Nordic Aviation Financing ApS

Stratusvej 12
DK-7190 Billund

CVR no. 21 16 74 01

Annual report for the period 1 July 2020 – 30 June 2021

The annual report was presented and approved at the Company's annual general meeting on

22 November 2021

Jette Mariann Hulgaard
Chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Nordic Aviation Financing ApS for the financial year 1 July 2020 – 30 June 2021.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 June 2021 and of the results of the Company's operations for the financial year 1 July 2020 – 30 June 2021.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Billund, 22 November 2021
Executive Board:

Morten Kjærholm Mikkelsen
Chief Executive Officer

Board of Directors:

Morten Kjærholm Mikkelsen Chairman	Frank Nissen Pedersen	Jette Mariann Hulgaard

Independent auditor's report

To the shareholders of Nordic Aviation Financing ApS

Opinion

We have audited the financial statements of Nordic Aviation Financing ApS for the financial year 1 July 2020 – 30 June 2021 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 June 2021 and of the results of the Company's operations for the financial year 1 July 2020 – 30 June 2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements stating that the operations of the Company and the NAC Group have been adversely affected by the prolonged impact of COVID-19 on the regional aircraft market, which has caused technical default on some of the NAC Group's loans. As a result, the NAC Group (including the Danish entity) will require a comprehensive restructuring transaction with its creditors in order to continue to realise its assets and discharge its liabilities in the normal course of business and has begun negotiations with its lenders in order to achieve the required restructuring through a consensual agreement or a court proceeding. As stated in note 2, these events or conditions, along with the other matters accounted for in note 2, indicate that material uncertainty exists that may cast significant doubt on the Company and the NAC Group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company 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 Company'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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Independent auditor's report

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Fredericia, 22 November 2021
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Nikolaj Møller Hansen
State Authorised
Public Accountant
mne33220

Management's review

Company details

Nordic Aviation Financing ApS
Stratusvej 12
7190 Billund
Denmark

CVR no.:	21 16 74 01
Established:	1 July 1998
Financial year:	1 July – 30 June

Board of Directors

Morten Kjærholm Mikkelsen, Chairman
Frank Nissen Pedersen
Jette Mariann Hulgaard

Executive Board

Morten Kjærholm Mikkelsen, Chief Executive Officer

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Vesterballevej 27, 2.
7000 Fredericia
Denmark
CVR no. 25 57 81 98

Management's review

Operating review

Principal activities

Nordic Aviation Financing ApS (the Company) activities are to purchase properties and to rent these within the group.

In consideration of the volume of transactions with other Group members, this Management's review includes Group considerations. Accordingly, the sections below include Company information as well as commentary from the Group annual report for the financial year 2020/21 ('Group annual report').

The Company's activities are predominantly denominated in US Dollars ("$"), and this is the Company's functional currency. The financial statements are presented in $.

Development in activities and financial position

The Company's income statement for 2020/21 shows a profit of USD 346,569 as against USD 351,087 in 2019/20. Equity in the Company's balance sheet at 30 June 2021 stood at USD 5,936,525 as against USD 5,589,956 at 30 June 2020.

The financial performance of the Group was significantly affected by the continued impact of COVID-19 on the global aviation sector. The outbreak of the COVID-19 pandemic and the travel restrictions adopted by governments worldwide have significantly affected the aviation industry generally, with the Group experiencing a significant impact in the financial year ended 30 June 2020, which continued to escalate through the financial year ended 30 June 2021. Consequently, the Group has been significantly affected by the COVID-19 pandemic throughout two consecutive financial years. As of this date, it is not possible to quantify the exact impact on the demand for aircraft or how long it may take to recover.

