Castlelake Aviation Limited and Subsidiaries

Consolidated Financial Statements

For the Year ended December 31, 2022 and for the Period from August 6, 2021 (Inception) through December 31, 2021
With Report of Independent Auditors

Castlelake Aviation Limited and Subsidiaries

Consolidated Financial Statements - For the Year ended December 31, 2022 and for the Period from August 6, 2021 (Inception) through December 31, 2021

TABLE OF CONTENTS

Page

Building a better working world

Report of Independent Auditors

To the Board of Directors and Shareholders of Castlelake Aviation Limited

Opinion

We have audited the consolidated financial statements of Castlelake Aviation Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the periods ended December 31, 2022 and 2021, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group at December 31, 2022 and 2021, and the results of its operations and its cash flows for the periods ended December 31 2022 and 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 required to be independent of the Group and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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 of 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young

Ernst & Young
Dublin, Ireland
March 23, 2023

Castlelake Aviation Limited and Subsidiaries
Consolidated Balance Sheets
(U.S. dollars in thousands)

	Notes	December 31, 2022	December 31, 2021
Assets			
Cash and cash equivalents	3	$ 131,073	$ 156,319
Restricted cash	3	1,094	-
Trade receivables	8	10,196	18,035
Flight equipment held for operating leases, net	4	2,811,775	2,038,052
Maintenance right and lease premium, net	5	305,930	326,895
Net investment in finance lease	6	288,472	70,163
Other assets	7	414,158	136,211
Derivative assets	12	96,787	-
Deferred tax assets	13	42,819	56,804
Total Assets		**$ 4,102,304**	**$ 2,802,479**
Liabilities and Equity			
Accounts payable and accrued liabilities		$ 4,428	$ 8,532
Deferred rental income		12,706	9,747
Security deposits		26,906	23,649
Accrued maintenance liability	9	68,454	38,827
Derivative liabilities	12	4,661	18,404
Deferred tax liabilities	13	45,345	23,686
Debt	10	2,705,653	1,839,612
Total Liabilities		**2,868,153**	**1,962,457**
Ordinary share capital, $0.01 par value: 5,000,000 shares authorized, 1,060,062 shares and 812,814 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively		11	8
Additional paid-in capital		1,100,803	812,806
Accumulated retained earnings		39,737	28,538
Accumulated other comprehensive income/(loss)		93,600	(1,330)
Total Equity		**1,234,151**	**840,022**
Total Liabilities and Equity		**$ 4,102,304**	**$ 2,802,479**

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

Castlelake Aviation Limited and Subsidiaries
Consolidated Income Statements
(U.S. dollars in thousands)

	Notes	For the Year Ended December 31, 2022	For the period from August 6, 2021 (Inception) through December 31, 2021
Revenues and Other Income			
Rental income from operating and finance leases	11	$ 255,868	$ 41,823
Interest and other income		26,014	2,680
Gain on transfer to investment in finance lease	4	4,792	-
Total Revenues and Other Income		**286,674**	**44,503**
Expenses			
Interest expense	10	114,972	17,361
Depreciation	4	108,391	18,560
Maintenance and other costs		6,981	4,362
Selling, general and administrative expenses		22,751	4,144
Total Expenses		**253,095**	**44,427**
Net income before income tax expense		33,579	76
Income tax (expense)/benefit	13	(22,380)	28,462
Net Income		**$ 11,199**	**$ 28,538**

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

Castlelake Aviation Limited and Subsidiaries
Consolidated Statements of Comprehensive Income
(U.S. dollars in thousands)

	Notes	For the Year Ended December 31, 2022	For the period from August 6, 2021 (Inception) through December 31, 2021
Net income		$ 11,199	$ 28,538
Other comprehensive income:			
Net unrealized gain/(loss) on derivatives, net of tax	12	94,930	(1,330)
Total Comprehensive Income		**106,129**	**27,208**

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

Castlelake Aviation Limited and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(U.S. dollars in thousands)

	Number of ordinary shares issued	Ordinary share capital	Additional paid-in capital	Accumulated retained earnings	Accumulated other comprehensive (loss)/income	Total
Balance at August 6, 2021 (Inception)	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net change	812,814	8	812,806	28,538	(1,330)	840,022
Balance at December 31, 2021	**812,814**	**$ 8**	**$ 812,806**	**$ 28,538**	**$ (1,330)**	**$ 840,022**
Net change	247,248	3	287,997	11,199	94,930	394,129
Balance at December 31, 2022	**1,060,062**	**$ 11**	**$1,100,803**	**$ 39,737**	**$ 93,600**	**$ 1,234,151**

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

Castlelake Aviation Limited and Subsidiaries
Consolidated Statements of Cash Flows
(U.S. dollars in thousands)

	For the year ended December 31, 2022	For the period from August 6, 2021 (Inception) through December 31, 2021
Cash Flows from Operating Activities:		
Net income	$ 11,199	$ 28,538
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	108,391	18,560
Amortization of debt issuance cost	9,082	1,563
Lease premium amortization	17,029	3,366
Collection of finance leases	22,058	2,186
Maintenance expenses	-	3,147
Gain on transfer to investment in finance lease	(4,792)	-
Changes in assets and liabilities		
Receivables and other asset	1,523	(28,076)
Deferred tax asset	13,985	(56,804)
Deferred tax liability	21,658	23,686
Income tax effect on derivatives	(13,371)	-
Accounts payable and accrued liabilities	(1,460)	294,692
Deferred rental income	2,959	9,747
Net cash provided by operating activities	188,261	300,605
Cash Flows from Investing Activities:		
Cash paid for aircraft on operating lease	(926,133)	(2,131,147)
Cash paid for aircraft on finance lease	(187,620)	-
Cash paid for intangible assets	-	(346,933)
Cash paid for loan investment	(271,631)	(126,171)
Net cash used in investing activities	(1,385,384)	(2,604,251)
Cash Flows from Financing Activities:		
Net cash received from borrowings	910,339	1,631,000
Repayment of borrowings	(52,087)	(4,593)
Cash paid for security deposits	3,257	23,649
Net increase in maintenance reserves	29,627	38,827
Proceeds from issuance of shares	288,000	812,814
Debt issuance costs	(6,164)	(41,732)
Net cash provided by financing activities	1,172,972	2,459,965
Net (decrease)/increase in Cash, Cash Equivalents and Restricted Cash	(24,151)	156,319
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	156,319	-
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 132,168	$ 156,319
Supplemental Cash Flow Information:		
Cash paid for interest expense	$ 103,247	$ 8,451

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

Castlelake Aviation Limited and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022

Note 1 – Organization

Castlelake Aviation Limited (the "Company") is incorporated in the Cayman Islands and is tax resident in the Republic of Ireland. The Company was incorporated on August 6, 2021 (the "Inception") for the purpose of acquiring, marketing, leasing and selling newer generation and mid-life commercial aircraft and providing other aircraft financing solutions to its airline customers. Castlelake Aviation LLC, a company wholly owned by affiliates of Castlelake, L.P. ("Castlelake"), is the sole shareholder of the Company.

