
Director



KPMG
Audit
1 Harbourmaster Place
IFSC
Dublin 1
D01 F6F5
Ireland

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAL MSN 41027 LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of GAL MSN 41027 Limited ('the Company') for the year ended 31 December 2018 set out on pages 8 to 27, which comprise the Statement of Profit or Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the summary of significant accounting policies set out in note 2 The financial reporting framework that has been applied in their preparation is Irish Law and FRS 101 Reduced Disclosure Framework.

In our opinion, the accompanying financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended,
- have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework, and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period")



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAL MSN 41027 LIMITED
(continued)

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information,

- we have not identified material misstatements in the directors' report,
- in our opinion, the information given in the directors' report is consistent with the financial statements,
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion,

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAL MSN 41027 LIMITED
(continued)**

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Killian Croke, Senior Statutory Auditor
for and on behalf of
KPMG Statutory Auditor
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

28 June 2019

GAL MSN 41027 LIMITED

**STATEMENT OF PROFIT OR LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 US\$	2017 US\$
Operating income	3	9,040,256	9,040,256
Depreciation	8	(3,070,824)	(3,070,824)
General and administration expenses	4	(593,250)	(361,610)
Net operating profit on continuing activities		5,376,182	5,607,822
Finance expense	5	(5,165,792)	(5,354,787)
Net gains on derivatives	12	1,065,519	516,481
Foreign exchange gain		-	15
Profit on ordinary activities before taxation		1,275,909	769,531
Tax on profit	7	(588,201)	(314,304)
Profit on ordinary activities after taxation		687,708	455,227
Other comprehensive income		-	-
Total comprehensive income for the financial year		687,708	455,227

The accompanying notes on pages 12 to 27 form an integral part of these financial statements. All profits and total comprehensive income for the year are attributable to the owners of the Company. The above results were derived from continuing operations.

GAL MSN 41027 LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2018**

	Note	2018 US\$	2017 US\$
Non-current assets			
Aircraft	8	79,901,525	82,972,349
		<u>79,901,525</u>	<u>82,972,349</u>
Other non-current assets			
Net derivative assets	12	324,373	-
		<u>324,373</u>	<u>-</u>
Total non-current assets		<u>80,225,898</u>	<u>82,972,349</u>
Current assets			
Other receivables	9	76,123	10,388
Cash and cash equivalents	10	5,261	-
		<u>81,384</u>	<u>10,388</u>
Total current assets		<u>81,384</u>	<u>10,388</u>
Total assets		<u>80,307,282</u>	<u>82,982,737</u>
Liabilities - amounts falling due within one year			
Loans and borrowings	11	3,593,296	3,390,242
Lease rental received in advance		1,268,993	1,268,993
Other liabilities	13	789,925	619,436
Net deferred tax liabilities	7	1,199,879	611,678
		<u>6,852,093</u>	<u>5,890,349</u>
Liabilities - amounts falling due more than one year			
Loans and borrowings	11	73,532,623	77,116,384
Net derivative liabilities	12	-	741,146
		<u>73,532,623</u>	<u>77,857,530</u>
Total liabilities		<u>80,384,716</u>	<u>83,747,879</u>
Net liabilities		<u>(77,434)</u>	<u>(765,142)</u>

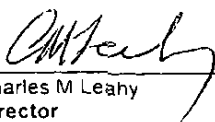
GAL MSN 41027 LIMITED

**BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2018**

	Note	2018 US\$	2017 US\$
Capital and reserves			
Share capital	14	2	2
Profit or loss account		(77,436)	(765,144)
Shareholders' deficit		<u>(77,434)</u>	<u>(765,142)</u>

The accompanying notes on pages 12 to 27 for an integral part of these financial statements

Approved by the board and recognised for issue on 28 June 2019



Charles M Leahy
Director

GAL MSN 41027 LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital US\$	Profit or loss account US\$	Total deficit US\$
At 1 January 2017	2	(1,220,371)	(1,220,369)
Comprehensive income for the year			
Profit for the year	-	455,227	455,227
Total comprehensive income for the year	-	455,227	455,227
At 1 January 2018	2	(765,144)	(765,142)
Comprehensive income for the year			
Profit for the year	-	687,708	687,708
Total comprehensive income for the year	-	687,708	687,708
At 31 December 2018	2	(77,436)	(77,434)

All equity is attributable to the holders of the Company

The accompanying notes on pages 12 to 27 form an integral part of these financial statements

GAL MSN 41027 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

GAL MSN 41027 Limited (the "Company") is a limited liability company incorporated in England on 20 November 2014 as a special purpose company whose principal activity is the leasing of jet aircraft and is domiciled in the United Kingdom

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and UK GAAP

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("EU IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements the Company has applied the exemptions available under FRS 101 in respect of the following disclosures

- A Cash Flow Statement and related notes,
- Disclosures in respect of capital management,
- The effects of new standards and interpretations issued but not yet effective,
- Disclosures in respect of the compensation of Key Management Personnel and related party transactions entered into between two or more wholly owned members of a group

As the consolidated financial statements of Goshawk Aviation Limited ("GAL") (whose accounts consolidate the accounts of the Company) and which have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), include equivalent disclosures, the Company has taken exemptions under FRS 101 available in respect of the following disclosures

- Certain disclosures required by IFRS 13 Fair Value Measurement, and
- The disclosures required by IFRS 7 Financial Instrument Disclosures.

During the year, the Company adopted the following new standards and interpretations. IFRS 15 Revenue from Contracts ("IFRS 15") establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue ("IAS 18") and IAS 11 Construction Contracts and related interpretations. The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). The impact of IFRS 15 was assessed and concluded that there is no impact to the Company's financial statements as revenue earned by the Company is recognised and measured in accordance with IAS 17 Leases ("IAS 17"). The Company also adopted IFRS 9 Financial Instruments ("IFRS 9") sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), refer to Note 2.6 Financial Instruments for further details.

The financial statements have been prepared in US Dollars (US\$). The financial statements have been prepared on a going concern and a historical cost basis, except for derivative financial instruments, which have been measured on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

The preparation of the financial report in conformity with FRS 101 requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the Directors on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key judgements that could affect the reported results are those concerning the useful lives, residual values and carrying values of the aircraft. The Company reviews the estimated useful lives, residual values and the carrying value of its aircraft assets at the end of each annual reporting year to support the estimates.

2.2 Going concern

The Company's financial statements are prepared as a going concern. The projected cash flows are sufficient to meet the liabilities as they fall due during the contracted lease term and because of the continuing support of GAL, as the ultimate controlling party (detailed in Note 19).

2.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Lease rental revenue

Lease rental revenue is recognised on a straight-line basis over the lease term. Lease rental revenue received in advance is recognised as a liability until such time that the Company is entitled to the lease rental revenue.

Finance income

Finance income accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset or liability.

2.4 Finance expense

Finance expense comprises of interest expense on borrowings, financing fee amortisation and interest rate swap settlements. All borrowing costs are recognised in Statement of Profit or Loss Account and Other Comprehensive Income using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.5 Cash and cash equivalents

Cash and cash equivalents comprise of amounts due from banks and where applicable, overdrafts. They are convertible into cash with an insignificant risk of changes in value and with original maturities of less than 90 days

2.6 Financial instruments

IFRS 9 Financial Instruments ("IFRS 9") was issued in July 2014 and replaces IAS 39 Financial Instruments Recognition and Measurement ("IAS 39"). The Company has adopted IFRS 9 for the financial reporting period commencing 1 January 2018. The Company is reporting under IFRS 9 as at 31 December 2018 for all areas except for Hedge Accounting. This continues to be reported under IAS 39.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. As permitted by the transitional provisions of IFRS 9, the Company has found that there has been no impact on opening reserves, retained earnings and other carrying values. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") – debt investment, FVOCI – equity investment, or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in Other Comprehensive Income. This election is made on an investment-by-investment basis.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. The financial assets held by the Company are trade receivables and cash. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.6 Financial instruments (continued)

The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables and cash.

Under IFRS 9, loss allowances are measured on either of the following bases.

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date, and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and contract assets as required or permitted by IFRS 9.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

- the lessor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held), or
- the financial asset is more than 90 days past due. Impairment losses related to trade and other receivables, are presented separately in the Statement of Profit or Loss Account and Other Comprehensive Income.

The Company assessed its trade and other receivables balance at 31 December 2018 by comparing historical receivable loss patterns with current and future forecasted credit conditions and determined that no material ECL was required.

Derivative financial instruments

Derivative financial instruments include all derivative assets and liabilities that are used to economically hedge each loan from certain interest rate fluctuations. Derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss in the Statement of Comprehensive Income, any directly attributable transaction costs. These derivatives are not however formally designated into qualifying hedge relationships and therefore all changes in their fair value are recognised immediately in the Statement of Profit or Loss Account and Other Comprehensive Income.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.7 Aircraft

Cost

Aircraft assets are initially recorded at cost including directly attributable transaction costs on acquisition. Aircraft are subsequently measured at cost less accumulated depreciation and any impairment losses.

Depreciation

The Company depreciates leased aircraft assets on a straight-line basis to a residual value at the end of the useful economic life.

The useful economic life and residual value of aircraft and related assets are generally estimated as being 25 years from date of manufacture and 15% of cost, respectively. Where more relevant information indicates a different pattern in which the benefits associated with an aircraft are consumed, management adjust the residual value and useful economic life estimates for those specific aircraft.

Residual value and useful economic life estimates of aircraft and related assets are reviewed at a minimum at each annual reporting date considering management's experience and knowledge of the industry, the GAL group's strategy (that relating to the acquisition, disposition and leasing of aircraft) as well as external market factors. Changes are accounted for as a charge in accounting estimate.

Disposal of aircraft

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the Statement of Profit or Loss Account and Other Comprehensive Income.

Derecognition

Aircraft assets are derecognised upon disposal or when no further future economic benefits are expected from their use or disposal.

Impairment

At each reporting date, the carrying values of aircraft assets are assessed for indications of impairment. If any indicator of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less cost to sell and value in use. A previously recognised impairment loss is only reversed if there has been an increase in the asset's recoverable amount since the last impairment loss was recognised. The impairment loss would be reversed to the revised estimate of its recoverable amount but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in the prior years. A reversal of an impairment loss is recognised immediately in Statement of Profit or Loss Account and Other Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.8 Leases

The Company leases aircraft to airline operators. The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating and executing an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as lease rental revenue. Leases in which the risks and benefits of ownership transfer to the lessee are classified as finance leases.

2.9 Other payables

Other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments, within 12 months from balance sheet date, in respect of the purchase of these goods and services.

2.10 Lease rental received in advance

Lease rentals received in respect of future rental periods are recognised as a liability in the Balance Sheet. The liability is released to the Statement of Profit or Loss Account and Other Comprehensive Income in the period that the revenue recognition criteria is satisfied.

2.11 Other receivables

Other receivables are initially recorded at cost, which is the equivalent of the fair value, and are generally received within 30 days of becoming due and receivable. At the end of each reporting period, the Company applies an expected credit loss model to determine if the carrying value of other receivables is impaired. Impairment losses are recognised immediately in the Statement of Profit or Loss Account and Other Comprehensive Income.

2.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is US\$.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in currencies other than US\$ are translated into US\$ at exchange rates prevailing at the end of the reporting year. Non-monetary assets and liabilities are stated at cost based on the exchange rate prevailing at the transaction date. All exchange differences are included in Statement of Profit or Loss Account and Other Comprehensive Income.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.13 Taxation

Tax expense comprises current and deferred tax. Current and deferred tax expense is recognised through profit or loss in the Statement of Profit or Loss Account and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in there

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the end of the reporting year where transactions or events have occurred at that date that will result in an obligation to pay more or right to pay less tax. Provision is made at the rates expected to apply when the temporary differences reverse based on legislation substantively enacted at the end of the reporting year

Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted

3. Operating income

	2018 US\$	2017 US\$
Lease rental revenue	9,040,256	9,040,256
	<u>9,040,256</u>	<u>9,040,256</u>

Income arises from the leasing of aircraft under operating leases. All income is derived from activities carried out in Australia

In connection with the operating lease, future minimum rentals receivable under this lease are as follows

	2018 US\$	2017 US\$
Within 1 year	9,040,256	9,040,256
More than 1 year but less than 5 years	36,161,024	36,161,024
Later than five years	13,560,384	22,600,640
Total	<u>58,761,664</u>	<u>67,801,920</u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. General and administration expenses

	2018 US\$	2017 US\$
Asset management fees	452,013	361,610
Other fees and expenses	141,237	-
	<u>593,250</u>	<u>361,610</u>

5. Finance expense

	2018 US\$	2017 US\$
Interest expense on loans	4,804,052	4,345,098
Amortisation of upfront fees	174,422	202,407
Swap expense	187,318	807,282
	<u>5,165,792</u>	<u>5,354,787</u>

6. Profit on ordinary activities before tax

	2018 US\$	2017 US\$
The profit is arrived at after charging:		
Directors remuneration (fees)	-	-
Directors remuneration (other)	-	-
Depreciation	3,070,824	3,070,824
Auditors' remuneration - Audit	-	-
Auditors' remuneration - Tax Advisory	-	-
Auditors' remuneration - Tax Compliance	-	-
Other non-audit services	-	-
	<u>3,070,824</u>	<u>3,070,824</u>

Maples Fiduciary Services (UK) Limited ("Maples") provides directors to the Company as part of its service under the corporate service agreement. The directors did not receive any remuneration during the year (2017 US\$Nil)

Auditors' remuneration arises solely on fees incurred for the statutory audit and it has been borne by Company's consolidating parent and will not be recharged to the Company

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Taxation

	2018 US\$	2017 US\$
Current tax:		
Income tax expense for the year on ordinary activities	-	-
	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	242,422	378,085
<i>Changes in tax rates</i>	(58,977)	(44,132)
Adjustments to tax charge in respect of previous periods	-	(19,649)
Prior year over/under provision of deferred tax	86,895	-
Non deductible expenses (P D)	317,861	-
Total deferred tax	588,201	314,304
Tax expense for the year	588,201	314,304

Factors affecting tax charge for the year

The reconciliation of tax on profit on ordinary activities at the standard rate of UK corporation tax to the Company's actual tax charge is analysed as follows

	2018 US\$	2017 US\$
Profit on ordinary activities before tax	1,275,909	769,531
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2018 19 25%)	242,423	148,108
Effects of:		
Adjustments to tax charge in respect of previous periods	-	(19,649)
Prior year under provision of deferred tax	86,894	-
Expenses not deductible for tax purposes	317,861	229,977
Impact of change in tax rates	(58,977)	(44,132)
Total tax charge for the year	588,201	314,304

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Taxation (continued)

Factors that may affect future tax charges

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were enacted on 26 October 2015. Finance Bill 2016 further reduced the 18% rate to 17% from 1 April 2020, following substantial enactment on 6 September 2016. Together this will reduce the company's future tax charges accordingly.