Financing

The Group's aircraft financing comprises secured external financing and non-recourse group borrowings. As a member of the Nordic Aviation Capital Designated Activity Company group (the "Group"), the Company benefits from the support and a financial guarantee from NAC DAC and is also subject to Group lending requirements. The Company has, however, a receivable, from its ultimate parent NAC DAC. NAC DAC received a letter of support stating repayment of the outstanding intercompany balance owed to the Company will not be required unless, and only to the extent that, NAC DAC has available cash.

Management's review

Operating review

Going concern/outlook

Financing

In response to these unprecedented challenges NAC DAC and certain of its affiliates entered into an Irish Scheme of Arrangement on 22 July 2020 to defer certain principal and interest payments and to waive certain financial covenants. Because the pandemic, and resulting financial strain on the Group, have persisted longer than the Scheme of Arrangement contemplated, the Group resumed restructuring discussions with its stakeholders in early 2021 regarding a comprehensive solution for addressing the Group's, and the Company's, go forward capital structure.

As the Company is a member of the Group, the discussions with the lenders are collectively managed on its behalf by NAC DAC and the Group's advisors. The discussions are ongoing, and for further information, see the going concern section.

On the face of the balance sheet all debt is recorded as current on 30 June 2021, since it is considered repayable on demand. Pursuant to the forbearance agreement, lenders have agreed to forbear from requiring repayment, notwithstanding that the Company is not currently adhering to certain of the covenants under the financing agreements, which constitutes a technical default, but pursuant to the forbearance agreement, lenders have agreed to forbear from requiring repayment. Further information about the forbearance agreement is provided in the going concern section.

Principal risks and uncertainties

The Directors consider the following to be the principal risk factors that could materially and adversely affect the Company's future operating profits or financial position.

Liquidity and financing risk:

The Company continuously forecasts its liquidity requirements and consistently maintains contact with its lenders. The Company's liquidity management policy involves projecting cash flows in major currencies and evaluating the level of liquid assets required. The analysis is used to monitor liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Although the Group has taken multiple measures to reduce its expenses and fleet utilization is steadily improving, developments relating to the spread of COVID-19 and the Delta variant continue to negatively affect cash collection and liquidity, straining the Company's ability to fulfill its funded debt obligations.

Through negotiations with its creditors, the Group executed a forbearance agreement with key creditor constituencies to afford time to develop a comprehensive solution to the Group's and the Company's capital structure. If certain milestones in the forbearance agreement are not timely satisfied, the Group's creditors could terminate the forbearance. If this was to occur, the Group may seek court protection in one or more jurisdictions. In the absence of such a sequence of events, the Company has access to NAC DAC's, available unrestricted cash to sustain operations in the near term. Long-term liquidity may require a restructuring of the balance sheet to reduce outstanding liabilities and go forward interest obligations. Discussions with key stakeholders regarding potential solutions remain ongoing, and one or more formal restructuring proceedings could result.

Future operations of the Company

Given the current position of the Company, as outlined in the liquidity and financing risk section above, and the challenges due to the COVID-19 pandemic, there is a risk associated with the long-term operation of the Company which is further discussed in the Going concern section.

Management's review

Operating review

Credit risk of lease counterparties:

The Company purchases properties to rent within the Group. The Group operates as a lessor to airlines. The Company's ability to succeed is partially dependent on the financial strength of its customers (the Group) and the Group's ability to compete effectively in the aviation market and manage in the competitive environment in which it operates.

Geopolitical and economic risks:

The Company purchases properties to rent within the Group. The Group leases aircraft to customers, which may operate in multiple jurisdictions worldwide, which may expose it to a variety of economic, social, legal and political risks. Exposure to multiple jurisdictions may adversely affect the Group's future performance, position and growth potential and, by this effect, the Company's future performance. The adequacy and timeliness of management's response to exposures in these jurisdictions is of importance to the mitigation of this risk.

COVID-19:

The global impact of COVID-19 presented the Group with unprecedented financial and operational challenges, including depressed billings and even further depressed receipts thereon.