On October 22, 2021 (the "Closing Date"), the Company, Castlelake Aviation Finance Designated Activity Company ("CAF DAC"), a direct wholly owned subsidiary of the Company, and CAF DAC's subsidiaries (collectively, the "CA Group") acquired an initial portfolio of 66 commercial aircraft and other investment \entities and beneficial interests in trusts that held the Initial Portfolio. In connection with the acquisition of the Initial Portfolio, the CA Group acceded to certain liabilities associated with the assets acquired. The acquisition of these assets and liabilities was financed through the issuance of senior notes and the incurrence of loans under two term loan facilities and a revolving credit facility. The acquisition of the Initial Portfolio has been accounted for as an asset acquisition in accordance with U.S. GAAP.

As of December 31, 2022, there were 96 assets (2021: 73 assets) in the CA Group's portfolio, consisting of 78 aircraft on operating lease, 9 aircraft and aircraft assets on finance lease (collectively, the "Aircraft") and 9 secured loan receivable assets.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements and the related information in the footnotes have been prepared on a going concern basis and in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The CA Group consolidates all companies in which the CA Group has control under Accounting Standards Codification ("ASC") 810. All inter group balances and transactions with consolidated subsidiaries have been eliminated. The results of consolidated entities are included from the effective date of control. The results of subsidiaries sold or otherwise deconsolidated are excluded from the date that the CA Group ceases to control the subsidiary.

The consolidated financial statements are stated in U.S. dollars, which is the CA Group's functional currency.

Going Concern

The CA Group relies on lessees continuing performance of their lease obligations. The ability of each lessee to perform its obligations under its lease will depend primarily on such lessee's financial condition and cash flow, which may be affected by factors beyond the CA Group's control, including outbreaks of infectious diseases such as COVID-19 and global or regional conflicts.

While the continued outbreak of the COVID-19 pandemic and the measures adopted by the governments and countries worldwide to mitigate the pandemic's spread have significantly impacted CA Group's airline customers' operations and by extension the activities, financial results and position of the CA Group, the CA Group continues to have a reasonable expectation that the CA Group has adequate resources to continue in operation for at least the next 12 months based on the future cash flow analysis using contracted revenues, forecasted maintenance receipts and payments, debt obligations, capital commitments and current cash positions and that the going concern basis of preparation remains appropriate for the preparation of the financial statements as of December 31, 2022.

Since Russian troops invaded Ukraine in February 2022, the United States ("U.S."), European Union ("EU"), and United Kingdom ("UK"), among others, have imposed a broad range of sanctions and export controls on Russia and Russian businesses and individuals. Although the CA Group has no operations or customers in Russia or Ukraine and believes the direct impact of the conflict on its business will be limited, the CA Group believes it may be impacted indirectly, including by potential negative impacts on the business and prospects of its customers, delays in maintenance and conversion of its aircraft, and volatility in interest rates, commodity prices and foreign currency exchange rates. In light of the continuously evolving situation, it is impossible to predict the impact that the conflict will have on the CA Group's business and prospects.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the CA Group to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. While the CA Group believes that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. The most significant estimates are those in relation to the residual value and useful economic lives of flight equipment held for operating leases, the impairment of flight equipment held for operating leases, the proportion of supplemental maintenance rent that will not be reimbursed, the valuation allowance recognized against deferred tax assets, the recoverability of trade receivables and deferred operating lease revenue, the recoverability of loans receivable and key assumptions about the likelihood and magnitude of an outflow of resources for commitments and contingent liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less.

Restricted Cash

Restricted cash comprises cash held by the Group which is reserved or used as security for specific financing arrangements, and to which the Group does not have access for immediate or general business uses.

Trade Receivables

Trade receivables represent unpaid lessee obligations under existing lease contracts. Trade receivable are secured by security deposits or letters of credit held on behalf of airline customers. Any allowance for doubtful accounts is established on a specific identification basis and is maintained at a level believed by management to be adequate to absorb probable losses associated with trade receivables. The assessment of credit risk is primarily based on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of a debtor and the current economic and regulatory conditions of the debtor's operating environment. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows and consideration of current factors and economic trends impacting the lessees and their credit worthiness, all of which may be susceptible to significant change. Uncollectible rent receivables are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is recorded based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

A lessee is placed on non-accrual status once it is no longer probable that the CA Group will receive the economic benefits of the lease. Revenue from a lessee on non-accrual status is recognized to the extent cash is received. As at December 31, 2022 and 2021, no lessees were on non-accrual status.

Amounts are considered past due if they are owed past the contractual due date. Receivables are considered delinquent where the cash flows from a customer are not expected to the meet the contractual cash flows or where there is no reasonable expectation of receiving it, either in its entirety or a portion thereof. Write-offs will be charged where there is no reasonable expectation of the recovery of the receivable, either in its entirety or a part thereof. Considerations for evaluating a potential write-off included, but are not limited to;

- Changes in lessee's financial position such that the lessee can no longer pay the obligation; and
- Changes indicating security will not be sufficient to pay the obligation.

Investment in Finance Leases

If a lease meets specific criteria under U.S. GAAP, the CA Group recognize the lease as an investment in finance lease. The asset is considered sold for accounting purposes, so the aircraft is derecognized (including the maintenance rights asset and net lease premium) and the net investment in the lease, which represents the present value of minimum lease payments (including the unguaranteed residual value of the aircraft) is recorded in the Consolidated Balance Sheets. The difference between the net investment in the lease and the minimum lease payments (including the unguaranteed residual value) is recorded as unearned interest income. Also, under a sales-type lease, an immediate gain or loss on sale of aircraft is recognized representing the difference between the fair value of an asset subject to lease and the carrying value of the aircraft (including the maintenance rights asset and net lease premium). Interest on finance leases is recognized using the effective interest method. Lease income is recorded in decreasing amounts over the term of the contract, resulting in a constant rate of return on the net investment in finance leases.

Flight Equipment held for Operating Leases, net

Flight equipment are recorded at cost, less accumulated depreciation and impairment. Flight equipment is depreciated on a straight-line basis over their estimated useful lives to their estimated residual values. Generally, aircraft and equipment are depreciated over estimated useful lives of 25 years from the date of manufacture for widebody and narrowbody aircraft to an estimated residual value. Freighter aircraft are depreciated over estimated useful lives of 35 years from the date of manufacture to an estimated residual value. In addition, the useful lives of the aircraft are extended to the end of the lease term in situations where the lease term exceeds the useful life of the aircraft. The useful lives or the estimated residual values may be revised subject to the periodic re-evaluation of matters affecting specific aircraft or the aircraft industry in general. Initial direct costs incurred as part of the acquisition of flight equipment held for operating leases such as costs associated with identifying, negotiating, and delivering aircraft to the CA Group's lessees, which are specific to each aircraft, are capitalized at cost and depreciated over the estimated useful life of the asset. Modifications or improvements to flight equipment held for operating leases are normally expensed. Where such modifications or improvements materially improve the value of the asset or extend its useful life, these are capitalized and depreciated over the remaining economic life of the asset. The CA Group's estimates are reviewed periodically to ensure continued appropriateness.