Deferred tax

Deferred tax represents the amount of tax recoverable in respect of tax losses available in the current year which are available for carry forward and an excess of capital allowances over accounting depreciation. The reconciliation of deferred tax assets and liabilities for the year is as follows:

	2018 US\$	2017 US\$
Deferred tax assets		
At beginning of the year	953,513	703,386
Movement during the year	(110,688)	250,127
At end of the year	<u>842,825</u>	<u>953,513</u>
Deferred tax liabilities		
At beginning of the year	(1,565,191)	(1,000,760)
Movement during the year	(477,513)	(564,431)
At end of the year	<u>(2,042,704)</u>	<u>(1,565,191)</u>
Net deferred tax liabilities	<u><u>(1,199,879)</u></u>	<u><u>(611,678)</u></u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Aircraft

	2018 US\$	2017 US\$
Cost:		
At beginning of the year	89,892,578	89,623,790
Additions during the year	-	268,788
Balance at end of the year	<u>89,892,578</u>	<u>89,892,578</u>
Accumulated depreciation:		
At beginning of the year	(6,920,229)	(3,849,405)
Current year depreciation	(3,070,824)	(3,070,824)
Balance at end of the year	<u>(9,991,053)</u>	<u>(6,920,229)</u>
Net book value at end of the year	<u><u>79,901,525</u></u>	<u><u>82,972,349</u></u>

At 31 December 2018, the Company owned two aircraft (2017: Two). The Company's obligations under the loans payable are secured by charge over, among other things, the Company's aircraft and other assets. During the year ended 31 December 2018, no impairment charge was recognised (2017: None).

9. Other receivables

	2018 US\$	2017 US\$
Other receivables	10,389	10,388
Prepaid loan interest - Junior Loan	65,734	-
	<u>76,123</u>	<u>10,388</u>

The other receivables in the table above are neither past due nor impaired. Receivables from other group entities are available on demand and do not bear interest.

10. Cash and cash equivalents

	2018 US\$	2017 US\$
Cash at bank and in hand	5,261	-
	<u>5,261</u>	<u>-</u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. Loans payable

The balance of the loans as of 31 December 2018 is US\$77,125,919 (2017 US\$80,506,626), net of unamortised transaction fees of US\$650,010 (2017 US\$824,432) as outlined below. Aircraft lease rentals are fixed and structured to ensure that lease payments are sufficient to meet the debt funding over the term of the lease. The maturity date of the loans is 17 January 2023. Costs and fees incurred to secure the loans payable are capitalised and amortised over the term of the loans.

	2018 US\$	2017 US\$
Loan type:		
Senior loan	57,975,929	61,531,058
Junior loan	19,800,000	19,800,000
Total Loans Payable	77,775,929	81,331,058
Unamortised loan establishment fee	(650,010)	(824,432)
	(650,010)	(824,432)
Net Loans Payable	77,125,919	80,506,626
	2018 US\$	2017 US\$
Maturity analysis:		
Within 1 year	3,593,296	3,390,242
Greater than 1 year	73,532,623	77,116,384
Total Loans Payable	77,125,919	80,506,626

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. Loans payable (continued)

Key terms of debt facilities

The terms of outstanding debt facilities were as follows (excluding capitalised loans fees)

At 31 December 2018

		2018
	<u>Nominal Interest Rate (%)</u>	<u>US\$</u>
Floating rate loans		
Senior Loans	LIBOR + 2.15	57,975,929
Fixed rate loans		
Junior Loans	11.00	19,800,000
		<u>77,775,929</u>

At 31 December 2017

		2017
	<u>Nominal Interest Rate (%)</u>	<u>US\$</u>
Floating rate loans		
Senior Loans	LIBOR + 2.15	61,531,058
Fixed rate loans		
Junior Loans	11.00	19,800,000
		<u>81,331,058</u>

The aircraft is pledged as security to the Security Trustees, as outlined in the security assignment. The aircraft has also been pledged as collateral to the financing parties as outlined in the proceeds and intercreditor deeds. The recourse of the Lenders and the other parties to the transaction documents is limited to the assets secured by the Company in favour of the Security Trustees and to any monies received by the Company pursuant to the transaction documents. None of these parties has a right to wind-up or take any other insolvency proceedings against the Company.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. Derivative assets/(liabilities)

The reconciliation of derivative assets/(liabilities) for the year is as follows.

	2018 US\$	2017 US\$
Fair value at beginning of the year	(741,146)	(1,257,627)
Change in fair value of derivative financial instrument through profit or loss	1,065,519	516,481
Fair value at end of the year	324,373	(741,146)

A portion of the Company's borrowings are at floating interest rates. To mitigate its exposure to floating interest rates the Company has entered into interest rate swap agreements to swap floating interest rate payments for fixed. The counterparty to the interest rate swap agreements is Investec Bank Plc. Derivatives are classified as Level 2 in the fair value hierarchy as the valuation is based on discounted cash flows using market implied inputs.

13. Other liabilities

	2018 US\$	2017 US\$
Loan interest payable	356,739	350,649
Payable to other group entities	290,692	268,787
Other payables	142,494	-
	789,925	619,436

Amounts payable to other group entities are due on demand and do not bear interest.

14. Ordinary share capital

	2018 US\$	2017 US\$
Authorised		
1 Ordinary share of £1	2	2
Allotted, called up and fully paid		
1 Ordinary share of £1 each	2	2

Ordinary shares carry one vote per share. There are no additional rights, preferences or restrictions associated with these shares.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. Employees

Maples was appointed as corporate administrator effective from 5 January 2017. The Company has entered into a lease management agreement with Goshawk Management (Ireland) Ltd ("GMIL") to provide leasing and asset management services as per the service agreement; however, the Company did not directly employ any persons during the year. During the year, Maples received fees of US\$11,790 (2017: US\$10,171) for the provision of administration services to the Company. The fees were paid by GAL.

16. Capital commitments

At 31 December 2018 there are no outstanding capital commitments (2017: None).

17. Related party transactions

GMIL acts as leasing and asset manager of the Company. The fees charged by GMIL for year ended 31 December 2018 was US\$452,013 (2017: US\$361,610). The balance payable at 31 December 2018 is US\$90,403 (2017: US\$Nil).

As at 31 December 2018, the Directors of the Company were employees or were affiliates of Maples. The Directors may be deemed to have an interest in the fees paid to Maples in their capacity as employees of Maples. Maples provides corporate administration services to the Company at commercial rates. The Directors' fees for the year are US\$ Nil (2017: US\$Nil).

Junior financing of US\$19,800,000 was provided by GAL Dutch Finance B.V. on inception. Total interest charged for the year in respect of the junior financing was US\$2,208,250 (2017: US\$2,208,250) of which US\$65,734 (2017: accrued and payable of US\$43,046) was prepaid and receivable as of year end. The total balance payable in respect of the junior loan provided at 31 December 2018 is US\$19,800,000 (2017: US\$19,800,000).

The balance payable to GAL as at 31 December 2018 was US\$290,692 (2017: US\$268,767).

18. Events after the end of the Reporting Date

There are no significant events affecting the Company after the end of the reporting year that requires disclosure in the financial statements.

19. Parent undertaking

The Company's immediate parent undertaking and controlling party is GAL Holdco No 2 Limited, a UK registered company whose registered office is at 11th Floor, 200 Aldersgate Street, London, United Kingdom, EC1A 4HD. The entire share capital of GAL Holdco No 2 Limited is held by Maples Fiduciary Services (UK) Limited, holding one ordinary share. The entire share capital was transferred from Intertrust Trustees (UK) Limited on 5 January 2017. This share is held in trust for charitable purposes under a declaration of trust.

GAL Holdco No 2 Limited is part of the GAL group, ultimate controlling party. The consolidated financial statements of GAL are appended to these financial statements which are available from Companies House, UK.

NWS Holdings Limited and Chow Tai Fook Enterprises Limited are the ultimate controlling parties of the GAL group.

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

20. Approval of financial statements

The board of Directors approved these financial statements for issue on 28 June 2019

part of 00320700

Goshawk Aviation Limited

Consolidated financial statements
for the year ended 31 December 2018

THURSDAY

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10/10/2018
COMPANIES HOUSE

Goshawk Aviation Limited

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Goshawk Aviation Limited

Directors and other information

Directors

Tsang On Yip Patrick
Cheng Chi Ming Brian
Cheng Chi Him (appointed 21 March 2018)
Gilbert Chi Hang Ho (appointed 30 April 2018)
Kun Zhang (resigned 21 March 2018)
Rufin Mak Bing Leung (resigned 30 April 2018)

Company registration number

281736

Company secretary

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Registered office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Solicitors

Clifford Chance LLP
10 Upper Street
London
E14 5JJ
United Kingdom

Independent auditor

KPMG
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

Bankers

Citibank Europe Plc
1 North Wall Quay
Dublin 1
Ireland

Goshawk Aviation Limited

Directors' report

The Directors present their annual report, together with the audited consolidated financial statements of Goshawk Aviation Limited (the "Company") and its subsidiaries (together, the "Group"), for the year ended 31 December 2018. The Group comprises Goshawk Aviation Limited and its subsidiaries.

The annual report includes the Directors' report and the consolidated financial statements, which include a consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the Group as at 31 December 2018 and for the year then ended.

Principal activities

The principal activities of the Group are investments in commercial aircraft and aircraft leasing. The Directors expect these activities to continue in the foreseeable future. The Group purchased 70 aircraft (aircraft purchased as part of business combination: 49) and disposed of six aircraft during the year (2017: 27 and four respectively).

The total number of aircraft at 31 December 2018 was 163 (2017: 99). There were no aircraft held for sale at 31 December 2018 (2017: one).

The Group had invested share capital and equity contributions totalling US\$1,975.8m and has a portfolio of 163 aircraft on lease to 62 airline groups around the world.

Directors

The following persons were Directors of the Company during the financial year and until the date of this report:

	<u>Date Appointed</u>	<u>Date Resigned</u>
Tsang On Yip Patrick	6 January 2014	-
Cheng Chi Ming Brian	2 February 2015	-
Cheng Chi Him	21 March 2018	-
Gilbert Chi Hang Ho	30 April 2018	-
Kun Zhang	6 January 2014	21 March 2018
Rufin Mak Bing Leung	29 September 2017	30 April 2018

Group Advisor

The Group Advisor is Goshawk Management (Ireland) Limited and its subsidiary companies (together "GMIL"). The Group Advisor has overall responsibility for the asset management of the aircraft portfolio.

Principal risks and uncertainties

The Group is exposed to various risks, which could adversely affect the financial performance, position and/or growth potential of the Group. These include general economic conditions, exposure to the commercial airline industry, debt market volatility, leverage risk and financial risks. Please see further details in note 22 in the consolidated financial statements.

Going concern

The Directors, having made such enquiries as they considered appropriate, have prepared the consolidated financial statements on a going concern basis.

Goshawk Aviation Limited

Directors' report (continued)

Results and dividends

The results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 7 and in the consolidated statement of changes in equity on page 10.

The profit before income tax for the year amounted to US\$124.2m (2017: US\$113.2m). Total equity at 31 December 2018 amounted to US\$2,026.5m (2017: US\$1,236.4m).

During the year ended 31 December 2018, there was a strong growth in income driven by aircraft deliveries and the acquisition of Sky Aviation Leasing International Limited ("SALI").

On 13 September 2018, the Group acquired 100% of the share capital of SALI. Details of the acquisition are disclosed in note 25 in the consolidated financial statements.

Total cash at 31 December 2018 was US\$362.2m (2017: US\$173.2m). Total assets at 31 December 2018 was US\$8,051.2m (2017: US\$4,634.7m), and total liabilities was US\$6,024.7m (2017: US\$3,398.3m)

Included in equity movements for the year are dividend distributions to preference shareholders of US\$110,600,000 (2017: US\$93,130,000) paid during the year.

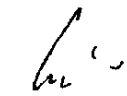
Events after the end of the reporting date

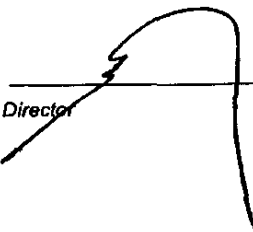
Details of important events affecting the Group and the Company which have taken place since the end of the reporting period are disclosed in note 26 in the consolidated financial statements.

Auditor

KPMG Chartered Accountants have been appointed as auditor and expressed their willingness to continue in office.

