

GAL MSN 41027 LIMITED
Annual report and financial statements
FOR THE YEAR ENDED 31 DECEMBER 2019



GAL MSN 41027 LIMITED

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GAL MSN 41027 LIMITED

Directors and Other Information

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

GAL MSN 41027 LIMITED

DIRECTORS' REPORT AND STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their annual report and the audited financial statements of GAL MSN 41027 Limited (the "Company") for the year ended 31 December 2019.

Principal Activities, Business Review and Future Developments

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

Principal Risks and Uncertainties

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

Going Concern

The Company's financial statements are prepared on a going concern basis. In forming a view on the basis of preparation and the ability of the Company to pay its debts as they fall due, the Directors considered the contracted cash inflows and the continuing support of GAL, the parent entity.

Key Performance Indicators

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

- Operating income of US\$9,036,121 (2018: US\$9,040,256); and
- Loss before tax of US\$1,183,595 (2018: profit of US\$1,275,909).

Results for the year and Dividends

The results of the Company for the year ended 31 December 2019 are set out in the Statement of Profit or Loss Account and Other Comprehensive Income on page 9 and in the Balance Sheet on pages 10 - 11. The loss on ordinary activities for the year before taxation amounted to US\$1,183,595 (2018: profit of US\$1,275,909) and after charging of US\$452,002 (2018: US\$588,201), the loss of US\$1,635,597 (2018: profit of US\$687,708) was transferred to reserves. Shareholders' deficit at 31 December 2019 amounted to US\$1,713,031 (2018: US\$77,434). The Directors did not declare any dividends during the year (2018: US\$ Nil).

Total restricted cash at 31 December 2019 was US\$8,723 (2018: US\$5,261). Total assets at 31 December 2019 was US\$77,190,365 (2018: US\$80,307,282), and total liabilities was US\$78,903,396 (2018: US\$80,384,716).

Directors and Secretary and their Interests

The names of the persons who were Directors at any time during the year ended 31 December 2019 are set out below. In accordance with the Articles of Association the Directors are not required to retire by rotation.

GAL MSN 41027 LIMITED

DIRECTORS' REPORT AND STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Directors

Charles M Leahy
MaplesFS UK Corporate Director No.1 Limited
MaplesFS UK Corporate Director No.2 Limited

Secretary

Maples Fiduciary Services (UK) Limited

Interests

The Directors and the company secretary who held office at 31 December 2019 do not have any direct or beneficial interest in the shares and debentures of the Company, or any group company at that date or during the year.

Issue of Shares

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

Political Contributions

No political donations were made by the Company during the year (2018: None).

Events after the end of the Reporting Date

Since the start of January 2020, the world has been monitoring and reacting to the novel coronavirus (COVID - 19). The virus has spread across the globe, resulting in widespread restrictions on the ability of people to travel, socialize and leave their homes; resulting in an unprecedented decline in global air traffic. Global financial markets have reacted sharply to this pandemic, with concerns regarding the economic impact this may have on a global scale, and which is expected to be material for the airline sector, and by extension the aircraft leasing sector.

The Company's ability to, among other things, service its obligations is dependent on the continued receipt of rental and other payments from its airline lessee customer who entered protective bankruptcy proceedings in April 2020 as a result of the corona virus aviation shutdown. Following a bid process, a private company was selected in late June 2020 as the successful bidder to take over the airline, with the takeover expected to progress in 2020. It is not possible for the Directors to estimate the outcome or timing of the takeover completing, or the financial effect, if any, of any arrangements if concluded, or other consequences the airline takeover on the Company's financial results or position. The Directors, with input from the Lease Manager, will continue to actively monitor the situation and the impact of the outcome for the Company.

There were no other events after the reporting date that would require revision of the results or financial position of the Company, or disclosure in the financial statements.

Disclosure of information to auditors

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

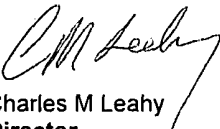
GAL MSN 41027 LIMITED

**DIRECTORS' REPORT AND STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

Independent Auditor

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

This report was approved by the board on 30 June 2020 and signed on its behalf.



Charles M Leahy
Director

GAL MSN 41027 LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

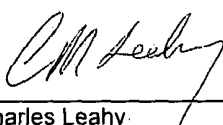
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

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

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

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

Approved by the board and authorised for issue on 30 June 2020.



Charles Leahy
Director



KPMG
Audit
1 Harbourmaster Place
IFSC
Dublin 1
D01 F6F5
Ireland

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of GAL MSN 41027 Limited ('the Company') for the year ended 31 December 2019, which comprise the Statement of Profit or Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the summary of significant accounting policies set out in note 2. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 Reduced Disclosure Framework.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

We have nothing to report on going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant



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

doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

Other information

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

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

Based solely on our work on the other information;

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.