While recent months have brought the beginning signs of a return of demand for air travel, the COVID-19 pandemic continues to impact the Company, and the emergence of new strains, like the Delta variant, underlines that the COVID-19 pandemic is continuing to have a material impact on the aviation industry, and by extension the aircraft leasing sector.

Consequently, authorities maintain widespread travel restrictions and the effects of COVID-19 continue to impact the Company.

Interest rate and currency risks:

Exposure to interest rate risk is minimized by the use of derivatives and maintaining a balance between fixed and floating rate debt instruments. The majority of the Company's transactions is denominated in $, the Company's functional currency.

Assessing the level of cash flow collections is the most subjective and judgmental area of the cash flow forecast. The Group's assessment of the level of cash flow collections reflects the unprecedented nature of the situation as it is unclear when a cure for COVID-19 will be available and when air travel will recover. In assessing future cashflow collections the Group have looked at recent trends in collections, the financial strength of our lessees to make payments, including any government and shareholder support that may have been committed to or received by lessees, and also reviewed market data around expected recovery profiles for air travel. As outlined above, whilst the Group has used its best estimate of cash flow collections based on information available to it, the impact that COVID-19 will have on air travel and the duration of this impact remains uncertain.

In light of the above assessment and key areas of uncertainty, the Group having considered the adequacy of the its funding, borrowing facilities and operating cash flows, for at least the next 12 months is satisfied that its financial statements for the financial year 2020/21 were prepared on a going concern basis based on the future plans that the Group has for its business.

The estimated cash flows involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from forecasted cash flows.

Going concern

The outbreak of the COVID-19 pandemic and the travel restrictions adopted by governments worldwide have significantly affected the aviation industry and the Group. This impact has been felt through an unprecedented reduction in the use of aircraft and a significant increase in the level of deferral requests and airlines being unable to make scheduled lease rent payments. The impact has significantly been felt

Management's review

Operating review

in the financial year ended 30 June 2020, which continued to escalate through the financial year ended 30 June 2021. Consequently, the Group has been significantly impacted by the COVID-19 pandemic throughout two consecutive financial years. As of this date, it is not possible to quantify the exact impact on the demand for aircraft or how long it may take to recover.

The Company is part of the Group and the Company's ability to continue as a going concern is dependent on support provided by the Group and their continued rent of premises. The Group has engaged in constructive discussions with its lenders and on 22 July 2020 a Scheme of Arrangement was officially approved by the court resulting in a standstill of interest and capital payments on the Group's borrowings. On the back of the 22 July 2020 Scheme of Arrangement the COVID-19 crisis continued to unfold, and it became clear that the COVID-19 pandemic continued to significantly impact the Group.

In May 2021, the Group executed a forbearance agreement with key lender constituencies to afford them time to further develop this solution. Although the forbearance is not a permanent solution, it has allowed the Group and the Company additional time to consensually negotiate the terms of a comprehensive proposed restructuring transaction with its creditors.

Material uncertainties remain regarding the appropriate implementation process and to the Group structure post-reorganization, which cast significant doubt on the Company's ability to continue as a going concern, which are discussed in detail below. However, the Company and the Directors remain optimistic that a holistic restructuring transaction will be negotiated that will address material liabilities and allow the Company to continue to operate in the ordinary course of business on a go forward basis.

Balance sheet restructuring:

The Group is currently evaluating (I) securing a debt restructuring with its lenders outside the court system, (II) applying for a court proceeding to secure a reorganization of the Group or (III) ultimately entering into liquidation and/or bankruptcy proceedings.

(I) Out-of-court restructuring:

The Group and its advisors continue to make substantial progress on negotiating the terms of a flexible, comprehensive restructuring transaction and are in the process of negotiating a restructuring support agreement and related transaction term sheets.

While negotiations regarding a consensual transaction are progressing, out-of-court restructurings require near-total consensus, as there is no mechanism to compel the co-operation of "holdouts". The Group's capital structure is complex, comprised of secured loans from over one hundred different lenders, including the involvement of several government-backed entities. Accordingly, reaching sufficient consensus cannot be guaranteed. Further, certain non-funded debt obligations (e.g. operating costs) can only realistically be addressed on a broad scale through a court proceeding.