Approved by the board and authorised for issue on 8 May 2019.



Director

Director



KPMG
Audit
1 Harbourmaster Place
IFSC
Dublin 1
D01 F6F5
Ireland

Independent Auditor's Report to the Shareholders on the Consolidated Financial Statements of Goshawk Aviation Limited

1. Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Goshawk Aviation Limited ("the Company") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 11 to 51.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion on that information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



Independent Auditor's Report to the Shareholders on the Consolidated Financial Statements of Goshawk Aviation Limited (continued)

2. Respective responsibilities and restrictions on use

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group's or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Further details relating to our work as auditor is set out in the Scope of Responsibilities Statement contained in the appendix to this report, which is to be read as an integral part of our report.

Our report is made solely to the Company's shareholders, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

8 May 2019



Appendix to the Independent Auditor's Report

Further information regarding the scope of our responsibilities as auditor

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- **Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.**
- **Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.**
- **Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.**
- **Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group's to cease to continue as a going concern.**
- **Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.**
- **Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Goshawk Aviation Limited

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	Notes	Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$
Income			
Lease revenue	4	528,709,115	357,490,448
Other income	5	968,095	7,530,095
Gain on disposal of aircraft and related assets	6	19,574,083	22,622,474
Total income		549,249,293	387,643,017
Expenses			
Depreciation, amortisation and impairment	12	(212,811,976)	(140,550,011)
Loss on transfer to held for sale	14	-	(2,083,480)
Asset management and advisory fees	7	(33,992,767)	(22,324,635)
Other fees and expenses	8	(19,077,760)	(8,876,007)
Total expenses		(265,882,503)	(173,834,133)
Results from operating activities		283,366,790	213,808,884
Finance income	3	418,499	339,945
Finance expense	3	(165,197,652)	(101,713,147)
Net gain on fair value through profit or loss (FVTPL) financial instruments	3	5,596,875	766,534
Net finance cost		(159,182,278)	(100,606,668)
Profit before income tax		124,184,512	113,202,216
Income tax expense	9	(4,724,472)	(5,128,964)
Profit for the year		119,460,040	108,073,252
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Cash flow hedges - effective portion of changes in fair value net of tax		(29,065,112)	86,080
Cash flow hedges - reclassified to profit or loss		(1,208,803)	1,921,631
Total other comprehensive income/(loss), net of tax	20	(30,273,915)	2,007,711
Total comprehensive income for the year		89,186,125	110,080,963

Income relates to continuing operations. All profits and total comprehensive income for the year and the preceding financial year are attributable to the owners of the Company. The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

Goshawk Aviation Limited

Consolidated statement of financial position as at 31 December 2018

		2018	2017
	Notes	US\$	US\$
Assets			
Non-current assets			
Aircraft and related assets	12	7,361,530,017	4,346,418,899
Goodwill	25	202,928,553	-
Lease incentive asset	13	8,286,788	664,967
Derivative financial instruments	20	25,215,247	17,859,533
Aircraft purchase deposits	15	37,788,941	-
Other receivables	11	3,454,536	3,500,000
Total non-current assets		7,639,164,082	4,368,443,399
Current assets			
Cash and cash equivalents	10	192,851,868	133,767,706
Restricted cash	10	169,303,168	39,395,567
Assets classified as held for sale	14	-	15,859,998
Aircraft purchase deposits	15	-	58,717,960
Other receivables	11	49,894,544	18,547,828
Total current assets		412,049,580	266,289,057
Total assets		8,051,213,662	4,634,732,456
Equity			
Share capital and equity	21	1,975,772,613	1,164,252,998
Retained earnings	21	75,801,913	66,941,873
Hedging reserve	21	(25,054,024)	5,219,891
Total equity		2,026,520,502	1,236,414,762
Liabilities			
Non-current liabilities			
Loans and borrowings	17	5,250,594,452	2,909,527,851
Maintenance reserves	18	319,086,428	158,149,516
Security deposits	19	67,207,636	41,141,652
Other payables	16	35,030,607	-
Derivative financial instruments	20	44,754,480	3,756,088
Deferred tax liabilities	9	31,178,104	11,124,904
Total non-current liabilities		5,747,851,707	3,123,700,011
Current liabilities			
Lease rentals received in advance		47,575,156	27,288,065
Loans and borrowings	17	144,600,074	182,324,414
Maintenance reserves	18	40,323,484	16,702,650
Security deposits	19	907,030	1,550,000
Other payables	16	43,435,709	46,752,554
Total current liabilities		276,841,453	274,617,683
Total liabilities		6,024,693,160	3,398,317,694
Total equity and liabilities		8,051,213,662	4,634,732,456

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

Goshawk Aviation Limited

Consolidated statement of cash flows for the year ended 31 December 2018

		Year ended 31 December 2018	Year ended 31 December 2017
		US\$	US\$
Notes			
	Cash flows from / (used in) operating activities		
	Lease revenue received	534,141,083	368,137,960
	Finance and other income received	2,648,969	1,143,159
	Finance expense paid	(150,505,846)	(79,083,249)
	Increase/(Decrease) in other receivables	15,806,531	(1,086,056)
	Other expenses paid	(63,519,262)	(42,802,181)
	Net cash flows from operating activities	338,371,475	246,309,633
	Cash flows from / (used in) investing activities		
	(Increase)/Decrease in restricted cash	(129,907,601)	3,121,297
10	Purchases of aircraft	(1,165,546,566)	(1,706,775,607)
	Increase in loan receivable	(9,357,862)	(3,500,000)
	Predelivery payments on aircraft	(37,014,720)	-
	Proceeds from disposal of aircraft and related assets	495,643,472	269,834,489
25	Acquisition of subsidiary – net of cash acquired	(1,779,231,022)	-
	Net cash flows used in investing activities	(2,625,414,299)	(1,437,319,821)
	Cash flows from / (used in) financing activities		
	Proceeds from equity contributions	858,739,615	258,937,174
21	Repayment of capital	(47,220,000)	(13,465,000)
	Lessee contributions to security and maintenance deposits	79,624,397	60,300,665
	Proceeds from borrowings	2,082,222,649	1,737,963,048
	Receipt / (Payment) of aircraft purchase deposits	-	(58,717,960)
	Upfront borrowing fees paid	(15,070,380)	(17,693,590)
	Net cash receipt/(settlement) of derivatives	5,250,353	(4,996,719)
	Security deposits repaid	(5,689,985)	-
	Repayments of borrowings	(500,927,957)	(605,086,480)
	Dividend distributions paid to the preference shareholders	(110,600,000)	(93,130,000)
21	Net cash flows from financing activities	2,346,328,692	1,264,111,138
	Net movement in cash and cash equivalents	59,285,868	73,100,950
	Cash and cash equivalents at the beginning of the year	133,767,708	60,538,052
	Foreign currency translation adjustment	(201,706)	128,704
	Cash and cash equivalents at the end of the year	192,851,868	133,767,706

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

Goshawk Aviation Limited

Consolidated statement of changes in equity for the year ended 31 December 2018

	Share capital	Equity contributions	Retained earnings	Hedging reserve	Total equity
	US\$	US\$	US\$	US\$	US\$
Balance at 31 December 2016	362,026,264	556,754,560	51,998,621	3,212,180	973,991,625
Total comprehensive income for the year ended 31 December 2017					
Profit for the year	-	-	108,073,252	-	108,073,252
Other comprehensive income for the year	-	-	-	2,007,711	2,007,711
Transactions with shareholders, recorded directly in equity					
Equity contributions	-	258,937,174	-	-	258,937,174
Repayment of capital	-	(13,465,000)	-	-	(13,465,000)
Dividend distribution to preference shareholders	-	-	(93,130,000)	-	(93,130,000)
Balance at 31 December 2017	362,026,264	802,226,734	66,941,873	5,219,891	1,236,414,762
Total comprehensive income for the year ended 31 December 2018					
Profit for the year	-	-	119,460,040	-	119,460,040
Other comprehensive income for the year	-	-	-	(30,273,915)	(30,273,915)
Transactions with shareholders, recorded directly in equity					
Equity contributions	-	858,739,615	-	-	858,739,615
Repayment of capital	-	(47,220,000)	-	-	(47,220,000)
Dividend distribution to preference shareholders	-	-	(110,600,000)	-	(110,600,000)
Balance at 31 December 2018	362,026,264	1,613,746,349	75,801,913	(25,054,024)	2,026,520,502

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

1. General information

Goshawk Aviation Limited is a limited liability company incorporated on 9 October 2013 in the Cayman Islands (registered no. 281736), whose registered office is at PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company is the parent entity of the Goshawk Aviation Group, which comprises a group of entities which collectively make up the "Group". The consolidated financial statements have been prepared for the year ended and as at 31 December 2018.

The principal activities of the Group are investments in commercial aircraft and aircraft leasing.

2. Significant accounting policies

2 (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

IFRS applied by the Group in the preparation of these consolidated financial statements are those that were effective at 31 December 2018.

2 (b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period as explained in the policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that is price directly observable or estimated using another valuation technique. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied during the period presented unless otherwise stated.

The consolidated financial statements are presented in United States Dollars ("US\$"), which is also the Company and its subsidiaries functional currency.

New Standards and Interpretations adopted during the year.

Except for the changes summarised below, the Group has consistently applied the accounting policies to all periods presented in these financial statements. New and revised standards issued by the IASB applicable to the current financial year are:

- **Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle**
The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for inconsistencies, conflicts or oversights in existing IFRSs. None of the amendments effective 1 January 2018 materially impact the consolidated financial statements of the Group.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (b) Basis of preparation (continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") was issued in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The Group adopted IFRS 9 for the financial reporting period commencing 1 January 2018.

Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income ("FVTOCI") and (iii) fair value through profit or loss ("FVTPL"). Based on the Group's assessment, there was no material impact on the classification and measurement of the following financial assets held by the Group: other receivables including value added tax refund, trade receivables and prepayments.

The Group performed a review of the contractual cash flows of these financial assets and the business model within which they are held. Following this review, loan receivables, with a carrying value of US\$3.5m were classified as FVTPL as the cash flows were not considered solely payments of principal and interest. There was no impact on opening reserves as the carrying value at the date of transition was an approximation for the fair value. Separately the Group concluded that all remaining financial assets, excluding derivatives, are comprised solely of payments and interest and are held in a business model to collect the contractual cash flows.

The impairment model under IFRS 9 reflects *expected* credit losses, as opposed to only *incurred* credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date. The new impairment model applies to the Group's financial assets that are debt instruments measured at amortised cost or FVTOCI as well as the Group's finance lease receivables, contract assets and issued financial guarantee contracts.

The Group applied the simplified approach to recognise lifetime expected credit losses for its *trade receivables, finance lease receivables and contracts assets as required or permitted by IFRS 9.*

On initial application of IFRS 9, the Group has chosen, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. At present we do not anticipate a material impact on the consolidated financial statements at transition as a result of adopting the IFRS 9 hedge accounting requirements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces existing guidance and introduces a new model for revenue recognition based on the transfer of control. This may affect the timing and amount of revenue that entities will recognise under IFRS 15 compared to current practice.

The Group have considered the impact of IFRS 15 for the recognition of revenue from a contract with a customer on the Group's consolidated financial statements. The impact on the Group's consolidated financial statements arising from the change in the recognition and remeasurement of revenue is not significant as the Group recognises revenue from its leases accordingly, under IAS 17 'Leases'.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (b) Basis of preparation (continued)

New standards and interpretations not yet adopted

The following new standards, approved by the IASB will be relevant to the Group, but were not effective at 31 December 2018, and have not been applied in preparing these consolidated financial statements.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards (effective from 1 January 2020)

These are all effective for annual periods beginning on or after 1 January 2019 (unless otherwise noted). The Group has taken the decision not to adopt these standards early. The extent of the impact for future accounting period is still under review by the Group.

2 (c) Basis of consolidation

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of the entity are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

All intragroup transactions, balances, income and expenses are eliminated on consolidation.

2 (d) Foreign currency

The consolidated financial statements are presented in US\$ and accordingly foreign currency transactions are translated at the spot rate of exchange on the day the transaction occurs.

Monetary assets and liabilities denominated in currencies other than US\$ are translated into US\$ at exchange rates prevailing at the end of the reporting period. Non-monetary assets are stated at cost based on the exchange rate prevailing at the date of acquisition of the asset. All exchange differences are included in the consolidated statement of profit or loss and other comprehensive income.

2 (e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Lease rental revenue

Lease rental revenue is recognised on a straight-line basis over the lease term. Lease rental revenue received in advance is recognised as a liability until such time that the Group is entitled to the lease rental revenue. For past-due rentals on all leases, an impairment provision may be established on the basis of management's assessment of collectability and to the extent that such past-due rentals exceed related security held. The Group will neither recognise revenue nor record a receivable from a customer when collectability is not reasonably assured. Management may determine whether a customer should be placed on a non-accrual status based on a number of credit considerations. Impairment charges are expenses through the consolidated statement of profit or loss and other comprehensive income and included in lease revenue.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (e) Revenue recognition (continued)

Finance income

Finance income accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset or liability.

2 (f) Finance expense

Finance expense comprises interest expense on borrowings, financing fee amortisation and interest rate swap settlements. All borrowing costs are recognised in profit or loss using the effective interest rate method.

2 (g) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the amount expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2 (h) Cash and restricted cash

Cash and cash equivalents comprise deposits and short term, highly liquid investments that are readily convertible to known amounts of cash.

Under certain of the Group's debt arrangements, payments received from lessees may be subject to withdrawal restrictions.

2 (i) Financial Instruments

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition on issue.