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

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Killian Croke
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

30 June 2020

GAL MSN 41027 LIMITED

**STATEMENT OF PROFIT OR LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 US\$	2018 US\$
Operating income	3	9,036,121	9,040,256
Depreciation	8	(3,070,824)	(3,070,824)
General and administration expenses	4	(389,072)	(593,250)
Net operating profit on continuing activities		<u>5,576,225</u>	<u>5,376,182</u>
Finance expense	5	(4,811,781)	(5,165,792)
Net (loss)/gains on derivatives	12	(1,948,293)	1,065,519
Foreign exchange gain		254	-
(Loss)/profit on ordinary activities before taxation		<u>(1,183,595)</u>	<u>1,275,909</u>
Taxation	7	(452,002)	(588,201)
(Loss)/profit on ordinary activities after taxation		<u>(1,635,597)</u>	<u>687,708</u>
Other comprehensive income		-	-
Total comprehensive (loss)/income for the financial year		<u><u>(1,635,597)</u></u>	<u><u>687,708</u></u>

The accompanying notes on pages 13 to 29 form an integral part of these financial statements. All results for the year are attributable to the owners of the Company. The above results were derived from continuing operations.

GAL MSN 41027 LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2019**

	Note	2019 US\$	2018 US\$
Non-current assets			
Aircraft	8	76,830,701	79,901,525
Net derivative assets	12	-	324,373
Total non-current assets		<u>76,830,701</u>	<u>80,225,898</u>
Current assets			
Other receivables	9	350,941	76,123
Restricted cash	10	8,723	5,261
Total current assets		<u>359,664</u>	<u>81,384</u>
Total assets		<u>77,190,365</u>	<u>80,307,282</u>
Liabilities - amounts falling due within one year			
Loans and borrowings	11	3,724,314	3,593,296
Lease rental received in advance		1,273,128	1,268,993
Other liabilities	13	772,104	789,925
		<u>5,769,546</u>	<u>5,652,214</u>
Liabilities - amounts falling due more than one year			
Loans and borrowings	11	69,858,049	73,532,623
Net derivative liabilities	12	1,623,920	-
Net deferred tax liabilities	7	1,651,881	1,199,879
		<u>73,133,850</u>	<u>74,732,502</u>
Total liabilities		<u>78,903,396</u>	<u>80,384,716</u>
Net liabilities		<u>(1,713,031)</u>	<u>(77,434)</u>

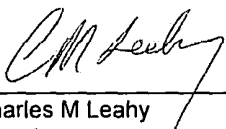
GAL MSN 41027 LIMITED

**BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2019**

	Note	2019 US\$	2018 US\$
Capital and reserves			
Share capital	14	2	2
Profit or loss account		(1,713,033)	(77,436)
Shareholders' deficit		<u>(1,713,031)</u>	<u>(77,434)</u>

The accompanying notes on pages 13 to 29 for an integral part of these financial statements.

Approved by the board and recognised for issue on 30 June 2020.



Charles M Leahy
Director

GAL MSN 41027 LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital US\$	Profit or loss account US\$	Total deficit US\$
At 1 January 2018	2	(765,144)	(765,142)
Comprehensive income for the year			
Profit for the year	-	687,708	687,708
At 1 January 2019	2	(77,436)	(77,434)
Comprehensive income for the year			
Loss for the year	-	(1,635,597)	(1,635,597)
At 31 December 2019	2	(1,713,033)	(1,713,031)

All equity is attributable to the holders of the Company.

The accompanying notes on pages 13 to 29 form an integral part of these financial statements.

GAL MSN 41027 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

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

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

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

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

- A Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- The effects of new standards and interpretations issued but not yet effective.

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

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

During the year, the Company adopted the following new standards and interpretations: IFRS 16, Leases for the first time on 1 January 2019 and has not restated 2018 comparatives as allowed under the transitional provision of the new standard; IFRS 16 replaces IAS 17, Leases, IFRIC 4, Determining whether an arrangement contains a lease, SIC-15, Operating lease-incentives and SIC-27, Evaluating the substance of transactions involving the legal form of a lease. The standard sets out the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases in the balance sheet. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. The company completed a transitional impact assessment and identified no difference in recognition or measurement for the leases to which it is a party. Consequently, there has been no impact on transition to IFRS 16.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

Determination of fair values

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

The preparation of the financial report in conformity with FRS 101 requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed by the Directors on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

The key judgements that could affect the reported results are those concerning the going concern and determining the classification of lease arrangements entered into by the Company. Going concern is disclosed in Note 2.2. All leases entered into by the Company as lessor have been classified as operating lease.