Aircraft are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards Codification 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets (ASC 360-10)." The recognition of an impairment loss for an asset held for use is required when the estimate of undiscounted future cash flows expected to be generated by the asset is less than its carrying amount (net book value). Undiscounted future cash flows consist of cash flows from currently contracted leases, future projected lease cash flows, and an estimated disposition value, as appropriate, for each aircraft. Measurement of an impairment loss is to be recognized based on the amount by which the carrying amount (net book value) of an asset exceeds the fair value of the asset. The fair value reflects underlying economic value of the aircraft, which includes the appraisers' opinion of most likely trading prices that maybe generated by the aircraft under assumed current market circumstances.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represents accrued administrative and operating expenses which were due but unpaid as of the balance sheet date. These amounts are generally settled within one year.

Security Deposits

Security deposits on leased aircraft are generally paid by the lessee on the execution of the lease and are non-refundable during the term of the lease. The amounts are held as a security for the timely and faithful performance by the lessee of its obligations during the lease and are included on the Consolidated Balance Sheets. Security deposits are refundable to the lessees, based on the terms of the various aircraft lease agreements. The deposit may be applied against amounts owing from the lessee for rent or returned to the lessee on the termination of the lease. Security may also be held in the form or a letter of credit obtained by the lessee.

Accrued Maintenance Liability

Certain leases require the lessee to make payments to the lessor, calculated on measures of usage, to cover the expected costs of scheduled maintenance events which include major airframe and engine overhauls. All such amounts collected have been recorded as accrued maintenance liabilities and reimbursement payments to lessees are charged against such accrued maintenance liabilities.

In many cases where the lessee has paid maintenance reserves, those payments will be used to reimburse the lessee or the service provider for maintenance charges. The leases generally provide that any maintenance expenses incurred for the operation of the aircraft in excess of the amounts collected from lessees are the sole obligation of the lessees. Conversely, if maintenance expenses for the aircraft are less than the amounts collected from the lessees in respect of maintenance reserves, the leases generally provide for such excess reserves to remain the property of the lessor. The CA Group can elect to recognize maintenance reserves that are not expected to be reimbursed to lessees, as lease revenue, during the lease term when the CA Group has reliable information that the lessee will not require reimbursements of additional rentals based on a maintenance forecasting model. Where amounts not expected to be reimbursed are not certain, revenue is recognized at the end of the lease.

Except for a portion of the maintenance reserves that were transferred by the sellers to the CA Group on the Closing Date as a reserve for estimated maintenance obligations, the relevant sellers retained all maintenance reserves attributable to the period on or prior to the Closing Date under the relevant leases and any maintenance obligations in excess of the transferred reserves and amounts collected from lessees subsequent to the Closing Date will be the obligation of the CA Group.

Some leases provide that the lessor is required to contribute to the cost of certain future maintenance expenses based on the number of cycles or the amount of time various components have been in actual use before the inception of the lease. In the case of new leases with lessor contribution, if the lessor contribution amount can be quantified at lease commencement, such amount is considered a lease incentive asset and amortized over the remaining term of the related lease and recorded as a component of revenue. If the lessor contribution amount cannot be quantified, the amount will be capitalized when paid and amortized under the deferral method over the overhaul event life and recorded as a component of expense.

Lease Incentive Assets

At the beginning of each new lease, other than the first lease on a new aircraft, lessor contributions representing contractual obligations on the part of the CA Group to contribute to the lessee’s cost of the next planned major maintenance event, expected to occur during the lease, are established. Lessor contributions represent a lease incentive and are recorded as a charge against lease rental income over the life of the associated lease. The CA Group regularly reviews the level of lessor contributions to cover its contractual obligations under current lease contracts and makes adjustments as necessary.

Lease Premiums/Discounts

The CA Group identifies, measures, and accounts for lease premiums and discounts associated with its acquisitions of aircraft with in-place leases. Lease premiums/discounts represent the value of an acquired long-term lease where the contractual rent payments are above/below the market lease rate at the date of acquisition. These assets/liabilities are recognized at cost and amortized on a straight-line basis over the remaining term of the related lease and recorded as a component of revenue.

Maintenance Right Assets/Liabilities

The CA Group identifies, measures, and accounts for maintenance right assets and liabilities associated with acquisitions of aircraft with in-place leases. A maintenance right asset is recognized at the acquisition date when the maintenance condition of the aircraft at the acquisition date is less than the return condition required by the in-place lease. Alternatively, when the maintenance condition of the aircraft at the acquisition date is greater than the return condition called for in the in-place lease, a maintenance right liability could exist. However, in most cases, a liability related to the maintenance condition of the asset is not recorded at the time of acquisition. Based on the return condition of the aircraft, a maintenance liability is only recorded in circumstances when payment to the lessee at the end of the lease is required, based on the maintenance condition of the aircraft at the end of the lease.

For a maintenance reserve paying lessee, the lessee submits a claim upon the occurrence of a qualifying maintenance event. Upon payment of the claim, the maintenance liability is reduced, and qualifying maintenance costs are capitalized by reclassifying the maintenance right asset to a component of the aircraft. The depreciation of the component under U.S. GAAP is recorded over the estimated useful life of the maintenance component.

If, upon expiration of the lease, there is an amount which has not been reimbursed to the lessee for qualifying maintenance events, the CA Group will relieve the maintenance right asset against the maintenance reserve liability, with the excess of the maintenance reserve liability over the maintenance right asset recognized as end of lease income. The reduction of the maintenance right asset represents improvements which were expected to be made to the aircraft as of the acquisition date but did not occur over the term of the lease.

For end of lease return condition (EOL) leases, at the expiration of the leases, the CA Group obtains from the lessees detailed information regarding the maintenance condition of the aircraft. When the maintenance right asset is settled through an improved aircraft at the end of the lease, the maintenance right is relieved, and an aircraft component is recorded to the extent the improvement is substantiated and deemed to otherwise meet the CA Group's capitalization policy for major maintenance. When the maintenance right asset is settled through a cash payment from the lessee, the cash payment from the lessee is applied to the maintenance right asset. Cash received in excess of the maintenance right asset is recorded as end of lease income. Thereafter, the amortization policy as noted previously will be followed. In the event an EOL lessee notifies the CA Group of a qualifying maintenance event during the lease term, the qualifying costs will be reclassified from the maintenance right asset to a component of the aircraft at the time of the qualifying event.