In the event the Group cannot secure the necessary lender support to complete a comprehensive restructuring outside the court system, or the Group decides to complete a wide-scale operational restructuring in addition to a financial restructuring, the Group may consider utilizing reorganization proceedings in one or more jurisdictions.

(II) Reorganization proceedings:

In parallel with its negotiations with creditor groups, the Group has been evaluating alternatives for a court-supervised restructuring, with particular emphasis on either a chapter 11 filing in the United States or an Irish Examinership.

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Operating review

Chapter 11:

A chapter 11 can be commenced at any time and will result in automatic protection of all filing entities; all affiliates can participate. In a chapter 11, the Company would continue to operate its businesses as "debtors-in-possession" under the jurisdiction of a bankruptcy court while effectuating a financial and operational restructuring to improve liquidity, eliminate unprofitable contracts, and right-size its funded debt obligations. Chapter 11 can be utilized in either a consensual or a non-consensual context.

The automatic stay can provide certain protections if a consensual transaction is not achieved. A chapter 11 filing would enable the Company to remain intact and to operate in a "business as usual" manner (taking into account the COVID-19 induced disruptions) with respect to post-filing vendor and customer relationships as well as employee obligations. Chapter 11 is not a liquidation or wind-down of the business. Chapter 11 would provide the Company with additional tools to renegotiate existing debt agreements, change ownership, dispose of assets, and obtain additional financing if necessary. The ultimate goal of a chapter 11 case is to confirm a "plan" to address the debtor's liabilities.

Importantly, chapter 11 proceedings provide for a 120-day exclusive period for the debtor to propose a chapter 11 plan - subject to extension of up to 18 months after the petition date, giving the debtor significant control over the process.

The purpose of chapter 11 is to rehabilitate a debtor and allow for future operations of a viable business. Because of the Group's solid foundation and successful pre-pandemic operations, the Group as a victim of circumstance, is a prime candidate for chapter 11, which would allow the Group to continue to operate the business while utilizing chapter 11's provisions to reduce outstanding financial liabilities and, if determined beneficial, effectuate an operational restructuring.

Examinership:

An examinership is an Irish corporate restructuring procedure which provides breathing space (with a Court stay or moratorium) for an examiner to formulate proposals for a scheme of arrangement for the survival of the participating company, or any part of its undertaking, as a going concern. The moratorium only protects participating entities.

Examinership preparation is ongoing as part of the contingency planning in the event it is required in a defensive scenario or the implementation of a consensual transaction or a Chapter 11 plan.

Examinership lasts for an initial period of 70 days that is extendable to 100 days. However, in light of COVID-19 pandemic, the period is temporarily extended to 150 days where "exceptional circumstances exist".

An examinership is commenced by the presentation of a petition in the Irish High Court seeking the appointment of an examiner. The presentation of the petition creates an automatic stay and can be presented by a company, its members, directors or creditors. It must be accompanied by an Independent Expert Report assessing the viability of the company which includes a statement of affairs of the company, an opinion as to whether the expert believes the company has a reasonable prospect of survival and a list of conditions that need to be satisfied to achieve the outcome. The debtor remains in possession, although an independent examiner is appointed (selected and nominated by the petitioner). In examinership, the Company would continue its normal course trade and business. Also, examinership allows a company to repudiate certain contracts.

Examinership is similar to chapter 11 in many ways. Examinership could be used to implement or give effect to a chapter 11 plan where required or be used independent of a chapter 11 to implement a consensual transaction relating to Irish companies and companies with a sufficient connection to Ireland.

