

NAC Aviation 2 A/S

Stratusvej 12,
DK-7190 Billund

CVR no. 35 48 71 90

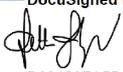
Annual report for the period 1 July 2020 – 30 June 2021

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

29 November 2021

Jette Mariann Hulgaard
Chairman

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NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	6
Company details	6
Operating review	7
Financial statements 1 July – 30 June	12
Income statement	12
Balance sheet	13
Statement of changes in equity	15
Notes	16

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

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 NAC Aviation 2 A/S 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, 29 November 2021
Executive Board:

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Morten Mikkelsen
Chief Executive Officer

Board of Directors:

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Mark Baker Cox
Chairman

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Harvey Tepper

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Martin Cooke

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Paul O'Donnell

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Justin Andrew Bickle



Independent auditor's report

To the shareholder of NAC Aviation 2 A/S

Opinion

We have audited the financial statements of NAC Aviation 2 A/S 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.



NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Independent auditor's report

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.

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, 29 November 2021

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

A handwritten signature in black ink, appearing to read 'N. Møller Hansen', written over a light blue horizontal line.

Nikolaj Møller Hansen
State Authorised
Public Accountant
mne33220

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Management's review

Company details

NAC Aviation 2 A/S
Stratusvej 12,
7190 Billund
Denmark

CVR no.:	35 48 71 90
Established:	23 September 2013
Registered office:	Billund
Financial year:	1 July – 30 June

Board of Directors

Mark Baker Cox, Chairman
Harvey Lawrence Tepner
Martin Anthony Cooke
Paul Philip O'Donnell
Justin Andrew Bickle

Executive Board

Morten Kjærholm Mikkelsen, Chief Executive Officer

Auditor

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

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Management's review

Operating review

Principal activities

NAC Aviation 2 A/S (the Company) activities are to lease out its portfolio of aircraft under operating leases.

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 loss of USD 23,642,552 as against a loss of USD 1,034,475 in 2019/20. Equity in the Company's balance sheet at 30 June 2021 stood at a negative of USD 19,203,607 as against USD 4,438,945 at 30 June 2020.

The financial performance of the Company 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 impacted the aviation industry generally, with the Company 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 Company 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.

At 30 June 2021, equity was negative with the amount of USD 19,203,607. The Company has lost its equity, and the Company is therefore covered by the rules in the Danish Companies Act regarding loss of capital. We refer to the going concern/outlook section and note 2.

Going concern/outlook

Financing

The Company's aircraft financing comprises secured external financing and non-recourse group borrowings (an intercompany loan repayable to the Company's ultimate parent company, Nordic Aviation Capital Designated Activity Company ("NAC DAC")) and is repayable on demand. As a member of the Nordic Aviation Capital DAC 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 received a letter of support from NAC DAC, which means that the outstanding intercompany loan repayable to NAC DAC will not be required to be repaid unless the Company has available cash to do so and NAC DAC will continue to provide support to the Company for the foreseeable future as required, subject to the terms of the proposed financial restructuring transaction.

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 Company, 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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Management's review

Operating review

On the face of the balance sheet all debt is recorded as current at 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 Company 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.

Residual values of the aircraft:

The Company bears the risk of re-leasing or selling aircraft in its fleet at the end of their lease terms. If demand for aircraft decreases or market lease rates decrease, these factors could affect the market value of the portfolio or re-lease rates achieved. Should these conditions continue for an extended period, it could affect the market value of the portfolio and may result in impairment charges. The Directors look to mitigate these risks by actively managing the portfolio, lease durations, maintenance return conditions and selectively marketing aircraft for sale. Despite the efforts to manage the fleet, the COVID-19 pandemic and the related reduction in aircraft market values and lease rental income resulted in an impairment charge.

Credit risk of lease counterparties:

The Company operates as a lessor to airlines. Its ability to succeed is partially dependent on the financial strength of its customers and their ability to compete effectively in the aviation market and manage in the competitive environment in which they operate. If airline customers experience financial difficulties, this may result in defaults or the early termination of leases. The Company continuously monitors and assesses its customer and credit exposure, and the Directors look to mitigate risks by negotiating security deposits and maintenance reserve payments as appropriate.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Management's review

Operating review

Geopolitical and economic risks:

The Company 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 Company's future performance, position and growth potential. 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 Company 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.