For EOL lessees, if the CA Group is obligated under the terms of the lease to pay the lessee based on an aircraft being returned in an improved condition, a liability is recorded for the estimated amount to be paid when the amount is both probable and estimable. When the amount is paid to the lessee, an offset is taken against the maintenance liability. If the CA Group makes a payment that does not fully offset the liability (but fully relieves its contractual obligation), the remainder of the liability would be relieved through end of lease income. To the extent the payment made is in excess of the obligation previously recorded, the difference will be capitalized to the extent the improvements are substantiated and meet capitalization requirements.

Debt

Debt is carried at its principal amount borrowed, including unamortized discounts and premiums, and deferred financing charges, where applicable. The amount of discounts and premiums are amortized over the period the debt is outstanding using the effective interest method. The costs incurred for issuing debt are capitalized and amortized as an increase to interest expense over the life of the debt using the effective interest method.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Income Statements and Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The CA Group recognizes an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

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 tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets attributable to unutilized losses carried forward or other timing differences are reduced by a valuation allowance if it is more likely than not that such losses will not be utilized to offset future taxable income. The key judgements associated with the accounting for valuation allowances in respect of deferred tax assets relate primarily to:

- Profit projections which are consistent with forecasts used to support other areas of financial reporting such as impairment analysis;
- Contractually committed lease agreements which support a future income stream in excess of the costs required to service the lease; and
- Assumed disposal proceeds.

Rental Income

At lease inception, the CA Group reviews all necessary criteria to determine proper lease classification. Revenue under operating leases is generally recognized as rental income on a straight-line basis over the lease term. Usage rent is calculated based on hourly usage or cycles operated, depending on the lease agreement. Usage rent is recorded as revenue as it is earned under the terms of the lease. Rent earned but not received are recorded in trade receivables and rent received but unearned are recorded in deferred rental income on the Consolidated Balance Sheets until they are earned.

The CA Group periodically evaluates the collectability of the operating lease contracts to determine the appropriate revenue recognition and measurement model to apply to each lessee. Accrual-based revenue recognition ceases on an operating lease contract when the collection of the rental payments is no longer probable and thereafter rental revenues are recognized using a cash receipts basis ("Cash Accounting").

At each reporting date, the CA Group applies significant judgment in assessing whether operating rental payments are probable of collection by reference to the credit status of each lessee, including lessees in bankruptcy-type arrangements, the extent of overdue balances and other relevant factors. In the period when collection of lease payments is no longer probable, any difference between revenue amounts recognized to date under the accrual method and payments that have been collected from the lessee, including security deposit amounts held, is recognized as a current period adjustment to lease revenue. Subsequently, revenues are recognized based on the lesser of the straight-line rental income or the lease payments collected from the lessee until such time that collection is probable.

Under most of our aircraft leases, the lessee is responsible for maintenance, repairs and other operating expenses during the term of the lease. Under the provisions of many of the leases, the lessee is required to make payments of supplemental maintenance rents which are calculated with reference to the utilization of the airframe, engines and other major life-limited components during the lease. The CA Group records as lease revenue all supplemental maintenance rent receipts not expected to be reimbursed to the lessee.

Other income consists of interest revenue, management fee revenue, lease termination fees, insurance proceeds, and income related to other miscellaneous activities. Interest revenue from secured loans, notes receivable and other interest-bearing instruments is recognized using the effective yield method as interest accrues under the associated contracts. Management fee revenue is recognized as income as it accrues over the life of the contract. Income from the receipt of lease termination penalties is recorded at the time cash is received or when the lease is terminated, if revenue recognition criteria are met.

Allowance for credit losses

The CA Group is exposed to credit losses on its net investment in finance leases, loan receivables from customers and lease deferrals provided to its airline customers. The CA Group's investment in finance leases, loan receivable and lease deferrals credit exposure reflect the risk that its customers fail to meet their payment obligations and the risk that the aircraft value in a finance lease is less than the unguaranteed residual value.

The CA Group estimates the expected risk of loss over the remaining life of a lease using a probability of default and net exposure analysis. The probability of default is estimated based on historical cumulative default data, adjusted for current conditions of similarly risk rated counterparties over the contractual term. The net exposure is estimated based on the exposure, net of collateral, including security deposits and maintenance-related deposits and aircraft where applicable, over the contractual term.

Current expected credit loss provisions are included in the rental income from operating and finance leases in the CA Group's Consolidated Income Statements, with a corresponding allowance for credit loss amount reported as a reduction in the carrying amount of the net investment in finance leases, loan receivables which are included in other assets and lease deferrals which are included in trade receivables on the Consolidated Balance Sheets. A write-off is recognized when all or part of the investment in net finance leases, loan receivable asset or lease deferrals is deemed uncollectable. Write-offs are charged against previously established allowances for credit losses. Partial or full recoveries of amounts previously written off are generally recognized as a reduction in the provision for credit losses. Please refer to Note 8—Allowance for credit losses for further details.

Derivative Financial Instruments

The CA Group uses derivative financial instruments to manage its exposure to interest rate risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the Consolidated Balance Sheets as either a freestanding asset or liability. Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income (loss), net of tax, until earnings are affected by the variability of cash flows of the hedged item. Any derivative gains or losses that are not highly effective in hedging the variability of expected cash flows of the hedged item or that do not qualify for hedge accounting treatment are recognized directly into income.

At the hedge's inception and at least every reporting period thereafter, a formal assessment is performed to determine whether changes in cash flows of the derivative instrument have been highly effective in offsetting changes in the cash flows of the hedged items and whether they are expected to be highly effective in the future. The CA Group discontinues hedge accounting prospectively when (i) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; or (iii) it determines that designating the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the derivative instrument is carried at its fair market value on the Consolidated Balance Sheets with changes in fair value recognized in current-period earnings. The remaining balance in accumulated other comprehensive income (loss) associated with the derivative that has been discontinued is not recognized in the income (loss) statement unless it is probable that the forecasted transaction will not occur. Such amounts are recognized in earnings when earnings are affected by the hedged transaction.

Fair Value of Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The CA Group determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized into one of the following levels:

Level 1 –Quoted prices in active markets for identical assets or liabilities.

Level 2 –Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 –Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Foreign Currency Transactions

All of the CA Group's lessees pay in U.S.dollars. Certain expenses are paid in foreign currencies and are recorded at the U.S.dollar equivalent on the payment date of that transaction. Monetary assets and liabilities denominated in foreign currencies are re-measured into U.S. dollars at the exchange rate prevailing at the balance sheet date. All resulting exchange gains and losses are recorded in administrative and other expenses in the Consolidated Income Statements.

Equity

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Reportable segments

The CA Group manages its business and analyze and report its results of operations on the basis of one business segment: leasing, financing, sales and management of commercial aircraft and engines.