Estimates

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.2 Going concern

The Company's financial statements are prepared on a going concern basis. In forming a view on the basis of preparation and the ability of the Company to pay its debts as they fall due, the Directors considered the contracted cash inflows and the continuing support of GAL, the parent entity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.3 Revenue recognition

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

Lease rental income

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

2.4 Finance expense

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

2.5 Restricted cash

Restricted cash relates to security deposits and maintenance reserves received from lessees under the terms of various leases and collateral placed with counterparties in relation to derivative positions.

Under certain of the Company's debt arrangements, payments received from lessees may be subject to withdrawal restrictions; such cash balances are considered restricted cash.

2.6 Financial instruments

On 1 January 2018, the Company adopted IFRS 9 Financial Instruments which introduced new requirements for the recognition and measurement of credit impairment provisions and the classification and measurement of financial instruments. As permitted, the Company elected to adopt the simplified approach in IFRS 9, to determine the loss allowance for lease receivables.

Initial recognition of financial instruments

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

Classification and Measurement

In IFRS 9, the classification and measurement categories are:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.6 Financial instruments (continued)

The classification requirements for debt and equity instruments are described below.

Debt instruments

In order to determine the measurement approach to be applied to a financial instrument, IFRS 9 requires an assessment of:

- The purpose for which the financial instrument is held – the business model assessment
- The cash flows associated with the instrument – in order to determine if those cash flows are solely payments of principal and interest (the 'SPPI' test).

Business model assessment

Under IFRS 9, the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. The business model reflects how the Company manages the assets in order to generate cash flows, and specifically, whether the Company's objective is to collect contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of the assets. If neither of these objectives are applicable where the financial assets are held for trading purposes, the assets are held at FVTPL.

The 'SPPI' test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent solely payments of principal and interest.

In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual cash flows introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety, when determining whether their cash flows are solely payments of principal and interest.

Debt instruments at amortised cost

Debt instruments are measured at amortised cost if two criteria are met: The asset fits a hold to collect business model whose objective is to hold the asset for the collection of cash flows and those cash flows represent SPPI.

Debt instruments at FVTPL

Debt instruments are classified as FVTPL if they are either held for trading, do not meet the SPPI criterion or otherwise designated at FVTPL on initial recognition.

Debt instruments are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.6 Financial instruments (continued)

In certain circumstances, financial assets and financial liabilities other than those that are held for trading are designated at FVTPL where this results in more relevant information, because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, or where the assets or liabilities are managed and their performance evaluated on a fair value basis.

Impairment

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

Under the simplified approach, impairment loss allowances are always measured at an amount equal to lifetime ECL. Lifetime ECL losses are the losses that result from all possible events of default over the expected life of the instrument.

Derecognition

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

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

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

Financial liabilities

The Company's financial liability categories are either 'other financial liabilities' or 'financial liabilities at fair value through the profit or loss'. Other financial liabilities include 'security deposits', 'loans and borrowings' and 'other payables' in the balance sheet.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. When a financial liability is extinguished for an amount that differs from the carrying value of the liability, the difference is recognised in the statement of profit or loss account and other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.7 Aircraft

Cost

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

Depreciation

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

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

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

Disposal of aircraft

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

Derecognition

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

Impairment

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.8 Leases

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

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

2.9 Other receivables

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

2.10 Other payables

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

2.11 Lease rental received in advance

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

2.12 Share capital

Ordinary shares are classified as equity.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.13 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

2.14 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. The amount of current tax payable or receivable in line with IFRIC 23 of the tax amount expected to be paid or received reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also included any tax arising from dividends.

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

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

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

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. Operating income

	2019 US\$	2018 US\$
Lease rental revenue	9,036,121	9,040,256
	<u>9,036,121</u>	<u>9,040,256</u>

Income arises from the leasing of aircraft under operating leases. All income is derived from leasing activities with airlines located in Australia.