Derivative financial instruments and hedging

Non-hedging derivative instruments

Certain derivative transactions, while providing effective economic hedges to the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IFRS and are therefore treated as derivatives held for trading with fair value gains and losses reported in profit or loss.

Hedging derivative instruments

The Group also uses derivative instruments as part of its asset and liability management activities to manage specific exposures to interest rate risks and foreign currency risks.

On the date a derivative contract is entered into, the Group may designate it as either a hedge of the fair value of a recognised asset or liability (fair value hedge), or a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (i) Financial Instruments (continued)

The criteria for a derivative instrument to be accounted for as a hedge include:

- Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship before hedge accounting is applied;
- The hedge documentation shows that it is expected to be highly effective (within a range of 80% to 125%) in offsetting changes in fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period; and
- The hedge is effective at inception and on an ongoing basis.

Cash flow hedges

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income and in the cash flow hedge reserve within equity. The ineffective portion of the changes in the fair value of the derivatives is recognised immediately in profit or loss.

If a cash flow hedge no longer meets the criteria for hedge accounting or the hedging derivative expires or is sold, terminated or exercised, then the hedge accounting is discontinued, and the amount recognised in other comprehensive income remains in the hedging reserve until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is reclassified to profit or loss.

Borrowings

Borrowings are financial liabilities that are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition borrowing financial instruments are stated at amortised cost. All borrowing costs are taken to the consolidated statement of profit or loss and other comprehensive income based on the effective interest rate method.

Financial Assets

Under IAS 39, the Group's financial asset categories were either 'loans and receivables' or 'financial assets at fair value through the profit or loss' or 'available for sale assets'. Loans and receivables comprised 'other receivables', 'aircraft purchase deposits', 'restricted cash' and 'cash and cash equivalents' in the consolidated statement of financial position.

Under IFRS 9, applicable from 1 January 2018, the Group classifies financial assets based on the contractual cash characteristics of the asset and the business model in which the asset is held. Assets are classified as amortised cost, FVTOCI or FVTPL. Assets are measured at amortised cost if they are held within a business model whose objective is to hold the asset to collect contractual cash flows, and the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest ("SPPI"). Assets are measured at FVTOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the asset give rise to assets that are SPPI. All other financial assets are measured at FVTPL. Assets measured at amortised cost comprise certain other receivables, restricted cash and cash and cash equivalents. Certain other receivables are measured at FVTPL.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit losses' ("ECL") model. Assessing how changes in economic factors affect ECL requires considerable judgement. ECL are determined on a probability weighted basis.

In the event of an impairment the Group will recognise loss allowances for ECLs on the following instruments that are not measured at FVTPL:

- Financial assets that are debt instruments carried at amortised cost or FVTOCI; and,
- Lease receivable in the scope of IAS 17.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (i) Financial instruments (continued)

Derecognition

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment.

Financial liabilities

The Group's financial liability categories are either 'other financial liabilities' or 'financial liabilities at fair value through the profit or loss'. Other financial liabilities include 'maintenance reserves', 'security deposits', 'loans and borrowings' and 'other payables' in the consolidated statement of financial position. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. When a financial liability is extinguished for an amount that differs from the carrying value of the liability, the difference is recognised in the consolidated statement of profit or loss.

2 (j) Leases

The Group leases aircraft to airline operators. The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating and executing an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as lease rental revenue. Leases in which the risks and benefits of ownership transfer to the lessee are classified as finance leases.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (k) Aircraft and related assets

Cost

Aircraft and related assets are initially recorded at cost including directly attributable transaction costs on acquisition. Aircraft are subsequently measured at cost less accumulated depreciation and any impairment losses.

During the year ended 31 December 2018, the Group recognised maintenance rights assets and lease premium assets in relation to the acquisition of aircraft that were purchased on lease. Maintenance rights assets and lease premium assets have been disclosed separately in the notes to the consolidated financial statements. Further details disclosed in note 12.

Maintenance rights asset

Maintenance rights asset represents the value in the difference between the contractual right under the acquired in-place leases to receive the aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition.

A maintenance right asset represents the fair value of our contractual right under a lease to receive an aircraft in an improved maintenance condition as compared to the maintenance condition on the acquisition date. A maintenance right liability represents our obligation to pay the lessee for the difference between the lease end contractual maintenance condition of the aircraft and the actual maintenance condition of the aircraft on the acquisition date. The Group has not recognised any maintenance right liabilities in the current year.

Lease premium

At the time of an aircraft acquisition, the Group evaluates whether the lease acquired with the aircraft is at fair market value. A lease premium is recognised when it is determined that the acquired lease terms are above market value; lease discounts are recognised when it is determined that the acquired lease terms are below fair market value. Lease premiums and discounts are capitalised as a portion of the aircraft and related assets value and are amortised as lease revenue (for sale and lease back acquisitions) or depreciation, amortisation and impairment (for portfolio acquisitions) on a straight-line basis over the lease term.

Depreciation/Amortisation

Aircraft

The Group depreciates leased aircraft and related assets on a straight-line basis to a residual value at the end of the useful economic life.

The useful economic life and residual value of aircraft and related assets are generally estimated as being 25 years from date of manufacture and 15% of cost, respectively. Where more relevant information indicates a different pattern in which the benefits associated with an aircraft are consumed, management adjust the residual value and useful economic life estimates for those specific aircraft.

Residual value and useful economic life estimates of aircraft and related assets are reviewed at a minimum at each annual reporting date considering management's experience and knowledge of the industry, the Group's strategy (that relating to the acquisition, disposition and leasing of aircraft) as well as external market factors. Changes are accounted for as a charge in accounting estimate.

Maintenance rights asset

The commencement of amortisation of maintenance rights asset is triggered by maintenance events. Following a maintenance event, the portion of the cost of the event that relates to the maintenance rights asset is capitalised to aircraft asset and is then depreciated on a straight-line basis over the remaining useful economic life of the aircraft. On termination of a lease, any remaining maintenance rights assets are offset against any remaining maintenance reserves cash balances. Excess maintenance reserves are then released to the profit or loss, recognised as other income.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (k) Aircraft and related assets (continued)

Lease premium

Lease premium assets are amortised on a straight-line basis over the remaining term of the related lease.

The assets' residual values, useful lives, and depreciation/amortisation methods are reviewed and adjusted if appropriate as at each financial year end.

Disposal of aircraft

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of profit or loss and other comprehensive income.

Derecognition

Aircraft and related assets are derecognised upon disposal or when no further future economic benefits are expected from their use or disposal.

Impairment

At each reporting date, the carrying values of aircraft and related assets are assessed for indications of impairment. If any indicator of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an assets fair value less cost to sell and value in use. A previously recognised impairment loss is only reversed if there has been an increase in the asset's recoverable amount since the last impairment loss was recognised. The impairment loss would be reversed to the revised estimate of its recoverable amount but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in the prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2 (l) Lease incentive asset

Lessor contributions represent contractual obligations on the part of the Group to contribute to a lessee's cost of a next planned maintenance event which is expected to occur during the lease.

In addition, a lease incentive asset is recognised for this amount, and it is amortised over the life of the associated lease as a charge against lease revenue. When aircraft are sold, the portion of the accrued liability not specifically assigned to the buyer is derecognised as part of the gain or loss on disposal of aircraft.

2 (m) Assets and liabilities held for sale

Assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continued use are classified as held for sale. Immediately before classification as held for sale the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell.

2 (n) Maintenance reserves

In certain of the aircraft lease contracts, the lessee has the obligation to make periodic payments which are calculated with reference to the utilisation of airframes, engines and other major life-limited components during the lease (hereafter referred to as maintenance reserves). In such contracts, upon lessee presentation of invoices evidencing the completion of qualifying work on the aircraft, the Group reimburses the lessee for the work, up to a maximum of the maintenance reserves received with respect to such work.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

2 (n) Maintenance reserves (continued)

These maintenance reserves are recorded in the consolidated statement of financial position as a cash asset and related liability. Amounts not refunded during the lease are recorded as lease revenue at lease termination or at a point in time where the revenue becomes highly probable and reliably measurable.

2 (o) Aircraft purchase deposits

Aircraft purchase deposits relate to pre-delivery payments provided to airlines or manufacturers prior to the delivery of the aircraft. Aircraft purchase deposits are initially recorded at cost, which is equivalent of the fair value, and are generally received within one year of becoming due and receivable. At the end of each reporting period, the carrying amounts are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

2 (p) Other receivables

Other receivables are initially recorded at cost, which is the equivalent of the fair value, and are generally received within 30 days of becoming due and receivable. Other receivables also include long term loans which are accounted for at FVTPL.

2 (q) Other payables

Other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments, within 12 months from the date of the consolidated statement of financial position, in respect of the purchase of these goods and services.

2 (r) Taxation

The Group consists of a number of tax paying and non-tax paying entities due to tax laws applicable in each entity's respective domicile. Unless stated below, each entity within the Group is liable to tax assessment in the relevant jurisdiction of that entity.

Goshawk Aviation Limited

Under current Cayman Island law, the Company will not be subject to any income, withholding or capital gains taxes in the Cayman Islands.

Other Entities (Special Purpose Vehicles) – Irish tax resident

The income tax expense or gain for the year is the tax payable or receivable on the current years' taxable income based on the national income tax rate, and changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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Notes to the consolidated financial statements for the year ended 31 December 2018

2 (s) Share capital

Ordinary shares and preference shares are classified as equity. Preference shareholders are paid dividends at the discretion of the directors of the Company. In the event of liquidation, preference share equity ranks lower than other contractual debt agreements.

Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity, net of tax effects.

2 (t) Equity contributions

Equity contributions represent loans advanced by the shareholders where the company has a contractual right to settle the loans in the form of cash or the delivery of a pre-determined fixed number of the company's preference shares.

2 (u) Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires judgments, estimates and assumptions that affect the reported amounts in the consolidated financial statements. These judgments and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses are continually evaluated.

These judgments and estimates are based on historical experience and on other various factors believed to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

The following are critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in the consolidated financial statements.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Significant accounting judgments:

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the future years together with future tax planning strategies.

Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries and entities controlled by the Group are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company does not currently have a direct ownership or equity interest in the consolidated entities but has determined it has control of these companies and exposure to variable returns through the junior loan and option instruments and its power to influence the results of these entities.

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Notes to the consolidated financial statements for the year ended 31 December 2018

2 (u) Significant accounting judgments, estimates and assumptions (continued)

Transactions eliminated on consolidation

Intra-Group, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Estimation of useful lives and residual values of assets

In estimating useful lives and residual values of aircraft the Group relies upon actual industry experience, supported by estimates received from independent appraisers, with the same or similar aircraft types and considering our anticipated utilisation of the aircraft.

In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life.

Lease classification

On entering into lease agreements, the Group performs an assessment of the classification of the lease. The assessment involves estimating the remaining useful life of the aircraft on inception of the lease and estimating the present value of future lease payments.

Estimation of impairment of assets

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an assets fair value less cost to sell and value in use. The value in use is based on a discounted cash flow analysis using management's best estimate of cash flows related to the particular aircraft. Management considers comparable market data, independent leasing information as well as state and condition of the aircraft in determining these cash flows.

A suitable discount rate is then determined based upon the capital structure and the risks inherent in the cash flows.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair values, for financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability.

Aircraft and related assets

The fair value of aircraft and related assets is based on the market rates. The market value of aircraft and related assets is the estimated amount for which an aircraft could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after marketing wherein the parties each had acted knowledgeably, prudently and without compulsion.

The Group uses independent professional valuers to estimate the fair value of aircraft.

Trade receivables

Carrying amount approximates to fair value to the short-term nature of these instruments. Other receivables also include long term loans which are accounted for at FVTPL and are valued based on expected cash flows discounted at market rates of interest.

Cash and cash resources

Carrying amount approximates to fair value due to the short-term nature of these instruments.

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Notes to the consolidated financial statements for the year ended 31 December 2018

2 (u) Significant accounting judgments, estimates and assumptions (continued)

Derivatives – interest rate swaps

The market fair value of the interest rate swaps is based on a discounted cash flow calculation taking into account scheduled repayments using an estimated forward interest rate curve and discounted to its present value.

Trade and other payables

Carrying amount approximates to fair value due to the short-term nature of these instruments.

Other non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

2 (v) Operating segments

The Group operates one operating segment for the purchase and leasing of aircraft.

2 (w) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the asset when determining the gain or loss on disposal. Goodwill disposed of in these circumstances are measured based on the relative values of the asset disposed of and the portion of the cash-generating unit retained.

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Notes to the consolidated financial statements for the year ended 31 December 2018

3. Finance income and expense

	2018 US\$	2017 US\$
Finance income	418,499	339,945
Total finance income	418,499	339,945
Finance expense on financial liabilities		
- External finance expense	165,197,652	101,713,147
Total finance expense	165,197,652	101,713,147
Net gain on derivative financial instruments		
Net gain on fair value through profit or loss (FVTPL) financial instruments	5,596,875	766,534
	5,596,875	766,534
Net finance costs	159,182,278	100,606,668

Finance income reflects interest earned on cash on deposit and cash at bank. Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash on deposit earns interest at fixed rates as agreed with the bank.

4. Lease revenue

Lease revenue from operating leases

Lease revenue is derived from leasing commercial aircraft to various operators around the world. As at 31 December 2018, 163 aircraft have lease contracts with 62 operators, two of which are contracted to expire during the year ending 31 December 2019.

There are no lessees that account for 10% or more of the lease revenue. There is one lessee in Asia that accounts for 7%.