Recently Issued Accounting Standards

ASU 2022-01, Fair Value Hedging – Portfolio Layer Method (Topic 815)
In March 2022, the FASB issued ASU 2022-01, Fair Value Hedging – Portfolio Layer Method (Topic 815). The new guidance is effective for reporting periods beginning after December 15, 2022, and interim periods within those fiscal years. The guidance allows nonprepayable financial assets to be included in a closed portfolio hedged using the portfolio layer method allowing entities to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets. The CA Group has reviewed the impact of the initial application of amendments and determined that there is no significant impact for the Group.

ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures (Topic 326)
In March 2022, the FASB issued ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures (Topic 326). The new guidance is effective for reporting periods beginning after December 15, 2022, and interim periods within those fiscal years. The guidance removes the recognition and measurement guidance on troubled debt restructurings for creditors that have adopted amendments in Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and enhances disclosures provided about certain modifications of receivables to debtors experiencing financial difficulty. The CA Group has reviewed the impact of the initial application of amendments and determined that there is no significant impact for the Group.

ASU 2022-06—Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848
In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. The objective of the guidance in Topic 848 provides temporary relief during the transition period. The amendment in this Update allows the deferral of the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The inclusion of the sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. The guidance intends that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after December 31, 2021. The CA Group has reviewed the impact of the initial application of amendments and determined that there is no significant impact for the Group.

Note 3 – Cash, Cash Equivalents and Restricted Cash

The CA Group maintains various cash accounts as required by the lenders and the facility providers, including collateral accounts, security deposit accounts and maintenance reserve accounts.

The CA Group held cash and cash equivalents of $131.1 million and $156.3 million at December 31, 2022 and 2021, respectively.

The CA Group's restricted cash was $1.1 million as of December 31, 2022 related to a reserve for the TL 2 defined in Note 10 – Debt. The CA Group did not have any restricted cash at December 31, 2021.

Note 4 –Flight Equipment held for Operating Leases, net

As of December 31, 2022 and 2021, flight equipment held for operating leases, net were as follows (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
Flight Equipment held for Operating Leases, net	$ 2,811,775	$ 2,038,052

Movements in flight equipment held for operating leases during the year ended December 31, 2022 and the period ended December 31, 2021 were as follows (U.S. dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
Opening balance	$ 2,038,052	$ -
Additions	926,133	2,056,612
Reclassification	3,936	-
Transfers to investment in finance lease	(47,955)	-
Depreciation	(108,391)	(18,560)
Net book value at end of year/period	$ 2,811,775	$ 2,038,052
Accumulated depreciation	$ (126,951)	$ (18,560)

During the year ended December 31, 2022, the CA Group acquired 16 aircraft subject to operating leases and two aircraft were transferred from flight equipment held for operating leases to aircraft under finance leases and a gain of $4.8 million was recorded.

During the year ended December 31, 2022 $3.9 million was reclassified from lease premium and maintenance right assets and such reclassification is considered non-cash activity.

As of December 31, 2022, the CA Group's aircraft portfolio consisted of 78 aircraft on lease to 18 different lessees in 13 different countries.

During the period from the Inception through December 31, 2021, the CA Group acquired 64 aircraft subject to operating leases.

As of December 31, 2021, the CA Group's aircraft portfolio consisted of 64 aircraft held for operating lease which was made up of 63 aircraft on lease to 13 different lessees in 10 different countries and one aircraft was off lease.

The following table sets forth the regional concentration based on each lessee's principal place of business of the CA Group's flight equipment held for operating leases based on net book value as of December 31, 2022 and 2021 (U.S. dollars in thousands, except percentages):

Region	December 31, 2022 Net Book Value	December 31, 2022 % of Total	December 31, 2021 Net Book Value	December 31, 2021 % of Total
Europe, Middle East and Africa (EMEIA)	$ 189,875	7 %	$ 155,959	8 %
Asia Pacific (APAC)	1,570,346	56 %	1,126,283	55 %
Americas	1,051,554	37 %	731,418	36 %
Off lease	-	- %	24,392	1 %
Total	$ 2,811,775	100 %	$ 2,038,052	100 %

Note 5 – Maintenance Right Assets and Lease Premiums, net

Maintenance rights assets and lease premium, net consisted of the following as of December 31, 2022 and 2021 (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
Lease Premium	$ 85,701	$ 103,484
Maintenance Right Asset	220,229	223,411
	$ 305,930	$ 326,895

As of December 31, 2022, lease premium and maintenance right asset/(liability) were as follows (U.S. dollars in thousands):

	Lease Premium	Maintenance Right Asset
Cost:		
Opening balance	$ 103,484	$ 223,411
Reclassification	(754)	(3,182)
Amortization charge for the year	(17,029)	-
	$ 85,701	$ 220,229

As of December 31, 2021, lease premium and maintenance right asset/(liability) were as follows (U.S. dollars in thousands):

	Lease Premium	Maintenance Right Asset
Cost:		
Opening balance	$ -	$ -
Addition	106,850	240,083
Write off	-	(16,672)
Amortization charge for the period	(3,366)	-
	$ 103,484	$ 223,411

Note 6 – Net Investment in Finance lease

As of December 31, 2022 and 2021, nine and two leases were accounted for as finance leases, respectively. As of December 31, 2022 and 2021, seven and two leases had a purchase option in place. During the year ended December 31, 2022, the CA Group acquired five aircraft and aircraft assets subject to finance leases and two aircraft were transferred from operating lease to finance lease. The following tables list the components of the net investment in finance lease as of December 31, 2022 and 2021 (U.S. dollars in thousands):

	December 31, 2022		December 31, 2021	
Total lease payments to be received	$	373,161	$	88,439
Less: Unearned income		(84,689)		(18,276)
Allowance for credit losses		-		-
Net investment in finance lease	$	288,472	$	70,163

Included within total lease payments to be received as at December 31, 2022 is $245.6 million in relation to the recognition of five finances leases as well as $51.6 million in relation to two operating leases transferred to finance lease during the period.

	December 31, 2022		December 31, 2021	
Opening balance	$	70,163	$	-
Additions		187,620		-
Transfer from operating lease		47,955		72,349
Gain on transfer from operating lease		4,792		-
Principal repayments		(22,058)		(2,186)
Net investment in finance lease	$	288,472	$	70,163

During the year ended December 31, 2022 and the period ended December 31, 2021, the CA Group recognized interest income from net investment in finance leases of $17.5 million and $2.7 million, respectively, included in Rental income from operating and finance leases.

At December 31, 2022, future scheduled minimum lease payments to be received under finance leases were as follows (U.S. dollars in thousands):

2023	$	92,553
2024		38,401
2025		36,697
2026		35,029
2027		33,360
Thereafter		137,121
Undiscounted cash flows receivable		373,161
Less: Unearned income		(84,689)
Allowance for credit losses		-
Total	$	288,472

Note 7 – Other Assets

At December 31, 2022 and 2021, the principal components of the CA Group's other assets were as follows (U.S. dollars in thousands):

	December 31, 2022		December 31, 2021	
Interest receivables	$	6,544	$	2,023
Loan receivables, net		395,218		126,171
Other assets		12,396		8,017
Total	$	414,158	$	136,211

Loan receivables of $395.2 million at December 31, 2022 is presented net of unamortized upfront fees and re-measurement adjustments (the "Loan Adjustments"). The net loan receivable amounts consist of $116.7 million to an Asia Pacific based airline, $60.1 million to two EMEIA based lessors and $218.4 million to an EMEIA based airline.