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

	2019 US\$	2018 US\$
Within 1 year	9,040,256	9,040,256
More than 1 year but less than 5 years	36,161,024	36,161,024
Later than five years	4,520,128	13,560,384
Total	<u>49,721,408</u>	<u>58,761,664</u>

4. General and administration expenses

	2019 US\$	2018 US\$
Asset management fees	361,610	452,013
Other fees and expenses	27,462	141,237
	<u>389,072</u>	<u>593,250</u>

5. Finance expense

	2019 US\$	2018 US\$
Interest expense on loans	4,814,939	5,165,792
Amortisation of upfront fees	179,742	174,422
Swap interest (income)/expense	(182,900)	187,318
	<u>4,811,781</u>	<u>5,527,532</u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

6. (Loss)/profit on ordinary activities before tax

	2019 US\$	2018 US\$
The (loss)/profit is arrived at after charging:		
Directors remuneration (fees)	-	-
Directors remuneration (other)	-	-
Depreciation	3,070,824	3,070,824
Auditors' remuneration - Audit	3,500	3,500
Auditors' remuneration - Tax Advisory	-	-
Auditors' remuneration - Tax Compliance	2,431	2,081
Other non-audit services	-	-
	<u>3,076,755</u>	<u>3,076,405</u>

Maples Fiduciary Services (UK) Limited ("Maples") provides directors to the Company as part of its service under the corporate service agreement. The directors did not receive any remuneration during the year (2018: US\$Nil).

Auditors' remuneration arises solely on fees incurred for the statutory audit of the Company.

7. Taxation

	2019 US\$	2018 US\$
Current tax:		
Income tax expense for the year on ordinary activities	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	(145,513)	242,422
Changes in tax rates	(60,582)	(58,977)
Prior year over/under provision of deferred tax	(62,944)	86,895
Non deductible expenses (P.D.)	721,041	317,861
Total deferred tax	<u>452,002</u>	<u>588,201</u>
Tax charge for the year	<u>452,002</u>	<u>588,201</u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

7. Taxation (continued)

Factors affecting tax charge for the year

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

	2019 US\$	2018 US\$
(Loss)/profit on ordinary activities before tax	(1,183,595)	1,275,909
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 19% (2018: 19%)	(224,883)	242,423
Effects of:		
Prior year under provision of deferred tax	(62,944)	86,894
Expenses not deductible for tax purposes	800,411	317,861
Impact of change in tax rates	(60,582)	(58,977)
Total tax charge for the year	452,002	588,201

Factors that may affect future tax charges

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

Deferred tax

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

	2019 US\$	2018 US\$
Deferred tax assets		
At beginning of the year	842,825	953,513
Movement during the year	(701,288)	(110,688)
At end of the year	141,537	842,825
Deferred tax liabilities		
At beginning of the year	(2,042,704)	(1,565,191)
Movement during the year	249,286	(477,513)
At end of the year	(1,793,418)	(2,042,704)
Net deferred tax liabilities	(1,651,881)	(1,199,879)

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. Aircraft

	2019 US\$	2018 US\$
Cost:		
At beginning of the year	89,892,578	89,892,578
Additions during the year	-	-
Balance at end of the year	<u>89,892,578</u>	<u>89,892,578</u>
Accumulated depreciation:		
At beginning of the year	(9,991,053)	(6,920,229)
Current year depreciation	(3,070,824)	(3,070,824)
Balance at end of the year	<u>(13,061,877)</u>	<u>(9,991,053)</u>
Net book value at end of the year	<u><u>76,830,701</u></u>	<u><u>79,901,525</u></u>

At 31 December 2019, the Company owned two aircraft (2018: Two). The Company's obligations under the loans payable are secured by charge over, among other things, the Company's aircraft and other assets. During the year ended 31 December 2019, no impairment charge was recognised (2018: None).

9. Other receivables

	2019 US\$	2018 US\$
Other receivables	172,118	10,389
Prepaid loan interest - Junior Loan	178,822	65,734
	<u>350,940</u>	<u>76,123</u>

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

10. Restricted cash

	2019 US\$	2018 US\$
Restricted cash	8,723	5,261
	<u>8,723</u>	<u>5,261</u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

11. Loans payable

The balance of the loans as of 31 December 2019 is US\$73,582,363 (2018: US\$77,125,919), net of unamortised transaction fees of US\$470,268 (2018: US\$650,010) as outlined below. Aircraft lease rentals are fixed and structured to ensure that lease payments are sufficient to meet the debt funding over the term of the lease. The maturity date of the loans is 17 January 2023. Costs and fees incurred to secure the loans payable are capitalised and amortised over the term of the loans.