During the year ended 31 December 2018, the Group recorded the following lease rentals from operators in the following regions:

	2018 US\$	2017 US\$
Americas	89,988,212	45,061,457
Asia (ex-China)	219,485,856	141,335,510
Australia	23,206,903	22,243,859
China	24,955,937	24,468,293
Europe	97,230,382	68,291,581
Middle East	51,705,762	47,826,543
Africa	22,128,053	8,263,205
Total	628,709,115	357,490,448

Lease revenue has been updated from the prior year to include a charge associated with the amortisation of lease premium assets of US\$605,523 (2017: US\$484,938). Lease revenue also includes an impairment loss provision under IFRS 9 totalling US\$1,089,452; in 2017 the Group held a provision of US\$1,329,671 (see note 11). Revenue split between Asia (ex-China) and Europe for 2017 has been reclassified above.

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Notes to the consolidated financial statements for the year ended 31 December 2018

4. Lease revenue (continued)

As at 31 December 2018, the Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases in the following regions.

31 December 2018	Due within one year US\$	Due between two and five years US\$	Due after five years US\$	Total US\$
Americas	141,480,200	475,740,030	311,739,573	928,959,803
Asia (ex-China)	327,296,976	1,176,657,491	702,037,691	2,205,992,158
Australia	25,899,560	103,598,240	48,065,874	177,563,674
China	36,065,077	101,712,898	11,510,846	149,288,821
Europe	145,616,957	512,792,477	447,041,636	1,105,451,070
Middle East	52,933,967	175,032,493	115,461,430	343,427,890
Africa	38,478,134	153,912,533	122,248,402	314,639,069
Total	767,770,871	2,699,446,162	1,758,105,452	5,225,322,485

31 December 2017	Due within one year US\$	Due between two and five years US\$	Due after five years US\$	Total
Americas	71,195,260	259,060,991	226,120,625	556,376,876
Asia (ex-China)	165,197,110	601,331,846	431,267,953	1,197,796,909
Australia	22,243,859	86,908,410	47,541,908	156,694,177
China	22,967,915	63,586,111	5,445,330	91,999,356
Europe	92,134,002	327,728,760	260,717,397	680,578,159
Middle East	61,700,938	228,650,430	235,378,853	525,730,221
Africa	12,133,893	48,535,573	46,475,805	107,145,271
Total	447,572,977	1,615,800,121	1,252,947,871	3,316,320,969

5. Other Income

During the year ended 31 December 2018, the Group recognised other income in relation to the following items:

	2018 US\$	2017 US\$
Release of maintenance reserves/rights asset	36,170	6,872,532
Other income from lessees	929,925	657,583
	966,095	7,530,095

6. Gain on disposal of aircraft and related assets

During the year ended 31 December 2018, the Group recognised a gain of US\$19.6m (2017: US\$22.6m) in relation to the disposal of six aircraft (2017: four aircraft).

	2018 US\$	2017 US\$
Gain on disposal of aircraft and related assets	19,574,083	22,622,474
	19,574,083	22,622,474

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Notes to the consolidated financial statements for the year ended 31 December 2018

7. Advisory and management fees

The following fees were paid to GMIL, the Group Advisor, for the provision of the following services during the year.

	2018 US\$	2017 US\$
Asset management services, advisory and operational services	33,992,767	22,324,635

8. Other fees and expenses

	2018 US\$	2017 US\$
Administration and other advisory fees	5,691,551	4,745,217
Audit and tax compliance fees	1,081,624	936,816
Legal and arrangement fees	10,107,613	2,960,441
Foreign exchange (gains)/losses	202,036	(98,225)
Taxes	32,316	-
Fair value release	1,962,620	-
Impairment charge on doubtful receivables	-	331,758
	19,077,760	8,876,007

The increase in administration and other advisory fees is driven by an increase in the number of aircraft held by the entity and one-off fees in connection with the acquisition of Sky Aviation Leasing International Limited ("SALI"). The Group had four persons (2017: Nil) in employment as at 31 December 2018. Compensation and benefit expenses relating to all SALI employments totalled US\$2.4m for the year ended 31 December 2018 (2017: Nil).

The fair value release relates to identifiable liabilities assumed through business combinations are measured at fair value as at acquisition date. The fair value element is amortised and included as fair value release within other fees and expenses in the statement of profit and loss and other comprehensive income.

9. Taxation

	2018 US\$	2017 US\$
<i>a) Analysis of tax (charge)/credit for the year</i>		
Current tax:		
Foreign corporation tax (charge)/credit on net profit for the year	(1,179,500)	1,302,221
Income tax (expense)/credit for the year on ordinary activities	(1,179,500)	1,302,221
Deferred tax:		
Origination and reversal of timing differences	(3,544,972)	(6,431,185)
Deferred tax expense for the period on ordinary activities	(3,544,972)	(6,431,185)
Taxation for the year	(4,724,472)	(5,128,964)

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Notes to the consolidated financial statements for the year ended 31 December 2018

9. Taxation (continued)

	2018 US\$	2017 US\$
b) Factors affecting current tax charge for the year		
While the Company is incorporated under the laws of the Cayman Islands, its aircraft are acquired by subsidiaries which are tax resident in Ireland. The reconciliation of current tax on profits on ordinary activities to prima facie tax payable. The prima facie tax on profit differs from the income tax provided in the financial statements as follows		
Profit on ordinary activities before taxation	124,184,512	113,202,216
Irish tax at statutory corporation tax rate of 12.5%	(16,523,064)	(14,150,277)
Effects of:		
Prior year under provision	(1,111,761)	(58,826)
Movement on unrecognised DTA / valuation allowance	(632,861)	-
Losses carried back to earlier period	(846)	(431,162)
Non-taxable income / non-deductible expenses	(3,205,380)	(912,815)
Impact of change in tax rates	135,636	118,070
Income taxable at higher rate	64,353	(323,558)
Income taxable at lower rate applicable in each group entity's respective tax domicile	15,549,451	10,629,602
Total tax expense	(4,724,472)	(5,128,964)

c) Deferred tax

Deferred tax represents the amount of tax recoverable in respect of tax losses available in the current year which are available for carry forward and an excess of capital allowances over accounting depreciation.

The reconciliation of deferred tax assets and liabilities for the year is as follows:

	2018 US\$	2017 US\$
Deferred tax assets		
At beginning of the year	81,696,224	51,426,281
Acquisitions through business combinations (note 25)	32,744,294	-
Movement during the year	49,567,874	30,269,943
At end of the year	164,008,392	81,696,224
Deferred tax liabilities		
At beginning of the year	92,821,128	55,704,353
Acquisitions through business combinations (note 25)	53,987,411	-
Movement during the year	48,377,957	37,116,775
At end of the year	195,186,496	92,821,128
Net deferred tax liabilities	(31,178,104)	(11,124,904)

The Group's net deferred tax liability is attributable to temporary differences arising on aircraft and related assets at year-end partially offset by deferred tax assets in respect of the carry forward of unused tax losses and amounts recognised directly in equity in relation to cash flow hedges.

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Notes to the consolidated financial statements for the year ended 31 December 2018

10. Cash and restricted cash

Cash at bank and deposits earn interest at floating rates based on daily bank deposit rates.

	2018 US\$	2017 US\$
<i>Unrestricted bank balances</i>		
Cash and cash equivalents	192,851,868	133,767,706
<i>Restricted cash</i>		
Bank balances subject to withdrawal restrictions	169,303,168	39,395,567
Total cash and restricted cash	362,155,036	173,163,273

Under certain of the Group's debt arrangements, payments received from lessees may be subject to withdrawal restrictions and are thus classified as restricted cash.

11. Other receivables

	2018 US\$	2017 US\$
Other receivables		
Value added tax refund (i)	7,994,313	4,155,381
Loan receivables (ii)	12,812,398	3,500,000
Other receivables	8,237,919	2,088,287
Trade receivables (iii)	15,886,370	3,947,887
Aircraft deposits paid (iv)	4,800,000	-
Asset management fees receivable	-	7,638,691
Prepaid expenses	3,818,080	304,305
Tax receivable	-	413,475
	53,349,080	22,047,826
Current	49,894,544	18,547,826
Non-current	3,454,536	3,500,000

(i) The Group has recognised a receivable of US\$8.0m (2017: US\$4.2m) in relation to Value Added Tax ("VAT") on asset management fees. This is expected to be recovered in 2019.

(ii) The Group has recognised a receivable of US\$3.5m in relation to loans provided to third parties on the sale of aircraft and US\$9.3m in relation to Loans issued in respect of aircraft to be acquired. The US\$3.5m loan is classified as non-current as the amount is not repayable until after 2020.

(iii) The Group has recognised an impairment loss provision under IFRS 9 totalling US\$1,089,452; in 2017 the Group recognised impairment charge on doubtful receivables of US\$331,758.

Trade receivables comprise amounts due in respect of lease rentals and maintenance rental payments due from lessees. At 31 December 2018 an expected loss allowance was recognised of US\$1.1m (2017: US\$0.3m) through the statement of profit or loss. All receivables past due are considered outstanding. A new impairment model has been applied to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The financial assets at amortised cost consists of trade receivables and cash.

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Notes to the consolidated financial statements for the year ended 31 December 2018

11. Other receivables (continued)

Under IFRS 9, loss allowances are measured on either of the following basis:

- 12 month expected credit losses ("ECLs"): these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group has prepared an analysis of each lessee based on past performance and certain publicly available information to estimate a credit rating on a scale of one to ten, with one being minimal risk. The Group then used this risk rating to assign a percentage expected credit loss based on monthly rental and supplemental rental income and any outstanding balances at period end.

In accordance with section B5.5.55 of IFRS 9, security deposits received have been treated as credit enhancement and included in the measurement of the expected credit loss due to the credit enhancement being integral to the contractual terms of the lease and not being required under IFRS standards to be recognised separately.

An impairment percentage expected loss provision has been applied based on the risk rating determined. The percentage is multiplied by the outstanding receivables balance at year end to calculate an expected loss over the life of the lease.

In line with IFRS 9, trade receivables at year end were split in to outstanding time periods and assigned a percentage recoverability risk. The Group estimates a required expected loss provision of US\$2.4m.

The Group is exposed to the credit risk of non-recoverability of trade receivables. In line with IFRS 7, information about the Group's exposure to credit and market risks, and impairment losses for trade receivables is included in note 22.

	2018 US\$	2017 US\$
Impairment allowance on doubtful receivables		
At beginning of the year	1,329,671	-
Impairment charge on doubtful receivables	-	331,758
Provision for doubtful receivables	1,089,452	997,913
At end of the year	2,419,123	1,329,671

During the year, management recognised an impairment loss provision under IFRS 9 of US\$1.1m in relation to trade receivables due of US\$6.1m with two lessees (Please refer to note 20 for further credit information). In 2017 the Group held a provision of US\$1.3m; of this provision US\$0.3m was recognised in the consolidated statement of profit or loss.

(iv) The Group has recognised deposits paid of US\$4.8m (2017: Nil) in other receivables, which are in relation to the acquisition of aircraft due to be delivered.

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Notes to the consolidated financial statements for the year ended 31 December 2018

12. Aircraft and related assets

As at 31 December 2018, the carrying value of aircraft and related assets is US\$7,361.5m (2017: US\$4,346.4m). Aircraft are assessed for recoverability in accordance with IAS 36 - Impairment of Assets ("IAS 36"), at each reporting date or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The Group recorded no impairment charge during the year ended 31 December 2018 (2017: US\$3.6m).

The Directors develop the assumptions used in the recoverability assessment based on their knowledge of active lease contracts, current and future expectations of the global demand for particular aircraft types and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party sources.

The factors considered in estimating the future cash flows are impacted by changes in contracted lease rates, future projected lease rates, transition costs, estimated downtime, estimated residual values, economic conditions, technology and airline demand for particular aircraft types.

The Group has disposed of six aircraft during the year ended 31 December 2018 (2017: four aircraft).

Depending on the financing arrangements, the aircraft may be pledged as security, as required in the financing documents. (see note 17).

The total depreciation and amortisation charge for the year was US\$213.4m (2017: US\$137.5m) with US\$212.8m (2017: US\$137.0m) of this being charged through the depreciation line and US\$0.6m (2017: US\$0.5m) being charged against lease revenue (see note 4).

Maintenance rights assets

As at 31 December 2018, the carrying value of the maintenance rights asset is US\$455.3m (2017: US\$194.7m). Generally, under our leases, the lessee is obligated to comply with certain return conditions, which require them to undertake maintenance on the aircraft prior to its redelivery or to make a cash compensation sufficient to allow such work to be undertaken.

Maintenance rights asset represent the value difference of the return of the aircraft on lease, when compared to the maintenance condition of the aircraft at date of acquisition.

Lease premium assets

Lease premium assets represent the value of an acquired lease rentals above or below the market rate for leases of a similar type of aircraft, which is adjusted by the relevant credit risk associated with that lessee. Lease premium assets are amortised on a straight-line basis over the remaining life of the lease.

As at 31 December 2018, the carrying value of lease premium asset is US\$196.4m (2017: US\$26.6m). Market rates at the time of acquisition of the aircraft, have been compared to the rate agreed under the contracted lease acquired, in order to calculate the lease premium asset.

Lease premiums and discounts for sale and lease back acquisitions were presented as a separate line item (Lease Premium) in the prior year and have now been included within aircraft and related assets. Lease premium now consists of the above lease premiums and discounts for sale and lease back acquisitions combined with lease premiums for portfolio acquisitions (previously classified as Lease Intangible).