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 Company. 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 continued to escalate through the financial year ended 30 June 2021. Consequently, the Company 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.

The Company is part of the Nordic Aviation Caoital Group (the Group) and the Company's ability to continue as a going concern is dependent on financing and support provided by the Group.

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 Company.

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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Management's review

Operating review

(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.

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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Management's review

Operating review

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 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 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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Income statement

USD	Note	2020/21	2019/20
Revenue		725,250	7,191,916
Production costs		<u>-26,261,375</u>	<u>-4,523,910</u>
Gross profit/loss		-25,536,125	2,668,006
Distribution costs		-55,832	-751,168
Administrative expenses		<u>-632,540</u>	<u>-779,735</u>
Profit/loss before financial income and expenses		-26,224,497	1,137,103
Other financial income		753	32,804
Other financial expenses	4	<u>-4,006,730</u>	<u>-2,496,072</u>
Profit/loss before tax		-30,230,474	-1,326,165
Tax on profit/loss for the year	5	<u>6,587,922</u>	<u>291,690</u>
Profit/loss for the year		<u><u>-23,642,552</u></u>	<u><u>-1,034,475</u></u>
Proposed distribution of loss			
Retained earnings		<u><u>-23,642,552</u></u>	<u><u>-1,034,475</u></u>

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Balance sheet

USD	Note	<u>30/6 2021</u>	<u>30/6 2020</u>
ASSETS			
Fixed assets			
Property, plant and equipment	6		
Aircraft		<u>31,990,606</u>	<u>57,412,805</u>
Total fixed assets		<u>31,990,606</u>	<u>57,412,805</u>
Current assets			
Receivables			
Trade receivables		160,990	0
Corporation tax		0	1,045,611
Prepayments		<u>0</u>	<u>128,215</u>
		<u>160,990</u>	<u>1,173,826</u>
Cash at bank and in hand		<u>177</u>	<u>3,244</u>
Total current assets		<u>161,167</u>	<u>1,177,070</u>
TOTAL ASSETS		<u><u>32,151,773</u></u>	<u><u>58,589,875</u></u>

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Balance sheet

USD	Note	30/6 2021	30/6 2020
EQUITY AND LIABILITIES			
Equity			
Contributed capital		90,541	90,541
Retained earnings		-19,294,148	4,348,404
Total equity		-19,203,607	4,438,945
Provisions			
Provisions for deferred tax		230,930	6,818,852
Total provisions		230,930	6,818,852
Liabilities other than provisions			
Non-current liabilities other than provisions			
Other payables	7	500,000	500,000
Current liabilities other than provisions			
Mortgage loans		32,043,310	31,205,892
Payables to group entities		18,474,657	15,506,305
Other payables		106,483	119,881
		50,624,450	46,832,078
Total liabilities other than provisions		51,124,450	47,332,078
TOTAL EQUITY AND LIABILITIES		32,151,773	58,589,875

NAC Aviation 2 A/S
 Annual report 2020/21
 CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Statement of changes in equity

USD	Contributed capital	Retained earnings	Total
Equity at 1 July 2020	90,541	4,348,404	4,438,945
Transferred over the distribution of loss	0	-23,642,552	-23,642,552
Equity at 30 June 2021	90,541	-19,294,148	-19,203,607

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

1 Accounting policies

The annual report of NAC Aviation 2 A/S 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.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

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 comprises payments made under operating leases and income from the sale of aircraft, and is recognised in the income statement when the transfer of risk to the buyer has taken place and the income can be reliably measured, and it is probable that future economic benefits will flow to the entity.

Revenue is measured at the fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

The Company records supplemental amounts that are not expected to be reimbursed during the lease as lease revenue when the Group has reliable information that it will not be required to make reimbursements of the amounts collected based on utilization and a maintenance forecasting model that estimates the maintenance inflows and outflows through the lease expiration date.