Management's review

Operating review

(III) Liquidation:

The Company may determine voluntarily, or in certain jurisdictions at the discretion of its creditors, to enter into liquidation proceedings. A voluntary liquidation would be undertaken as part of a comprehensive restructuring. In such circumstances, the Group, and any company entities remaining, would still likely continue to operate as a going concern.

In certain jurisdictions, the Group's creditors may have the ability to force Group entities into an involuntary liquidation. Under such circumstances, there is an increased risk that the Group would no longer continue as a going concern.

At this time, the Group remains engaged in negotiations with its creditors regarding the path forward. Creditor groups are evaluating multiple options, including equitization and debt-exchange options. Material uncertainties remain regarding the appropriate implementation process and post-reorganized Group structure pending creditors' final, irrevocable decisions as to the preferred option. However, the Company remains confident that a holistic restructuring transaction will be negotiated that will address material liabilities. This proposed holistic restructuring transaction will allow the Company to continue to operate in the ordinary course of business as a going concern.

The Group presently expects that any proposed plan of restructuring will provide a mechanism for settlement of claims against the Company. However, there can be no assurance that the Group will be able to reach an agreement with its lenders or secure a court approval where required.

These financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying amounts or classification of reported assets, liabilities, and expenses that would otherwise be necessary if the going concern assumption was not appropriate.

Events after the balance sheet date

No significant events have occurred after the balance sheet date.

Moreover, reference is made to note 2, in which the Company's financial situation is described in further detail.

Financial statements 1 July – 30 June

Income statement

USD	Note	2020/21	2019/20
Revenue		1,400,655	1,278,413
Production costs		-803,700	-780,632
Gross profit		596,955	497,781
Administrative expenses		-8,362	-6,863
Profit before financial income and expenses		588,593	490,918
Other financial income		0	45,297
Other financial expenses	3	-139,833	-86,103
Profit before tax		448,760	450,112
Tax on profit for the year	4	-102,191	-99,025
Profit for the year		346,569	351,087

Proposed profit appropriation

Retained earnings		346,569	351,087

Financial statements 1 July – 30 June

Balance sheet

USD	Note	30/6 2021	30/6 2020
ASSETS			
Fixed assets			
Property, plant and equipment	5		
Land and buildings		7,478,383	8,259,086
Total fixed assets		7,478,383	8,259,086
Current assets			
Receivables			
Receivables from group entities		1,201,868	217,159
Other receivables		8,579	8,994
Deferred tax asset		141,015	87,874
		1,351,462	314,027
Cash at bank and in hand		0	93
Total current assets		1,351,462	314,120
TOTAL ASSETS		8,829,845	8,573,206

Financial statements 1 July – 30 June

Balance sheet

USD	Note	30/6 2021	30/6 2020
EQUITY AND LIABILITIES			
Equity			
Contributed capital		200,977	200,977
Revaluation reserve		81,937	95,593
Retained earnings		5,653,611	5,293,386
Total equity		5,936,525	5,589,956
Liabilities			
Non-current liabilities	6		
Mortgage loans		1,725,013	1,876,184
Lease obligations		555,504	536,120
		2,280,517	2,412,304
Current liabilities			
Current portion of non-current liabilities	6	276,869	251,897
Trade payables		0	12,090
Corporation tax		155,732	143,517
Other payables		180,202	163,442
		612,803	570,946
Total liabilities		2,893,320	2,983,250
TOTAL EQUITY AND LIABILITIES		8,829,845	8,573,206

Financial statements 1 July – 30 June

Statement of changes in equity

USD	Contributed capital	Revaluation reserve	Retained earnings	Total
Equity at 1 July 2020	200,977	95,593	5,293,386	5,589,956
Transfers, reserves	0	-13,656	13,656	0
Transferred over the profit appropriation	0	0	346,569	346,569
Equity at 30 June 2021	200,977	81,937	5,653,611	5,936,525

Financial statements 1 July – 30 June

Notes

1 Accounting policies

The annual report of Nordic Aviation Financing ApS for 2020/21 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in from higher reporting classes.