	2019 US\$	2018 US\$
Loan type:		
Senior loan	54,252,631	57,975,929
Junior loan	19,800,000	19,800,000
Total Loans Payable	<u>74,052,631</u>	<u>77,775,929</u>
Unamortised loan establishment fee	(470,268)	(650,010)
	<u>(470,268)</u>	<u>(650,010)</u>
Net Loans Payable	<u><u>73,582,363</u></u>	<u><u>77,125,919</u></u>
	2019 US\$	2018 US\$
Maturity analysis:		
Within 1 year	3,724,314	3,593,296
Greater than 1 year	69,858,049	73,532,623
Total Loans Payable	<u><u>73,582,363</u></u>	<u><u>77,125,919</u></u>

GAL MSN 41027 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

11. Loans payable (continued)

Key terms of debt facilities

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

At 31 December 2019

		2019
	<u>Nominal Interest Rate (%)</u>	<u>US\$</u>
Floating rate loans		
Senior Loans	LIBOR + 2.15	54,252,631
Fixed rate loans		
Junior Loans	11.00	19,800,000
		<u>74,052,631</u>

At 31 December 2018

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. Derivative (liabilities)/assets

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

	2019 US\$	2018 US\$
Fair value at beginning of the year	324,373	(741,146)
Change in fair value of derivative financial instrument through profit or loss	(1,948,293)	1,065,519
Fair value at end of the year	<u>(1,623,920)</u>	<u>324,373</u>

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

13. Other liabilities

	2019 US\$	2018 US\$
Loan interest payable	356,739	356,739
Payable to other group entities	322,544	290,692
Other payables	92,821	142,494
	<u>772,104</u>	<u>789,925</u>

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

14. Ordinary share capital

	2019 US\$	2018 US\$
Authorised		
1 Ordinary share of £1	<u>2</u>	<u>2</u>
Allotted, called up and fully paid		
1 Ordinary share of £1 each	<u>2</u>	<u>2</u>

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

GAL MSN 41027 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. Employees

Maples was appointed as corporate administrator effective from 5 January 2017. The Company has entered into a lease management agreement with Goshawk Management Limited (formerly Goshawk Management (Ireland) Limited) ("GML") to provide leasing and asset management services as per the service agreement however, the Company did not directly employ any persons during the year (2018: None). During the year, Maples received fees of US\$11,330 (2018: US\$11,790) for the provision of administration services to the Company. The fees were paid by GAL.

16. Capital commitments

At 31 December 2019 there are no outstanding capital commitments (2018: None).

17. Related party transactions

GML acts as leasing and asset manager of the Company. The fees charged by GML for year ended 31 December 2019 was US\$361,610 (2018: US\$452,013). The balance payable to GML at 31 December 2019 is US\$90,403 (2018: US\$90,403).

As at 31 December 2019, the Directors of the Company were employees or were affiliates of Maples. The Directors may be deemed to have an interest in the fees paid to Maples in their capacity as employees of Maples. Maples provides corporate administration services to the Company at commercial rates. The Directors fees for the year are US\$ Nil (2018: US\$Nil).

Junior financing was provided by GAL Dutch Finance B.V. on inception. Total interest charged for the year in respect of the junior financing was US\$2,208,250 (2018: US\$2,208,250) of which US\$65,734 (2018: US\$43,046) was prepaid as of year end. The total balance payable in respect of the junior loan provided at 31 December 2019 is US\$19,800,000 (2018: US\$19,800,000).

The balance payable to GAL as at 31 December 2019 was US\$322,544 (2018: US\$268,767).

18. Comparative information

The Company reclassified net deferred tax assets/liabilities account from current to non-current classification to correctly present the nature of the account. This reclassification did not materially affect the financial statements taken as a whole.

19. Charges of the Company

There are six registered charges between the Company and the Security Trustee, Norddeutsche Landesbank Girozentrale.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

20. Events after the end of the Reporting Date

Since the start of January 2020, the world has been monitoring and reacting to the novel coronavirus (COVID - 19). The virus has spread across the globe, resulting in widespread restrictions on the ability of people to travel, socialize and leave their homes; resulting in an unprecedented decline in global air traffic. Global financial markets have reacted sharply to this pandemic, with concerns regarding the economic impact this may have on a global scale, and which is expected to be material for the airline sector, and by extension the aircraft leasing sector.

The Company's ability to, among other things, service its obligations is dependent on the continued receipt of rental and other payments from its airline lessee customer who entered protective bankruptcy proceedings in April 2020 as a result of the corona virus aviation shutdown. Following a bid process, a private company was selected in late June 2020 as the successful bidder to take over the airline, with the takeover expected to progress in 2020. It is not possible for the Directors to estimate the outcome or timing of the takeover completing, or the financial effect, if any, of any arrangements if concluded, or other consequences the airline takeover on the Company's financial results or position. The Directors, with input from the Lease Manager, will continue to actively monitor the situation and the impact of the outcome for the Company.

There were no other events after the reporting date that would require revision of the results or financial position of the Company, or disclosure in the financial statements.

21. Parent undertaking

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

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

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

22. Approval of financial statements

The board of Directors approved these financial statements for issue on 30 June 2020