The loan provided to the Asia Pacific based airline accrues interest at a fixed rate of 11.75% per annum and is secured by charges over intellectual property of the airlines and aircraft inventory and share charges over certain companies owned by the Asia Pacific based airline. As of December 31, 2022, $116.7 million is drawn down.

Loans of $60.1 million provided to two EMEIA based lessors accrues interest at a fixed rate of 8% per annum and are secured against aircraft owned by the lessors. As of December 31, 2022, there are no undrawn amounts or available commitments under these loans.

The loans provided to the EMEIA based airline accrues interest at fixed rate of 7.87 % and 8.16% per annum and are secured by an assignment of the certain rights of the airline under the relevant aircraft purchase agreement. As of December 31, 2022, $221.5 million is drawn down with an undrawn portion of $21.5 million.

The following table provides a summary of the anticipated principal payments under outstanding loan receivables as of December 31, 2022 and 2021 (U.S. dollars in thousands):

	December 31, 2022		December 31, 2021	
2023	$	116,783	$	-
2024		108,785		-
2025		3,600		-
2026		70,266		66,667
2027		3,600		-
Thereafter		107,100		72,000
Loan adjustments		(14,916)		(12,496)
Total	$	395,218	$	126,171

Other assets of $12.4 million (2021: $8.0 million) primarily consists of prepaid expenses, capitalized expenses, other receivables, VAT receivables and debt costs associated with the secured revolving credit facility**.** Other receivables relates to a bank guaranteed amount supported by a letter of credit in favor of an entity within the CA Group that is expected to be received in 2024.

Note 8 – Allowance for credit losses

The CA Group is exposed to credit losses on its net investment in finance leases, loan receivables from customers and lease deferrals provided to its airline customers. The CA Group's investment in finance leases, loan receivable and lease deferrals credit exposure reflect the risk that its customers fail to meet their payment obligations and the risk that the aircraft value in a finance lease is less than the unguaranteed residual value.

The CA Group estimates the expected risk of loss over the remaining life of a lease using a probability of default and net exposure analysis. The probability of default is estimated based on historical cumulative default data, adjusted for current conditions of similarly risk rated counterparties over the contractual term. The net exposure is estimated based on the exposure, net of collateral, including security deposits and aircraft where applicable, over the contractual term.

As of December 31, 2022 and 2021, no expected credit loss was recognized for loan receivables, other receivables and net investment in finance leases. An evaluation in accordance with ASC 326 Financial Instruments – Credit Losses was completed, and it was deemed that no expected credit loss was required.

As of December 31, 2022, trade receivables of $10.2 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (U.S. dollars in thousands):

	Lease deferrals	Trade Receivables	Total
Balance (Gross)	$ 56,473	$ 5,245	$ 61,718
Allowance for bad debts	-	(4,860)	(4,860)
Expected credit loss	(46,662)	-	(46,662)
Total	$ 9,811	$ 385	$ 10,196

As December 31, 2021, trade receivables $18.0 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (U.S. dollars in thousands):

	Lease deferrals	Trade Receivables	Total
Balance (Gross)	$ 59,520	$ 2,960	$ 62,480
Allowance for bad debts	-	(1,208)	(1,208)
Expected credit loss	(43,237)	-	(43,237)
Total	$ 16,283	$ 1,752	$ 18,035

The movement in expected credit loss and allowance for bad debts during the year is as follows:

	Allowance for Bad Debts	Expected Credit Loss	Total
Opening balance	$ (1,208)	$ (43,237)	$ (44,445)
Charge for the year	(3,652)	(3,425)	(7,077)
Bad debt recoveries	2,782	-	2,782
Total	$ 2,078	$ 46,662	$ 48,740

At December 31, 2022 there was a net expected credit loss charge of $4.3 million recognized in the Consolidated Income Statements. This consisted of a charge of $7.1 million which was offset by $2.8 million recoveries during the year.

Note 9 – Accrued Maintenance liability

As of December 31, 2022 and 2021, accrued maintenance liability were as follows (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
Accrued maintenance liability	$ 68,454	$ 38,827

Movements in accrued maintenance liability during the year ended December 31, 2022 and the period ended December 31, 2021 were as follows (U.S. dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
Opening balance	$ 38,827	$ -
Maintenance liability assumed	-	49,866
Maintenance payments received	29,627	2,437
Release to income other than upon sale	-	(13,476)
Accrued maintenance liability at end of year/period	$ 68,454	$ 38,827

Note 10 – Debt

The CA Group's outstanding indebtedness consists of senior unsecured notes ("HYB"), senior secured term loan B ("TLB"), four term loan facilities ("TL 1", "TL 2", "TL 3" and "TL 4") and a secured revolving credit facility ("RCF") (together the "Debt").

The outstanding principal balances, unamortized discount, legal maturity dates and interest rates of the Debt at December 31, 2022 and 2021 were as follows (U.S. dollars in thousands):

			Balances as of	
Type	Maturity	Interest Rate	December 31, 2022	December 31, 2021
Unsecured				
HYB	4/2027	5.00%	$ 420,000	$ 420,000
Secured				
TLB	10/2026	3 month LIBOR (0.5% floor)+2.75%	1,165,250	1,177,050
TL 1	5/2024	1 month LIBOR+2.15%	237,201	244,800
TL 2	6/2024	Compounded SOFR+3.95%	109,439	-
TL 3	6/2034	5.7240% & 5.7170%	133,632	-
TL 4	9/2034	Cumulative Compounded RFR + 1.57%	125,679	-
RCF	12/2024	Term SOFR+2.10%	539,900	31,000
Total secured			2,311,101	1,452,850
Accrued interest			11,684	6,813
Debt issuance costs and debt discounts			(37,132)	(40,051)
Total debt			$ 2,705,653	$ 1,839,612

Interest and principal payments on the Debt during the year ended December 31, 2022 were as follows (U.S. dollars in thousands):

	Interest	Principal
HYB	$ 20,592	$ -
TLB	51,841	11,800
TL 1	8,903	7,599
TL 2	3,317	-
TL 3	1,473	868
TL 4	804	320
RCF	14,044	31,500
Total interest payments and principal repayment	$ 100,974	$ 52,087

The total interest expense during the year ended December 31, 2022 and the period ended December 31, 2021 was comprised of the following (U.S. dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
HYB	$ 20,927	$ 4,083
TLB	54,278	7,453
TL 1	9,371	1,151
TL 2	3,735	-
TL 3	1,749	-
TL 4	1,147	-
RCF	14,638	772
Amortization of debt issuance cost	9,082	1,563
Derivatives	45	2,339
Total	$ 114,972	$ 17,361

In June, October, and November 2022, the CA Group entered into a TL 2, TL 3, and TL 4, respectively, which were secured by, among other things, a pledge of the shares of the borrower entity within the CA Group.