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Notes to the consolidated financial statements for the year ended 31 December 2018

12. Aircraft and related assets (continued)

	Aircraft and engines US\$	Maintenance rights assets US\$	Lease premium US\$	Total US\$
Cost				
Balance at 31 December 2016	2,970,946,389	180,021,665	55,665,400	3,206,633,454
Additions	1,750,237,993	39,194,765	3,869,952	1,793,302,710
Transfers	26,388,725	(6,926,833)	(19,461,892)	-
Derecognition	-	(8,504,666)	-	(8,504,666)
Disposals	(330,325,902)	(9,040,104)	(4,696,976)	(344,062,982)
Transfers to Held for Sale	(20,314,482)	-	-	(20,314,482)
Balance at 31 December 2017	4,396,932,723	194,744,827	35,376,484	4,627,054,034
Acquisitions through business combinations (note 25)	2,072,491,248	226,179,144	137,336,752	2,436,007,144
Additions	1,130,021,922	79,308,810	44,787,718	1,254,118,450
Transfers	39,527,571	(39,527,571)	-	-
Derecognition	-	(900,389)	-	(900,389)
Disposals	(485,785,662)	(4,548,576)	-	(490,314,238)
Transfers to Held for Sale	-	-	-	-
Balance at 31 December 2018	7,153,207,802	455,256,245	217,500,954	7,825,965,001
Accumulated depreciation and amortisation				
Balance at 31 December 2016	(143,023,331)	-	(8,088,595)	(151,111,926)
Disposals	7,968,627	-	1,172,109	9,140,736
Transfers to Held for Sale	2,371,004	-	-	2,371,004
Transfers	(2,288,935)	-	2,288,935	-
Depreciation/ amortisation charge	(133,282,921)	-	(4,189,234)	(137,472,155)
Impairment charge	(3,562,794)	-	-	(3,562,794)
Balance at 31 December 2017	(271,818,350)	-	(8,816,785)	(280,635,135)
Disposals	29,617,650	-	-	29,617,650
Transfers to Held for Sale	-	-	-	-
Transfers	-	-	-	-
Depreciation/ amortisation charge	(201,101,483)	-	(12,316,016)	(213,417,499)
Impairment charge	-	-	-	-
Balance at 31 December 2018	(443,302,183)	-	(21,132,801)	(464,434,984)
Net book value				
At 31 December 2017	4,125,114,373	194,744,827	26,559,699	4,346,418,899
At 31 December 2018	6,709,905,619	455,256,245	196,368,153	7,361,530,017

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Notes to the consolidated financial statements for the year ended 31 December 2018

12. Aircraft and related assets (continued)

(i) Geographic concentration

The distribution of net book value of aircraft and related assets by operator's geographic region:

	2018		2017	
	US\$	%	US\$	%
Africa	380,493,107	5%	117,560,688	3
Americas	1,378,296,980	19%	686,014,840	16
Asia (ex-China)	3,098,351,981	42%	1,567,113,213	36
Australia	237,900,848	3%	201,945,993	5
China	349,830,163	5%	223,601,456	5
Europe	1,415,534,792	19%	925,282,771	21
Middle East	501,122,146	7%	624,899,928	14
Total	7,361,530,017	100	4,346,418,899	100

Net revenue includes a charge associated with the amortisation of lease premium of US\$606k for the year ended 31 December 2018 (2017: US\$485k).

13. Lease incentive asset

The lease incentive asset represents contributions made by the Group towards the lessee's cost of a maintenance event. The lease incentive asset is amortised on a straight-line basis over the life of the lease and recorded as a reduction in lease rental income.

	2018 US\$	2017 US\$
Cost		
At beginning of year	664,967	-
Additions during the year	8,421,251	664,967
At end of year	9,086,218	664,967
Accumulated amortisation		
At beginning of year	-	-
Charge during the year	(819,430)	-
At end of year	(819,430)	-
Carrying value at end of the year	8,266,788	664,967

14. Assets held for sale

At 31 December 2018, the Group did not hold any assets classified as held for sale (2017: one). Under the provisions of IFRS 5, any aircraft which meets certain criteria and is expected to be sold in its present condition is required to be classified as held for sale. Any other assets/liabilities transferring within the sale should also be classified as held for sale.

	2018 US\$	2017 US\$
Assets classified as held for sale		
Aircraft and related assets - cost	-	20,314,482
Aircraft and related assets - accumulated depreciation	-	(2,371,004)
Loss on transfer to held for sale	-	(2,083,480)
	-	15,859,998

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

15. Aircraft purchase deposits

As at 31 December 2018, the Group recognised a receivable in relation to payments made for the purchase of aircraft in accordance with payment schedules set out in the relevant purchase agreements.

	2018 US\$	2017 US\$
Aircraft purchase deposits		
At beginning of the year	58,717,960	-
Transfer to aircraft and related assets	(58,717,960)	-
Payments during the year	37,768,941	58,717,960
At end of the year	37,768,941	58,717,960
Current	-	58,717,960
Non-current	37,768,941	-

16. Other payables

	2018 US\$	2017 US\$
Interest payable	28,737,998	20,866,994
Advisory and asset management fees payable	9,125,582	4,660,385
Legal and other fees payable	4,120,091	8,234,612
Lessor contribution liability	35,030,607	364,489
Aircraft acquisition price	6,914	12,554,307
Taxation payable	1,445,124	271,767
	78,466,316	46,752,554
Current	43,435,709	46,752,554
Non-current	35,030,607	-

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Notes to the consolidated financial statements for the year ended 31 December 2018

17. Loans and borrowings

The balance of borrowings as at 31 December 2018 is US\$5,395.2m (2017: US\$3,091.9m). Aircraft lease rentals are structured to ensure that lease payments are sufficient to meet the Group's obligations under debt funding over the term of the lease.

	2018 US\$	2017 US\$
Loans and borrowings - current		
Secured bank loans	155,814,870	189,114,541
Debt issuance costs	(11,214,798)	(6,790,127)
	144,600,074	182,324,414
Loans and borrowings - non-current		
Secured bank loans	2,254,278,473	1,434,454,201
Unsecured bank loans	3,023,300,916	1,502,234,158
Debt issuance costs	(26,984,937)	(27,160,508)
	5,250,594,452	2,909,527,851

Unsecured debt facilities:

As at 31 December 2018, 90 aircraft (2017: 56 aircraft) were being financed by unsecured financing. During the year ended 31 December 2018, the Group raised unsecured debt facilities consisting of a private placement and term loans. The outstanding balance of unsecured debt as at 31 December 2018 was US\$3,023.3m (2017: US\$1,502.2m), and the key terms of these facilities are set out below.

Secured debt facilities:

As at 31 December 2018, 73 aircraft (2017: 43 aircraft) were financed by secured debt facilities. The Group had outstanding secured debt of US\$2,410.1m as at 31 December 2018 (2017: US\$1,623.6m) which consisted of 11 facilities financed by 56 institutions. Under the terms of these facilities, the aircraft are pledged as security, as required in the financing documents. The aircraft may have also been pledged as collateral to the financing parties as outlined in the proceeds and intercreditor deed. The recourse of the lenders and the other parties to the transaction documents is limited to the assets secured by the aircraft owning entities and to any monies received by the aircraft owning entities pursuant to the transaction documents. The carrying value of secured aircraft and related assets which are pledged as security, are set out below:

Assets pledged as security

	2018 US\$	2017 US\$
Non-current		
Aircraft and related assets	3,321,890,652	2,130,066,026
	3,321,890,652	2,130,066,026

Key terms of debt facilities

The terms of outstanding unsecured and secured loans before the impact of derivatives were as follows (excluding capitalised loan fees).

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

17. Loans and borrowings (continued)

At 31 December 2018:

	Range of average nominal interest rates (%)	Year of Maturity	2018 US\$
Floating rate loans			
Secured bank loans	LIBOR + 0.8 to 2.15	2019 - 2029	1,440,869,535
Unsecured bank loans	LIBOR + 1.125 to 2.4	2019 - 2023	1,867,800,916
Fixed rate loans			
Secured bank loans	2.89 - 7.02	2022 - 2032	969,223,808
Unsecured bank loans	3.90 - 5.19	2021 - 2030	1,155,500,000
			<u>5,433,394,259</u>

At 31 December 2017:

	Range of average nominal interest rates (%)	Year of Maturity	2017 US\$
Floating rate loans			
Secured bank loans	LIBOR + 0.8 to 2.15	2018 - 2029	1,351,289,847
Unsecured bank loans	LIBOR + 1.5 to 2.4	2019 - 2021	704,734,158
Fixed rate loans			
Secured bank loans	2.89 - 5	2021 - 2029	272,278,895
Unsecured bank loans	3.90 - 4.71	2021 - 2027	797,500,000
			<u>3,125,802,900</u>

See note 22 for details of contractual maturities of debt.

18. Maintenance reserves

	2018 US\$	2017 US\$
At beginning of the year	174,852,166	152,819,508
Additions	94,729,544	55,618,985
Acquisitions through business combinations (note 25)	113,951,867	-
Sale of aircraft	(8,532,793)	(25,338,287)
Maintenance reserves released	(36,170)	(6,872,532)
Lessee claims against reserves	(15,554,702)	(1,375,508)
At end of the year	<u>359,409,912</u>	<u>174,852,166</u>
Current	<u>40,323,484</u>	<u>18,702,650</u>
Non-current	<u>319,086,428</u>	<u>158,149,516</u>

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Notes to the consolidated financial statements for the year ended 31 December 2018

19. Security deposits

	2018 US\$	2017 US\$
At beginning of the year	42,691,652	36,289,036
Deposits received during the year	13,477,355	10,698,684
Acquisitions through business combinations (note 25)	20,322,129	-
Sale of aircraft	(4,438,218)	(2,480,000)
Security deposits returned to lessees	(3,938,252)	(1,816,068)
At end of the year	68,114,666	42,691,652
Current	907,030	1,550,000
Non-current	67,207,636	41,141,652

20. Financial instruments and financial risk management

The Group makes use of financial instruments to reduce exposures to market risks throughout its business. Equity, borrowings and cash and cash resources are used to finance the Group's operations. Derivative financial instruments are contractual agreements with a value which reflects price movements in an underlying variable. The Group uses derivative financial instruments, principally interest rate swaps, to manage interest rate risks and achieve the desired profile of borrowings.

Fair value of financial assets and liabilities

The carrying value and fair value of the Group's financial assets and liabilities by class and category were as follows:

At 31 December 2018	Fair Value Hierarchy Level	Carrying amount 2018 US\$'000	Fair value 2018 US\$'000
Assets at amortised cost			
Cash and cash equivalents	2	192,852	192,852
Restricted cash	2	169,303	169,303
Other receivables - Current	2	49,895	49,895
		412,050	412,050
Financial assets at fair value through profit and loss			
Derivative financial instruments	2	25,215	25,215
Other receivables - Non-current	3	3,454	3,454
Financial assets		440,719	440,719

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Notes to the consolidated financial statements for the year ended 31 December 2018

20. Financial instruments and financial risk management (continued)

Fair value of financial assets and liabilities (continued)

		2018 US\$'000	2018 US\$'000
Other financial liabilities			
Maintenance reserves	2	359,410	359,410
Security deposits	2	68,115	68,115
Loans and borrowings	3	5,395,195	5,459,339
Other payables	2	78,468	78,468
		5,901,188	5,965,330
Financial liabilities at fair value through profit and loss			
Derivative financial instruments	2	44,754	44,754
Financial liabilities		5,945,940	6,010,084
At 31 December 2017			
	Fair Value Hierarchy Level	Carrying amount 2017 US\$'000	Fair value 2017 US\$'000
Loans and receivables			
Cash and cash equivalents	2	133,768	133,768
Restricted cash	2	39,396	39,396
Other receivables	2	22,048	22,048
Aircraft purchase deposits	2	58,718	58,718
		253,930	253,930
Financial assets at fair value through profit and loss			
Derivative financial instruments	2	17,860	17,860
Financial assets		271,790	271,790
At 31 December 2017			
		2017 US\$'000	2017 US\$'000
Other financial liabilities			
Maintenance reserves	2	174,852	174,852
Security deposits	2	42,692	42,692
Loans and borrowings	3	3,091,852	3,149,193
Other payables	2	46,753	46,753
		3,356,149	3,413,490
Financial liabilities at fair value through profit and loss			
Derivative financial instruments	2	3,756	3,756
Financial liabilities		3,359,905	3,417,246

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Notes to the consolidated financial statements for the year ended 31 December 2018

20. Financial instruments and financial risk management (continued)

The fair value measurements for loans and borrowings have been classified as Level 3 fair values based on the inputs to the valuation techniques used (i.e. the inputs are not based on observable market data). The fair value of the loans and borrowings at amortised cost has been estimated by discounting estimated future cash flows using the market interest rates prevailing at each year-end.

The fair value of the loan assets arising upon the sale of aircraft to third parties has been estimated in line with the valuation analysis of the underlying aircraft assets – proceeds from the sale of these assets will fund the repayment of the loan assets. The Group has recognised a 1% fair value adjustment of the total value of the loans as is outlined in note 11 to reflect that a further change in valuations of these assets may be required in the future in line with potential fluctuations of the underlying associated aircraft.

The Directors have determined that the fair value of all other financial assets and liabilities not measured at fair value are considered to be within level 2 of the fair value hierarchy.

All of the Group's derivatives are carried at fair value and are classified as Level 2. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments

The Group makes use of cash flow hedges (interest rate swaps) to reduce the level of interest rate risk. Financial liabilities through other comprehensive income reflect the net change in fair value of those interest rate swaps that are designated in hedge relationships intended to reduce the level of interest rate risk for expected interest payments.

The market fair value of the interest rate swaps was based on a discounted cash flow calculation taking into account scheduled repayments using an estimated forward interest rate curve and discounted to its present value.