Reporting currency

The financial statements are presented in USD as the Company's most significant transactions are settled in USD. At the balance sheet date, the DKK/USD exchange rate was 6.26. For the year 2019/20, the DKK/USD exchange rate at the balance sheet date was 6.66.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue consists of rental income.

Production costs

Production costs, which among other things comprise depreciation and maintenance, include costs incurred in generating revenue of the year. This include direct and indirect costs of the properties.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for the management and administration of the Group.

Financial income and expenses

Financial income and expenses comprise interest income and expense, realised and unrealised gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on account tax scheme, etc.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Tax on profit/loss for the year

Nordic Aviation Financing ApS is taxed jointly with the Parent Company, Nordic Aviation Capital A/S. The current Danish corporation tax is allocated by the settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contribution from companies that have used these losses to reduce their own taxable profits. The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life.

The estimated useful lives are as follows:

Buildings	20 years

The useful life and residual value are reassessed annually. Changes are accounted for as accounting estimates, and the effect on depreciation is recognised prospectively.

Land is not depreciated.

Depreciation is recognised in the income statement as production costs and administrative expenses, respectively.

Leases

When entering into a contract, the Company assesses whether the contract is a lease or contains a lease component. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When an assessing whether a contract contains a lease component, it must be considered whether, during the period of use, the lessee has the right to substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

The Company recognises a right-of-use asset and a lease liability at the commencement date.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost. Write-down is made for bad debt losses based on an individual assessment of receivables.

Equity

Dividends

The expected dividend payment for the year is disclosed as a separate item under equity.

Income taxes

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Liabilities

Financial liabilities and loan from group entities are recognised on the date of borrowing as net proceeds received less transaction costs incurred. In subsequent periods, the loans are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement during the term of the loan.

Other financial liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received regarding income in subsequent years.

Financial statements 1 July – 30 June

Notes

2 Material uncertainties regarding going concern

The outbreak of the COVID-19 pandemic and the travel restrictions adopted by governments worldwide have significantly affected the aviation industry and the Group. This impact has been felt through an unprecedented reduction in the use of aircraft and a significant increase in the level of deferral requests and airlines being unable to make scheduled lease rent payments. The impact has significantly been felt in the financial year ended 30 June 2020, which has continued to escalate through the financial year ended 30 June 2021. Consequently, the Group has been significantly impacted by the COVID-19 pandemic throughout two consecutive financial years. As of this date, it is not possible to quantify the exact impact on the demand for aircraft or how long it may take to recover.

The Company is part of the Group and the Company's ability to continue as a going concern is dependent on support provided by the Group and their continued rent of premises. The Group has engaged in constructive discussions with its lenders and on 22 July 2020 a Scheme of Arrangement was officially approved by the court resulting in a standstill of interest and capital payments on the Group's borrowings. On the back of the 22 July 2020 Scheme of Arrangement, the COVID-19 crisis continued to unfold, and it became clear that the COVID-19 pandemic continued to significantly impact the Group.

In May 2021, the Group executed a forbearance agreement with key lender constituencies to afford them time to further develop this solution. Although the forbearance is not a permanent solution, it has allowed the Group and the Company additional time to consensually negotiate the terms of a comprehensive proposed restructuring transaction with its creditors.

Material uncertainties remain regarding the appropriate implementation process and to the Group structure post-reorganization, which cast significant doubt on the Company's ability to continue as a going concern which are discussed in detail below. However, the Company and the Directors remain optimistic that a holistic restructuring transaction will be negotiated that will address material liabilities and allow the Company to continue to operate in the ordinary course of business on a go forward basis.

Balance sheet restructuring:

The Group is currently evaluating (I) securing a debt restructuring with its lenders outside the court system, (II) applying for a court proceeding to secure a reorganization of the Group or (III) ultimately entering liquidation and/or bankruptcy proceedings.