As of December 31, 2022, $539.9 million was drawn down from the RCF leaving an undrawn amount of $410.1 million and $109.5 million was drawn down from the TL 2 leaving an undrawn amount of $13.9 million. As of December 31, 2022, TL 3 and TL 4 were fully drawn down.

The HYB is guaranteed on a senior unsecured basis by the Company and certain subsidiaries of CAF DAC.

As of December 31, 2022, TLB, TL 1, TL 3 and TL 4 are secured by 69 aircraft, while RCF is secured by 17 aircraft assets.

As of December 31, 2022, TLB and TL are secured by 63 aircraft, while the RCF is secured by 1 aircraft.

At December 31, 2022 and 2021, the CA Group remained in compliance in all material respects with the covenants in the agreements governing its Debt.

Maturities of debt outstanding as of December 31, 2022 and 2021 are as follows (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
2022	$ -	$ 21,247
2023	78,096	21,658
2024	861,362	237,295
2025	27,750	11,800
2026	1,146,728	1,160,850
2027	437,832	-
Thereafter	179,333	420,000
Total	$ 2,731,101	$ 1,872,850

Note 11 – Rental Income from Operating and Finance Leases

The following table details rental income, net of expected credit losses, provision for bad debts and bad debt recoveries, by geographical source during the year ended December 31, 2022 and period ended December 31, 2021 (U.S dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
Europe, Middle East and Africa (EMEA)	$ 19,490	$ 3,518
Asia Pacific (APAC)	141,424	26,852
Americas	111,983	14,819
Lease premium amortization (Note 5)	(17,029)	(3,366)
Total	$ 255,868	$ 41,823

Total rental income above includes interest income from net investment in finance leases of $17.5 million and $2.7 million, respectively for the year ended December 31, 2022 and the period ended December 31, 2021, respectively, as disclosed in Note 6 – Net Investment in Finance lease.

The CA Group's top five customers represented 78% of total rental income from operating and finance leases for the year ended December 31, 2022 and three customers each accounted for 10% or more of total rental revenues at 31%, 23% and 10%. At December 31, 2022, 24 of the operating leases provide for unexpired extension options and one of the operating leases provides for an unexpired early termination option.

During the period from Inception to December 31, 2021 the CA Groups' top five customers lessees accounted for 84% of total rental income from operating and finance leases and three airlines each accounted for 10% or more of total operating lease revenue at 29%, 25% and 19%. At December 31, 2021, 24 of the operating leases provide for unexpired extension options and one of the operating leases provides for an unexpired early termination option.

At December 31, 2022 and 2021, the CA Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
2022	$ -	$ 222,033
2023	332,677	224,198
2024	337,677	229,197
2025	302,286	209,121
2026	289,750	-
2027	273,970	-
Thereafter	1,427,347	1,314,744
Total	$ 2,963,707	$ 2,199,293

During the year ended December 31, 2022, the CA Group recognized an allowance for net expected credit losses of $4.3 million, classified in operating rental income and other income, in respect of the CA Group's deferred operating lease revenue balance and late payment charges, respectively, at December 31, 2022. See Note 8 - Allowance for credit losses.

Note 12 – Derivative Financial Instruments

The CA Group entered into interest rate swaps to hedge the current and future interest rate payments of a portion of external debt which has an underlying variable interest rate. As of December 31, 2022 and 2021, the underlying variable benchmark interest rates under the interest swaps were three-month U.S. dollar LIBOR and three-month U.S. dollar SOFR.

The counterparties to the interest rate swaps are major international financial institutions. The CA Group continually monitors its positions and the credit ratings of the counterparties involved and limit the amount of credit exposure to any one party. The CA Group could be exposed to potential losses due to the credit risk of non-performance by these counterparties. The CA Group has not experienced any losses to date.

The following table presents the notional amounts and estimated fair values of the CA Group's derivatives as of December 31, 2022 and 2021, (U.S. dollars in thousands):

	December 31, 2022		December 31, 2021	
	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Derivative assets (liabilities) designated as accounting cash flow hedges:				
Interest rate swaps asset (liability)	$ 1,400,221	$ 95,094	$ 860,000	$ (17,870)
Accrued interest		1,693		(534)
Derivative asset		$ 96,787		$ (18,404)
Interest rate swaps asset (liability)	428,043	(4,661)	$ -	$ -
	$ 1,828,264	$ 92,126	$ 860,000	$ (18,404)

Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income/(loss), net of tax, until earnings are affected by the variability of cash flows of the hedged item.

The CA Group recorded the following in other comprehensive gain related to derivative financial instruments for the year ended December 31, 2022 and the period ended December 31, 2021 (U.S. dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
Effective portion of change in fair market value of derivatives designated as cash flow hedges:		
Interest rate swaps	$ 108,302	$ (1,330)
Income tax effect	(13,371)	-
Net gain (loss) on derivative, net of tax	$ 94,931	$ (1,330)

Note 13 – Income Taxes

The following table presents the CA Group's income tax expense/(benefit) for the year ended December 31, 2022 and period ended December 31, 2021 (U.S. dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
Current tax expense	$ 108	$ -
Deferred tax expense/(benefit)	22,272	(28,462)
Provision for income taxes	$ 22,380	$ (28,462)

The following table provides a reconciliation of the statutory income taxes for the year ended December 31, 2022 and year ended December 31, 2021 (U.S. dollars in thousands):

	Year Ended December 31, 2022	Period Ended December 31, 2021
Effective tax reconciliation		
Earnings before income tax	$ 33,579	$ 76
Expected tax at 12.5%	4,197	10
Non taxable foreign income	$ 60	$ (738)
Fair value uplift on aircraft	-	21,020
Income taxed at higher rate	379	1,638
Derecognition of previously recognized deferred tax assets in acquired subs	-	4,426
Current year unrecognized deferred tax asset	3,686	1,446
Recognition of deferred tax asset	-	(56,264)
Prior year under provision of current tax	101	-
Movement in provision for deferred tax	13,957	-
Income tax expense/(benefit)	$ 22,380	$ (28,462)

As of December 31, 2022 and 2021, deferred tax assets and deferred tax liabilities were as follows (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
Deferred tax assets	$ 42,819	$ 56,804
Deferred tax liabilities	(45,345)	(23,686)

Effective from 1 January 2022, the Group elected to no longer subject sixteen of the aircraft asset owning entities to Irish corporation tax under the rules outlined within section 110 of the Taxes Consolidation Act 1997, instead opting to tax those entitles as trading companies.