	2018 US\$	2017 US\$
Derivative Assets		
<i>Interest rate swap assets</i>		
Derivative instruments in designated hedging relationships	23,947,075	11,697,889
Fair value through profit or loss (FVTPL)	1,268,172	6,099,255
<i>FX forwards</i>		
Fair value through profit or loss (FVTPL)	-	62,389
	<u>25,215,247</u>	<u>17,859,533</u>
Derivative Liabilities		
<i>Interest rate swap liabilities</i>		
Derivative instruments in designated hedging relationships	35,826,996	453,836
Fair value through profit or loss (FVTPL)	8,797,553	3,288,122
<i>FX forwards</i>		
Fair value through profit or loss (FVTPL)	129,931	14,130
	<u>44,754,480</u>	<u>3,756,088</u>

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Notes to the consolidated financial statements for the year ended 31 December 2018

20. Financial instruments and financial risk management (continued)

Cash flow hedging reserve	2018 US\$	2017 US\$
Balance at the beginning of the year	5,219,891	3,212,180
(Loss)/Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	(33,800,001)	501,727
Income tax related to gains/losses recognised in other comprehensive income	4,734,889	(415,647)
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	(1,208,803)	1,921,631
	<u>(25,054,024)</u>	<u>5,219,891</u>

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, consistent with the Group's accounting policy.

In accordance with IFRS 7, derivatives are entered into with bank and financial institution counterparties. Investec Bank plc is the primary counterparty and is a listed entity on the London stock exchange and regulated by the Prudential Regulation Authority in the UK. As at the date of this report Investec Bank plc has a prime investment grade short term deposit credit rating of P-1 (Moody's).

Derivative balances are made up of Level 2 valuations in accordance with the Risk Management Hierarchy. Valuations are based on discreet cash flows thus using market implied inputs.

Cash flow hedges

Interest rate risk

2018
US\$'000

Disclosed within Derivative Financial Assets/Liabilities in the Consolidated Statement of Financial Position.

Nominal Amounts of the Hedging Instrument	Carrying Value of the Hedging Instrument		Change in Fair Value used when calculating Hedge Ineffectiveness	Carrying Amount of Hedged Item	Amounts held in Hedging Reserve relating to de- designated SWAPs	Cash Flow Hedge Reserve	Amount of Cash Flow Hedge Reserve no longer in a Hedge Relationship
	Assets	Liabilities					
3,571,500	23,947	35,827	(11,879)	3,308,624	3,604	25,054	-
<u>3,571,500</u>	<u>23,947</u>	<u>35,827</u>	<u>(11,879)</u>	<u>3,308,624</u>	<u>3,604</u>	<u>25,054</u>	<u>-</u>

The amount reclassified to the consolidated statement of profit or loss in respect of de-designated hedge relationships during the year was US\$567k, which has been recorded in the net gain on fair value through profit and loss line on the consolidated statement of profit or loss. This represents the amortisation of the amount held in the cash flow hedge reserve over the life of the related hedged item.

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Notes to the consolidated financial statements for the year ended 31 December 2018

20. Financial instruments and financial risk management (continued)

Interest rate risk (continued)

At 31 December 2018, the Group held the following instruments to hedge exposures to changes in interest rates.

Interest Rate Risk	Net Exposure US\$'000	Weighted Average Interest Rate
Up to 1 Year	102,439	1.78%
1-2 Years	900,000	2.75%
2-5 Years	752,638	2.32%
5+ Years	1,553,547	2.22%
Total	3,308,624	2.37%

Risk management strategy

The Group holds debt instruments issued at a floating rate of interest (LIBOR) plus a fixed spread. To manage the exposure to variations in cash flows due to changes in the underlying benchmark interest rate (LIBOR), the Group executes interest rate swaps to swap the contractual floating rate on the debt instrument to a fixed rate. All of the Group's future debt commitments are deemed as highly probable.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity.

Ineffectiveness may arise as a result of mismatches in the timing of cash flows between the hedged item and hedging instrument as well as changes to the credit quality of the Group or swap counterparty. The strategy of the Group is to hedge beyond the term of the debt and therefore not all of the Group's interest rate derivatives are designated within cash flow hedge relationships. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled in the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of profit or loss.

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Notes to the consolidated financial statements for the year ended 31 December 2018

21. Share capital and equity contributions

Share capital	Number of shares	US\$
Authorised		
Ordinary shares of US\$1 each	250	250
Preference shares of US\$0.001 each	1,499,750,000	1,499,750
Issued and fully paid		
Ordinary share of US\$1 each	-	-
Issued ordinary shares as at 31 December 2017	-	-
Ordinary share issued during the year at US\$1 each	-	-
Total issued ordinary shares as at 31 December 2018	-	-
Preference shares of US\$0.001 each		
Preference shares of US\$0.001 each as at 31 December 2017	362,026,264	362,026
Preference share premium of US\$0.999 each as at 31 December 2017		361,664,238
Preference shares issued during the year at US\$0.001 each	-	-
Total issued preference shares as at 31 December 2018	362,026,264	362,026,264
Equity contributions		
Equity contributions as at 31 December 2017		802,226,734
Equity contributions received during the year		858,739,615
Capital repayments during the year		(47,220,000)
Equity contributions as at 31 December 2018		1,613,746,349

Ordinary shares

Fully paid ordinary shares carry one vote per share.

Preference shares

Preference shares are issued at a premium of US\$0.999 each and comprise part of the Company's distributable reserves. Preferential dividends are paid in accordance with the Dividend policy and can only be paid out of profits available for distribution (after the share premium). Distributions will be at the discretion of the board, although it is currently the intention to pay quarterly distributions to shareholders from its available free cash flows. These cash flows would arise from junior debt interest coupon payments and will be supplemented at or around the time of sale of any aircraft by the repayment of the junior debt principal amounts and any surplus sale proceeds on a disposal of any aircraft. The Group is required to service all debt obligations (which will be at the aircraft owning entity level and may be limited recourse to the aircraft and the operating leases in certain circumstances), fund their working capital and any capital expenditure requirements, satisfy all of their expenses before making any distributions to shareholders.

Preference shares will carry one vote per share except where excluded from voting.

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Notes to the consolidated financial statements for the year ended 31 December 2018

21. Share capital and equity contributions (continued)

Equity contributions

Equity contributions represent advances made by the Company's preference shareholders in the legal form of shareholder loans. Under the terms of the agreements governing these arrangements the Company does not have an existing contractual arrangement to deliver cash in settlement of the loans, any settlement will be solely at the discretion of the Company in the form of cash or by way of a delivery of a pre-determined fixed number of the Company's preference shares. Consequently, the shareholder loans have been classified and presented as equity instruments, which best reflects the substance and overall form of the arrangements entered into between the Company and the shareholders in these respects.

Reconciliation of movement in capital and reserves:

	Share capital US\$	Equity contributions US\$	Retained earnings US\$	Hedging reserve US\$	Total equity US\$
Balance at 31 December 2016	362,026,264	556,754,560	51,998,621	3,212,180	973,991,625
Total comprehensive income for 2017	-	-	108,073,252	2,007,711	110,080,963
Equity contributions received during 2017	-	258,937,174	-	-	258,937,174
Repayment of capital	-	(13,465,000)	-	-	(13,465,000)
Dividend distributions to preference shareholders	-	-	(93,130,000)	-	(93,130,000)
Balance at 31 December 2017	362,026,264	802,226,734	66,941,873	5,219,891	1,236,414,762
Total comprehensive income for 2018	-	-	119,460,040	(30,273,915)	89,186,125
Equity contributions received during 2018	-	858,739,615	-	-	858,739,615
Repayment of capital	-	(47,220,000)	-	-	(47,220,000)
Dividend distributions to preference shareholders	-	-	(110,600,000)	-	(110,600,000)
Balance at 31 December 2018	362,026,264	1,613,746,349	75,801,913	(25,054,024)	2,026,520,502

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Notes to the consolidated financial statements for the year ended 31 December 2018

21. Share capital and equity contributions (continued)

Transactions with shareholders

All equity is attributable to the holders of the ordinary and preference shares in the Company. During the year ended 31 December 2018, the shareholders made equity contributions of US\$858.7m (2017: US\$258.9m).

Dividend distribution

Included in other comprehensive income for the year are preference dividends of US\$110.6m (2017: US\$93.1m) paid during the year.

	US\$ cent per preference share	Number of shares issued	Dividend declared and paid
Dividend distribution paid (25 January 2018)	5.94	362,026,264	21,600,000
Dividend distribution paid (23 April 2018)	6.33	362,026,264	22,900,000
Dividend distribution paid (4 May 2018)	2.49	362,026,264	9,000,000
Dividend distribution paid (9 August 2018)	6.38	362,026,264	23,100,000
Dividend distribution paid (30 October 2018)	7.60	362,026,264	27,500,000
Dividend distribution paid (6 December 2018)	1.82	362,026,264	6,600,000
			<u>110,600,000</u>

Subsequent to year end, the Directors declared and paid dividend distributions on preference shares of US\$38.3m during January 2019.

22. Risk management

Any of the following risks could adversely affect the financial performance, position and/or growth potential of the Group.

General economic conditions

Economic conditions can have an impact on demand for air travel, which in turn, will have an impact on airline profitability and demand for aircraft. In stressed economic conditions, there may be greater risk of lessee default and greater risk of aircraft values decreasing.

It may also be more difficult to dispose of or re-lease aircraft on acceptable terms, or at all.

Exposure to the commercial airline industry

As a supplier to and partner of the airline industry, the Group is exposed to the financial condition of the airline industry as it leases all its aircraft to commercial airline customers. The financial condition of the airline industry is affected by, among other things, geopolitical events, outbreaks of communicable pandemic diseases and natural disasters, fuel costs and the demand for air travel.

To the extent that any of these factors adversely affect the airline industry they may result in (i) downward pressure on lease rates and aircraft values, (ii) higher incidences of lessee defaults, restructuring, and repossessions and (iii) inability to lease aircraft on commercially acceptable terms.

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Notes to the consolidated financial statements for the year ended 31 December 2018

22. Risk management (continued)

Debt market volatility

In times of financial or economic uncertainty, the availability of new debt and refinancing of existing debt may not be assured or may not be available on acceptable terms. This may adversely impact on the future value of aircraft and the ability of the Company to re-lease or dispose of the aircraft or the price at which it can do so.

Leverage risk

The capital structure of the Group's aircraft owning entities involves significant leverage and the Group generally invests in the junior debt tranche (carrying equity-like exposure) of financing across all the aircraft, which will rank behind the secured bank loan and bridging debt financiers. While investments in leveraged companies offer the opportunity for capital appreciation, such investments may also involve a high degree of risk and magnify the Company's exposure to adverse economic conditions.

Financiers of the secured bank loans will require operating and financial covenants, which in certain circumstances, may restrict the ability of the Group to pay distributions. The covenants in the financing documents may also restrict the sale of aircraft in certain circumstances.

Financial risks

The principal financial risks and uncertainties to which the Group is exposed, including the associated hedging activities, are addressed below. These include:

- Asset risk;
- Foreign exchange risk;
- Interest rate risk;
- Credit risk; and
- Liquidity risk.

Asset risk

The Group bears the risk of re-leasing or selling the aircraft in its fleet at the end of their lease terms. If demand for aircraft decreases market lease rates may fall, and should such conditions continue for an extended period, it could affect the market value of aircraft in the fleet and may result in an impairment charge. The Directors have employed personnel with appropriate experience of the aviation industry to manage the fleet and remarket or sell aircraft as required in order to reduce this risk.

The Group is highly dependent upon the continuing financial strength of the commercial airline industry. A significant deterioration in this sector could adversely affect the Group through a reduced demand for aircraft in the fleet and / or reduced market rates, higher incidences of lessee default and an increase in aircraft on the ground. The Group periodically performs reviews of the carrying values of aircraft, receivables and the recoverable amount of deferred tax assets and the sufficiency of accruals and provisions, substantially all of which are susceptible to the above risks and uncertainties.

Foreign exchange risk

The Group and the Company have a minimum exposure to foreign exchange risk as the majority of transactions are denominated in US dollars. The quantum of exposure to currency movements are small in nature and as such no sensitivity analysis has been performed. Periodically minimal foreign exchange gain/loss derives from non-US operational transactions.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

22. Risk management (continued)

Interest rate risk

Interest rate risk is the risk (variability in value) borne by an interest-bearing financial instrument, such as a loan, due to variability of interest rates. The Group has entered into derivative contracts for some of its loan facilities which swap variable interest rates for fixed; therefore, any increase or decrease in interest rates on the loan will lead to a decrease or increase in the differential on the swap. The Group's floating rate loans partially offset the floating rate nature of some of the Group's lease rental contracts where by an increase in interest rates will be expected to be offset by higher rentals earned.

The effect on Group interest expense of an increase of 50 and 100 basis point change in interest rate, assuming all other variables are held constant, would be as follows:

	50 BPS US\$	100 BPS US\$
2018	2,313,717	4,627,434
	50 BPS US\$	100 BPS US\$
2017	1,054,034	2,108,069

Whereas, a decrease of 50 and 100 basis points change in interest rates, would have had the equal but opposite effect, on the basis that all other variables remain constant. The effect on the Group's equity, of a 50 and 100 basis points change in interest rates relating to derivatives held, assuming all other variables are held constant would be US\$10.2m (2017: US\$6.4m) and US\$20.4m (2017: US\$12.8m) respectively.

The Group also has loans and borrowings that bear fixed interest rates determined at the inception of the agreement. A significant change in interest rates could have a material adverse impact on the fair value of these loans and borrowings. However, the Group records these loans at the amortised cost and, therefore, the Group's future performance would not be impacted by any future rate changes.