(I) Out-of-court restructuring:

The Group and its advisors continue to make substantial progress on negotiating the terms of a flexible, comprehensive restructuring transaction and are in the process of negotiating a restructuring support agreement and related transaction term sheets.

While negotiations regarding a consensual transaction are progressing, out-of-court restructurings require near-total consensus, as there is no mechanism to compel the co-operation of "holdouts". The Group's capital structure is complex, comprised of secured loans from over one hundred different lenders, including the involvement of several government-backed entities. Accordingly, reaching sufficient consensus cannot be guaranteed. Further, certain non-funded debt obligations (e.g. operating costs) can only realistically be addressed on a broad scale through a court proceeding.

In the event the Group cannot secure the necessary lender support to complete a comprehensive restructuring outside the court system, or the Group decides to complete a wide-scale operational restructuring in addition to a financial restructuring, the Group may consider utilizing reorganization proceedings in one or more jurisdictions.

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(II) Reorganization proceedings:

In parallel with its negotiations with creditor groups, the Group has been evaluating alternatives for a court-supervised restructuring, with particular emphasis on either a chapter 11 filing in the United States or an Irish Examinership.

Chapter 11:

A chapter 11 can be commenced at any time and will result in automatic protection of all filing entities; all affiliates can participate. In a chapter 11, the Company would continue to operate its businesses as "debtors-in-possession" under the jurisdiction of a bankruptcy court while effectuating a financial and operational restructuring to improve liquidity, eliminate unprofitable contracts, and right-size its funded debt obligations. Chapter 11 can be utilized in either a consensual or a non-consensual context.

The automatic stay can provide certain protections if a consensual transaction is not achieved. A chapter 11 filing would enable the Company to remain intact and to operate in a "business as usual" manner (taking into account the COVID-19 induced disruptions) with respect to post-filing vendor and customer relationships as well as employee obligations. Chapter 11 is not a liquidation or wind-down of the business. Chapter 11 would provide the Company with additional tools to renegotiate existing debt agreements, change ownership, dispose of assets, and obtain additional financing if necessary. The ultimate goal of a chapter 11 case is to confirm a "plan" to address the debtor's liabilities.

Importantly, chapter 11 proceedings provide for a 120-day exclusive period for the debtor to propose a chapter 11 plan - subject to extension of up to 18 months after the petition date, giving the debtor significant control over the process.

The purpose of chapter 11 is to rehabilitate a debtor and allow for future operations of a viable business. Because of the Company's solid foundation and successful pre-pandemic operations, the Company, as a victim of circumstance, is a prime candidate for chapter 11, which would allow the Company to continue to operate the business while utilizing chapter 11's provisions to reduce outstanding financial liabilities and, if determined beneficial, effectuate an operational restructuring.

Examinership:

An examinership is an Irish corporate restructuring procedure which provides breathing space (with a Court stay or moratorium) for an examiner to formulate proposals for a scheme of arrangement for the survival of the participating company, or any part of its undertaking, as a going concern. The moratorium only protects participating entities.

Examinership preparation is ongoing as part of the contingency planning in the event it is required in a defensive scenario or the implementation of a consensual transaction or a Chapter 11 plan.

Examinership lasts for an initial period of 70 days that is extendable to 100 days. However, in light of COVID-19 pandemic, the period is temporarily extended to 150 days where "exceptional circumstances exist".

An examinership is commenced by the presentation of a petition in the Irish High Court seeking the appointment of an examiner. The presentation of the petition creates an automatic stay and can be presented by a company, its members, directors or creditors. It must be accompanied by an Independent Expert Report assessing the viability of the company which includes a statement of affairs of the company, an opinion as to whether the expert believes the company has a reasonable prospect of survival and a list of conditions that need to be satisfied to achieve the outcome. The debtor remains in possession, although an independent examiner is appointed (selected and nominated by the petitioner). In examinership, the Company would continue its normal course trade and business. Also, examinership allows a company to repudiate certain contracts.