The calculation of income for tax purposes differs significantly from book income. Deferred tax is provided to reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured under tax law in the various jurisdictions. Tax loss carry forwards and accelerated tax depreciation on flight equipment held for operating leases give rise to the most significant timing differences. The effective tax rate is impacted by the source and amount of earnings among our different tax jurisdictions, the amount of permanent tax differences relative to pre-tax income and an increase in valuation allowance for an amount of unrecognized tax losses.

The following tables provide details regarding the principal components of the CA Group's deferred tax (assets) and liabilities as of December 31, 2022 and 2021 (U.S. dollars in thousands):

	December 31, 2022	December 31, 2021
Tax written down value in excess of net book value at higher rate	$ -	$ 39,939
Losses forward at higher rate	(22,562)	(93,149)
Tax written down value in excess of net book value at standard rate	70,704	20,098
Losses forward at standard rate	(58,988)	(6)
Deferred tax on swaps	13,372	-
Deferred tax liabilities (assets), net	$ 2,526	$ (33,118)

As of December 31, 2022 and 2021, the CA Group had total recognized and unrecognized net operating loss carryforwards of $596.3 million and $467.6 million, all of which can be carried forward indefinitely. Considering uncertainty of future taxable income, deferred tax assets of $4.2 million and $16.3 million have not been recognized on net operating tax losses carryforward of $33.7 million and $94.9 million as of the same dates.

The CA Group's primary tax jurisdiction is Ireland. The tax returns in Ireland for Castlelake Aviation Limited and the entities that were incorporated in 2021 are open for examination by the Irish Revenue from 2021 onwards. There were a number of existing entities which were acquired by Castlelake Aviation Limited in 2021; tax returns for these entities remain open for enquiries by Irish Revenue for four years from the end of the year in which a particular return is filed.

At December 31, 2022 and 2021, substantially all of the unrecognized tax benefits if recognized, would impact the CA Group's effective tax rate. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, the CA Group does not expect any change to be material to the Consolidated Balance Sheets.

Note 14 – Commitments and Contingencies

As of December 31, 2022, the CA Group was under an agreement for purchase and leaseback transactions for 40 aircraft (and associated financing of seven of these 40 aircraft) of which 2 aircraft delivered in 2023. Commitments for the acquisition of these aircraft (purchase and leaseback transactions), calculated at an estimated aggregate purchase price (including adjustments for anticipated inflation) of approximately $2.4 billion as of December 31, 2022 and 2021 are as follows (U.S. dollars in thousands):

	December 31, 2022		December 31, 2021	
2022	$	-	$	313,667
2023		1,024,945		174,000
2024		108,000		-
2025		-		-
2026		-		-
2027		580,309		-
Thereafter		730,545		1,310,854
Total	$	2,443,799	$	1,798,521

The final purchase prices can vary due to a number of factors, including inflation and the final acquisition dates can vary as the timing of the some transactions have not been determined yet.

As of December 31, 2022 and 2021, all debt was guaranteed by the Company, the respective CA Group borrower or issuer and their subsidiaries.

Each of the HYB, TLB, and the RCF is guaranteed on a senior unsecured basis by the Company and a senior secured basis by certain subsidiaries of the Company. Specifically, the each of the TLB, RCF and HYB is guaranteed by the Company and each of the Company's subsidiaries, other than the borrower or issuer of the associated debt. Each of these guarantees is a full and unconditional guarantee of the payment of all of the principal of, and any premium and interest, if any, on, the associated debt when due, whether at maturity or otherwise, and all other obligations of the CA Group entity under the associated debt instruments. Each of TL 1, TL 2, TL 3 and TL 4 is guaranteed by the Company (but no subsidiaries of the Company) on a full recourse basis, except that the Company's guarantee of TL3 is limited to $2 million of exposure.

Each of the aforementioned guarantees is limited as necessary to prevent such Guarantee from being rendered voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. See above for information on the amounts outstanding under each of these facilities.

The CA Group may be involved in legal and administrative proceedings that arise from time to time in the normal conduct of business. No provision for any liability has been recorded in the accompanying financial statements, and the CA Group believes that the ultimate disposition of any such matters will not have a material adverse effect on the financial position or results of operations of the CA Group.

Note 15 – Related Parties

Pursuant to various servicing agreements as well as pursuant to a management agreement, affiliates of Castlelake perform aircraft, lease and administrative services for the CA Group. The CA Group incurred servicer fees in the amount of $12.6 million during the year ended December 31, 2022 and $1.8 million during the period ended December 31, 2021. As of December 31, 2022 and 2021, accrued but unpaid servicer fee balance was $1.2 million which was subsequently paid in January 2023.

Note 16 – Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The CA Group determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized into one of the following levels:

Level 1 –Quoted prices in active markets for identical assets or liabilities.

Level 2 –Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 –Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2022 and 2021, the CA Group's derivative portfolio consisted of interest rate swaps. The fair value of derivatives is based on dealer quotes for identical instruments. The CA Group has also considered the credit rating and risk of the counterparty of the derivative contract based on quantitative and qualitative factors. As such, the valuation of these instruments was classified as Level 2.

The following tables present the CA Group's financial assets and liabilities that the group measured at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2022 and 2021:

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Derivative assets	$ 95,094	$ -	$ 95,094	$ -
Liabilities				
Derivative liability	$ 4,661	$ -	$ 4,661	$ -

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Liabilities				
Derivative liabilities	$ 18,404	$ -	$ 18,404	$ -

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The CA Group also measures the fair value of flight equipment on a non-recurring basis, when U.S. GAAP requires the application of fair value, including when events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. The CA Group develops the assumptions used in the fair value measurements. Therefore, the fair value measurements of flight equipment are classified as Level 3 valuations.

Financial Instruments Not Measured at Fair Values

The CA Group's financial instruments are measured at amortized cost, other than those noted above. The following financial instruments are not measured at fair value on the CA Group's Consolidated Balance Sheets at December 31, 2022 and 2021, but require disclosure of their fair values: cash and cash equivalents. The estimated fair value of such instruments at December 31, 2022 and 2021 approximates the carrying value as reported on the Consolidated Balance Sheets. The fair value of all these instruments would be categorized as Level 1 in the fair value hierarchy.

Note 17 – Subsequent Event

In February 2023 The CA Group repaid TL1 and upsized TLB. The CA Group purchased an entity AS Air Lease One (Ireland) Limited from a related party. In February 2023 the CA Group received equity of $50 million.

Post year end one aircraft was delivered on operating lease to a lessee based in Asia, one aircraft was delivered on financing to a lessee based in the Middle East and one aircraft's lease term under finance lease with a lessee based in North America was extended.

The CA Group has evaluated the effects of events that have occurred subsequent to December 31, 2022 and through March 23, 2023, the date the financial statements were available to be issued. This evaluation includes a review of leasing activity, payment performance of lessees and disbursements made subsequent to year end. During this period, the CA Group is not aware of any additional material events that would require recognition or disclosure in the December 31, 2022 financial statements, other than the matters presented elsewhere in the financial statements.