Production costs

Production costs include costs incurred in generating revenue for the year. Such costs include direct and indirect costs for the purchase and maintenance of aircraft.

Distribution costs

Distribution costs include costs incurred in preparation for entering into lease contracts, promotional activities and shipment of aircraft.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Administrative expenses

Administrative expenses include costs incurred for the management and administration of the Company.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, 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.

Tax on profit/loss for the year

The Company is jointly taxed with Nordic Aviation Capital A/S, the Company's direct parent. 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.

Balance sheet

Property, plant and equipment

Buildings, aircraft and fixtures and fittings, tools and equipment 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:

Aircraft	25-30 years
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The useful life and residual value are reassessed annually. Changes are accounted for as accounting estimates, and the effect on depreciation is recognised prospectively.

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

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Prepayments for property, plant and equipment, comprise payments regarding future acquisitions of aircraft.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Cash at bank and in hand

Cash comprise bank deposits.

Equity

Dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). 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. Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

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.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value.

Maintenance reserves

In many aircraft operating lease contracts, the lessee has the obligation to make periodic payments which are calculated based on the utilisation of airframes, engines and other major life-limited components (supplemental amounts). In such contracts, upon the lessee presenting invoices evidencing the completion of qualifying maintenance on the aircraft, the Group reimburses the lessee for the cost of the maintenance up to a maximum of the supplemental amounts received with respect to such work unless otherwise indicated in the lease contract.

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 Company. 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 continued to escalate through the financial year ended 30 June 2021. Consequently, the Company 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.

The Company is part of the Group and the Company's ability to continue as a going concern is dependent on financing and support provided by the Group.

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 Company.

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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

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.

(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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

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 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 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 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.

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

3 Special items

Special items comprise significant costs of a special nature in relation to the Company's usual income-generating operating activities. Special items also comprise costs related to impairment of aircraft. Moreover, other significant non-recurring costs are included in special items.

As mentioned in the Management's review, profit/loss from the year was affected by impairment of aircraft. This matter deviates from Management's assessment of what is part of the Company's operating activities.

Special items, including their recognition in the income statement, are specified as follows:

USD	<u>2020/21</u>	<u>2019/20</u>
Production costs:		
Impairment of aircraft	<u>23,062,274</u>	<u>0</u>

USD	<u>2020/21</u>	<u>2019/20</u>
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4 Other financial expenses

Interest expense to group entities	1,186,528	665,195
Other interest expenses	2,792,855	1,830,877
Exchange rate changes	<u>27,347</u>	<u>0</u>
	<u>4,006,730</u>	<u>2,496,072</u>

5 Tax on profit/loss for the year

Joint taxation contribution	0	1,045,611
Deferred tax for the year	<u>6,587,922</u>	<u>-753,921</u>
	<u>6,587,922</u>	<u>291,690</u>

6 Property, plant and equipment

USD	<u>Airplanes</u>
Cost at 1 July 2020	74,353,120
Additions for the year	40,000
Disposals for the year	<u>-105,735</u>
Cost at 30 June 2021	<u>74,287,385</u>
Depreciation and impairment losses at 1 July 2020	-16,940,315
Impairment losses for the year	-23,062,274
Depreciation for the year	<u>-2,294,190</u>
Depreciation and impairment losses at 30 June 2021	<u>-42,296,779</u>
Carrying amount at 30 June 2021	<u>31,990,606</u>

NAC Aviation 2 A/S
Annual report 2020/21
CVR no. 35 48 71 90

Financial statements 1 July – 30 June

Notes

7 Non-current liabilities other than provisions

USD	Total debt at 30/6 2021	Outstanding debt after five years
Lease Deposits	500,000	0
	<u>500,000</u>	<u>0</u>

8 Contractual obligations, contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with Nordic Aviation Capital A/S, the Company's direct parent, 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.

9 Mortgages and collateral

Aircraft with a carrying amount of USD 31,991 thousand at 30 June 2021 has been provided as collateral for aircraft financing of USD 32,043 thousand.

10 Related party disclosures

NAC Aviation 2 A/S' 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.

NAC Aviation 2 A/S 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 companies at the addresses above.