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Examinership is similar to chapter 11 in many ways. Examinership could be used to implement or give effect to a chapter 11 plan where required or be used independent of a chapter 11 to implement a consensual transaction relating to Irish companies and companies that have a sufficient connection to Ireland.

(III) Liquidation:

The Company may determine voluntarily, or in certain jurisdictions at the discretion of its creditors, to liquidate. A voluntary liquidation would be undertaken as part of a comprehensive restructuring. In such circumstances, the Group, and any company entities remaining, would still likely continue to operate as a going concern.

In certain jurisdictions, the Group's creditors may have the ability to force Group entities into an involuntary liquidation. Under such circumstances, there is an increased risk that the Group would no longer continue as a going concern.

At this time, the Group remains engaged in negotiations with its creditors regarding the path forward. Creditor groups are evaluating multiple options, including equitization and debt-exchange options. Material uncertainties remain regarding the appropriate implementation process and post-reorganized Group structure pending creditors' final, irrevocable decisions as to the preferred option. However, the Company remains confident that a holistic restructuring transaction will be negotiated that will address material liabilities. This proposed holistic restructuring transaction will allow the Company to continue to operate in the ordinary course as a going concern.

The Group presently expects that any proposed plan of restructuring will provide a mechanism for settlement of claims against the Company. However, there can be no assurance that the Group will be able to reach an agreement with its lenders or secure a court approval where required.

These financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying amounts or classification of reported assets, liabilities, and expenses that would otherwise be necessary if the going concern assumption was not appropriate.

	USD	2020/21	2019/20
3	**Other financial expenses**		
	Interest expenses to group entities	0	13,502
	Other financial expenses	80,851	72,601
	Exchange adjustments costs	58,982	0
		139,833	86,103
4	**Tax on profit for the year**		
	Joint taxation contribution	155,732	143,517
	Deferred tax for the year	-53,541	-44,492
		102,191	99,025

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5 Property, plant and equipment

USD	Land and buildings
Cost at 1 July 2020	15,339,279
Cost at 30 June 2021	15,339,279
Revaluations at 1 July 2020	350,157
Transfer	-227,602
Reserved revaluations	-17,508
Revaluations at 30 June 2021	105,047
Depreciation and impairment losses at 1 July 2020	-7,202,748
Depreciation for the year	-763,195
Depreciation and impairment losses at 30 June 2021	-7,965,943
Carrying amount at 30 June 2021	7,478,383
Assets held under finance leases	519,092

6 Non-current liabilities

USD	Total debt at 30/6 2021	Repayment, next year	Outstanding debt after five years
Mortgage debt	1,987,168	262,155	788,868
Lease obligation	570,218	14,714	484,751
	2,557,386	276,869	1,273,619

7 Contractual obligations, contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with its Parent Company, Nordic Aviation Capital A/S, which serves as management company, and together with other jointly taxed group entities, the Company has joint and several liability for the payment of income taxes as well as withholding taxes on interest, royalties and dividends.

8 Mortgages and collateral

The buildings at Stratusvej 2 and 12, title no. 2CQ Billund, at leased land with a carrying amount of USD 7,478 thousand have been provided as collateral for the Company's mortgage debt of USD 1,987 thousand.

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9 Related party disclosures

Nordic Aviation Financing ApS' related parties comprise the following:

Control

Nordic Aviation Capital A/S, Stratusvej 12, 7190 Billund, Denmark.

Nordic Aviation Capital A/S, Stratusvej 12, 7190 Billund, Denmark, holds the majority of the contributed capital in the Company.

Nordic Aviation Financing ApS is part of the consolidated financial statements of Nordic Aviation Capital Designated Activity Company, Ireland, which is the smallest group in which the Company is included as a subsidiary.

The consolidated financial statements of Nordic Aviation Capital Designated Activity Company can be obtained by contacting the company at the address above.