Credit risk

The Group is subject to the credit risk of its lessees as to collection of rental payments under its operating leases. Credit risk is defined as the unexpected loss in cash and earnings if the counterparty is unable to pay its obligations in due time. The effective monitoring and controlling of airline customer credit risk is a competency of GMIL, the Group Advisor.

Creditworthiness of each new customer is assessed and the Group seeks security deposits in the form of cash or letter of credit to mitigate overall financial exposure from its lessees.

The assessment process takes into account qualitative and quantitative information about the customer such as business activities, senior management team, financial fitness, resources and performance, and business risks, to the extent that this information is publicly available or otherwise disclosed to the Group.

The Group holds significant cash balances which are invested on a short-term basis with Citibank Europe plc. The Group is exposed to credit risk on these deposits. Citibank Europe plc is a wholly owned subsidiary of Citibank plc. Citibank plc common stock is listed on the New York Stock Exchange ("NYSE"). NYSE Regulation ("NYSER") is responsible for monitoring activities on Citibank plc's equities. As at the date of this report Citibank plc has a prime investment grade short term deposit credit rating of P-1 (Moody's).

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

22. Risk management (continued)

Credit risk (continued)

The Group has derivatives held with various counterparties and is exposed to credit risk on these financial instruments through the amounts due from counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty. Investec Bank plc is the primary counterparty and is a listed entity on the London stock exchange and regulated by the Prudential Regulation Authority in the UK. As at the date of this report Investec Bank plc has a prime investment grade short term deposit credit rating of P-1 (Moody's).

The value of trade receivables and other receivables is highly dependent upon the financial strength of the commercial aviation industry as described in the asset risk section above. Defaults by one or more of the Group's major customers could have a material adverse effect on the Group's cash flow and earnings and its ability to meet its debt obligations.

The table below shows the ageing of financial assets that are past due but not impaired and those that are impaired at the end of the reporting period.

	Less than one month	One to two months	More than two months
As at 31 December 2018	US\$'000	US\$'000	US\$'000
<i>Amounts past due but not impaired</i>			
Trade receivables	16,280	-	1,825
<i>Amounts deemed to be impaired</i>			
Trade receivables	-	-	2,419
As at 31 December 2017			
<i>Amounts past due but not impaired</i>			
Trade receivables	2,251	-	1,697
<i>Amounts deemed to be impaired</i>			
Trade receivables	-	-	1,329

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	2018 US\$	2017 US\$
Cash and cash equivalents	10	192,851,868	133,767,708
Restricted cash	10	169,303,168	39,395,567
Derivative financial assets	20	25,215,247	17,859,533
Other receivables	11	53,349,080	22,047,826
Total		440,719,363	213,070,632

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

22. Risk management (continued)

Liquidity risk

The Group has funded a significant part of its operations with debt financing. The ability of the Group to continue to operate is dependent upon its ability to meet its payment obligations and adhere to covenant requirements under the respective loan agreements, which are dependent, among other things, upon the factors outlined above.

The following are the contractual maturities of financial liabilities, including estimated interest payments, including the impact of netting agreements and excluding capitalised loan fees:

As at 31 December 2018:

	Carrying amount US\$'000	Contractual cash flows US\$'000	12 months or less US\$'000	1 - 2 years US\$'000	2 - 3 years US\$'000	3 - 4 years US\$'000	After 4 years US\$'000
Non- derivative financial liabilities							
Secured bank loans							
(external)	2,410,093	(2,964,054)	(407,191)	(240,188)	(235,521)	(231,297)	(1,849,857)
Unsecured bank loans							
(external)	3,023,301	(3,575,749)	(148,958)	(1,002,100)	(250,889)	(434,200)	(1,739,602)
Other payables	78,466	(78,466)	(78,466)	-	-	-	-
Total	5,511,860	(6,618,269)	(634,615)	(1,242,288)	(486,410)	(665,497)	(3,589,459)
Derivative financial assets / (liabilities)							
Interest rate swaps / FX forwards	130	(994)	(152)	(152)	(152)	(152)	(386)
Total	130	(994)	(152)	(152)	(152)	(152)	(386)

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

22. Risk management (continued)

Liquidity risk (continued)

As at 31 December 2017:

	Carrying amount US\$'000	Contractual cash flows US\$'000	12 months or less US\$'000	1 - 2 years US\$'000	2 - 3 years US\$'000	3 - 4 years US\$'000	After 4 years US\$'000
Non- derivative financial liabilities							
Secured bank loans							
(external)	1,623,569	(2,053,913)	(253,387)	(157,260)	(159,467)	(158,345)	(1,325,454)
Unsecured bank loans							
(external)	1,502,234	(1,828,977)	(43,285)	(77,190)	(586,601)	(214,320)	(907,581)
Other payables	46,753	(46,753)	(46,753)	-	-	-	-
Total	3,172,556	(3,929,643)	(343,425)	(234,450)	(746,068)	(372,665)	(2,233,035)

Derivative financial assets / (liabilities)

Interest rate
swaps / FX
forwards

	14,103	27,872	947	3,722	4,813	5,012	13,378
Total	14,103	27,872	947	3,722	4,813	5,012	13,378

It is not expected that the cash flows in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The Group enters into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The following table sets out the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

Derivative financial instruments (gross)	Contractual cash flows US\$'000	12 months or less US\$'000	1 - 2 years US\$'000	2 - 3 years US\$'000	3 - 4 years US\$'000	After 4 years US\$'000
<i>Interest rate swaps / FX forwards</i>						
Net settled - inflow	418,095	91,263	77,003	59,611	55,023	135,195
Net settled - outflow	(478,857)	(91,831)	(91,845)	(74,616)	(68,215)	(152,350)
Total	(60,762)	(668)	(14,842)	(15,005)	(13,192)	(17,155)

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

22. Risk management (continued)

Liquidity risk (continued)

As disclosed in note 17, the Group has principal repayments due under its existing loans from external parties which fall due during the next 12-month period. These will be financed via operational cash flows (rental and disposal of aircraft).

If the Group cannot meet its obligations or if it breaches certain covenants under the various debt arrangements, it may be subject to contract breach damages, it may be required to restrict or apply all cash flows from aircraft pledged as collateral for certain debt facilities to meet principal and interest payments, and/or to pay down such debt facilities on an accelerated basis.

23. Commitments and contingencies

At 31 December 2018, the Group had capital commitment for the purchase of aircraft for US\$2,525m which is the total estimated purchase price of aircraft, with purchase agreements in place, delivering 2019-2025.

24. Related parties

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. The following transactions were carried out with related parties:

(a) Advisory and asset management fees

The Group Advisor is GMIL. NWS Holdings Limited and Chow Tai Fook Enterprises Limited have both (i) joint control over GMIL and (ii) joint control over Goshawk Aviation Limited. As a result, GMIL is a related party to the Group.

The Group Advisor has overall responsibility for the lease and asset management of the aircraft portfolio and has outsourced this to a suitably qualified technical asset manager who is responsible for providing ongoing technical asset management services to the portfolio, including aircraft remarketing and disposals. Under these arrangements, fees are earned on the Group's revenue and net asset value. Advisory fees and asset management fees of US\$34.0m were charged in cash during the year and US\$9.1m is included in other payables.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

24. Related parties (continued)

(b) Significant subsidiaries

31 December 2018	Shareholding	Country of incorporation
Chronos Leasing Holdco Limited (Cayman Islands)*	100%	Cayman Islands
Ying Aviation Designated Activity Company (Ireland)*	100%	Ireland
Yellowstone Aviation Designated Activity Company (Ireland)*	100%	Ireland
Luan Aviation Designated Activity Company (Ireland)*	100%	Ireland
Dionysus Aviation Designated Activity Company (Ireland)*	100%	Ireland
Marginata Dutch Finance B.V. (Netherlands)*	100%	Netherlands
Hermes Leasing Holdco Limited (Ireland)*	100%	Ireland
Callisto Leasing Holdco Limited (Ireland) *	100%	Ireland
Olympus Leasing Holdco Limited (Ireland)*	100%	Ireland
31 December 2017	Shareholding	Country of incorporation
Callisto Leasing Holdco Limited (Ireland) *	100%	Ireland
Olympus Leasing Holdco Limited (Ireland)*	100%	Ireland
Hera Leasing Holdco Limited (Cayman Islands)*	100%	Cayman Islands
Marginata Dutch Finance B.V. (Netherlands)*	100%	Netherlands
Dionysus Aviation Designated Activity Company (Ireland)*	100%	Ireland
Luan Aviation Designated Activity Company (Ireland) *	100%	Ireland
Yellowstone Aviation Designated Activity Company (Ireland) *	100%	Ireland

*Shareholding held indirectly via Zeus Leasing Holdco Limited (Ireland).

The principal activity of the above entities is the sale, financing and leasing of aircraft and provision of administrative services to related parties. Information related to all other subsidiary entities will be filed with the Company's annual return.

NWS Holdings Limited and Chow Tai Fook Enterprises Limited are the ultimate controlling parties of the Group.

(c) Key management remuneration

Key management are the Directors of the entity, as listed in the Directors' Report. During the years ended 31 December 2018 and 31 December 2017, key management did not receive any remuneration.

(d) Aircraft purchases

The Group purchased three aircraft from a Related Party during 2018, with a total purchase price of US\$134m.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

25. Business combination

On 13 September 2018, the Group acquired 100% of the share capital of SALI. As a result of the transaction, SALI became a wholly owned subsidiary of the Group. SALI's primary business is the leasing of commercial aircraft.

The Group assessed the fair value of the assets acquired and liabilities assumed in the acquisition and this resulted in the recognition of goodwill of US\$202.9m.

The following table summarises the fair value of the major assets acquired and liabilities assumed at the acquisition date. In accordance with IFRS 3 an acquirer has a maximum period of 12 months from the date of acquisition to finalise the acquisition accounting. The adjustment period ends when the acquirer has gathered all the necessary information, subject to the 12-month maximum.

Fair value of assets and liabilities acquired on 13 September 2018:	US\$'000
Aircraft and related assets	2,209,828
Maintenance rights asset	228,179
Cash and cash equivalents	79,515
Loans and borrowings	(726,297)
Deposit for aircraft purchases	500
Maintenance reserves and security deposits	(134,274)
Other liabilities	(49,658)
Deferred tax liability	(21,243)
Trade and other receivables	67,104
Estimate of fair value of net assets required	<u>1,651,654</u>
Fair value of consideration	<u>1,854,583</u>
Goodwill	<u>202,929</u>

Revenue and profit contribution

Revenue included in the consolidated statement of profit or loss and other comprehensive income contributed by the acquiree since 13 September 2018 was US\$75m.

Had the acquisition occurred on 1 January 2018, management estimates the impact on the Group's consolidated revenue from leases would have been US\$150m greater.

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the initial GAL Group and SALI.

Acquisition-related costs

Costs related to the acquisition of SALI of US\$10m are included in finance expense and legal and arrangement fees in the consolidated statement of profit or loss and other comprehensive income and in operating cash flows in the consolidated statement of cash flows.

Application of acquisition method of accounting

The Group applied the acquisition method of accounting and measured the identifiable assets acquired and the liabilities assumed at fair value at the acquisition date. The fair value measurement of each major asset acquired, and liability assumed is as follows;

Aircraft

The Group determined the fair value of aircraft as at the acquisition date using a market approach as indicated by third party aircraft appraiser values based on the redelivery condition of the lease.

Goshawk Aviation Limited

Notes to the consolidated financial statements for the year ended 31 December 2018

25. Business combination (continued)

Maintenance rights asset

The fair value of the maintenance rights asset was measured at the value of the difference between the contractual right under the acquired in-place leases to receive the aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition.

Lease premium

The fair value of the applicable lease premium asset was determined based on the present value of the expected cash flows calculated as the difference between the contractual lease payments, adjusted for the credit risk of the lessee, and the lease payments that the aircraft could generate over the remaining lease term based on current market rates.

Cash and equivalents

The carrying amount of cash and cash equivalents approximates to fair value.

Loans and borrowings

The fair value of acquired loans and borrowings as at acquisition date was estimated using quoted market prices.

Deposits for aircraft purchases

The carrying amount approximates to fair value due to the short-term nature of the assets.

Other assets and liabilities

The carrying amount approximates to fair value due to the short-term nature of the assets/liabilities.

Maintenance reserves

The Group determined the fair value of the maintenance liability relating to pre-acquisition usage based on the present value of expected cash outflows (reimbursements of maintenance payments received). The cash flows were discounted to their respective present values using a market rate of return that reflects the time value of money and the risks specific to the liability.

Security deposits

The Group determined the fair value of lessee security deposits based on the present value of expected cash outflows during the remaining lease term using a market rate of return that reflects the time value of money and the risks specific to the liability.

Deferred tax assets and liabilities

Under the business combination method of accounting, a deferred tax liability or deferred tax asset is required to be recognised for any temporary differences arising between the tax bases of the identifiable assets acquired and liabilities assumed.

The identifiable assets acquired, and liabilities assumed in a business combination are, with limited exceptions, recognised at their fair value at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired, and liabilities assumed are not affected by the business combinations or are affected differently and thus re-measurement for book purposes to acquisition date at fair value will create an additional temporary difference. The applicable tax rate(s) used to measure deferred taxes were determined based on the relevant rate(s) in the jurisdictions where the acquired assets are recovered and assumed liabilities are settled.

26. Events after the end of the reporting date

Subsequent to 31 December 2018 total dividends of US\$77m were paid to the respective shareholders. There have been no other significant events subsequent to 31 December 2018.

27. Approval of consolidated financial statements

The Board of Directors approved and authorised these consolidated financial statements on 8 May 2019.