

Castlelake Aviation Limited and Subsidiaries

Unaudited Condensed Consolidated Financial Statements

As of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and March 31, 2022

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Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
As of March 31, 2023 and December 31, 2022
(U.S. dollars in thousands)

	Notes	March 31 2023 USD	December 31 2022 USD
Assets			
Cash and cash equivalents	3	125,251	131,073
Restricted cash	3	1,124	1,094
Trade receivables	8	9,887	10,196
Flight equipment held for operating leases, net	4	2,832,615	2,811,775
Maintenance right and lease premium, net	5	302,118	305,930
Net investment in finance lease	6	278,884	288,472
Other assets	7	469,265	414,158
Derivative assets	12	77,753	96,787
Deferred tax assets	13	53,935	42,819
Total Assets		<u>4,150,832</u>	<u>4,102,304</u>
Liabilities and Equity			
Accounts payable and accrued liabilities		5,997	4,428
Deferred rental income		15,418	12,706
Security deposits		25,952	26,906
Accrued maintenance liability	9	56,797	68,454
Derivative liabilities	12	21,246	4,661
Deferred tax liabilities	13	52,861	45,345
Debt	10	2,711,942	2,705,653
Total Liabilities		<u>2,890,213</u>	<u>2,868,153</u>
Ordinary share capital, \$0.01 par value: 5,000,000 shares authorized, 1,102,822 shares and 1,060,062 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively		11	11
Additional paid-in capital		1,150,803	1,100,803
Accumulated retained earnings		47,520	39,737
Accumulated other comprehensive income/(loss)		62,285	93,600
Total Equity		<u>1,260,619</u>	<u>1,234,151</u>
Total Liabilities and Equity		<u>4,150,832</u>	<u>4,102,304</u>

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

		Three Months Ended March 31 2023 USD	Three Months Ended March 31 2022 USD
Revenues and Other Income	Notes		
Rental income from operating and finance leases	11	80,496	59,186
Interest and other income		12,114	4,334
Gain on transfer to investment in finance lease	4	-	2,251
Total Revenues and Other Income		92,610	65,771
Expenses			
Interest expense	10	42,023	23,535
Depreciation	4	32,760	26,363
Maintenance and other costs		1,223	2,344
Selling, general and administrative expenses		7,944	4,611
Total Expenses		83,950	56,853
Net income before income tax expense		8,660	8,918
Income tax expense	13	(877)	(2,114)
Net Income		7,783	6,804

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

	Notes	Three Months Ended March 31 2023 USD	Three Months Ended March 31 2022 USD
Net income		7,783	6,804
Other comprehensive (loss)/income:			
Net unrealized (loss)/gain on derivatives, net of tax	12	(31,315)	48,350
Total Comprehensive (Loss)/Income		<u>(23,532)</u>	<u>55,154</u>

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed 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
	USD	USD	USD	USD	USD	USD
Balance at December 31 2021	812,814	8	812,806	28,538	(1,330)	840,022
Net change	<u>247,248</u>	<u>3</u>	<u>287,997</u>	<u>11,199</u>	<u>94,930</u>	<u>394,129</u>
Balance at December 31 2022	1,060,062	11	1,100,803	39,737	93,600	1,234,151
Net change	<u>42,760</u>	<u>-</u>	<u>50,000</u>	<u>7,783</u>	<u>(31,315)</u>	<u>26,468</u>
Balance at March 31 2023	<u>1,102,822</u>	<u>11</u>	<u>1,150,803</u>	<u>47,520</u>	<u>62,285</u>	<u>1,260,619</u>

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31 2023 USD	Three Months Ended March 31 2022 USD
Cash Flows from Operating Activities:		
Net income	7,783	6,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	32,760	26,363
Amortization of debt issuance cost	3,974	1,998
Lease premium amortization	3,813	4,347
Collection of finance leases	9,589	3,502
Gain on transfer to investment in finance lease	-	(2,251)
Changes in assets and liabilities		
Receivables and other asset	2,832	159
Deferred tax asset	(11,116)	1,522
Deferred tax liability	7,516	591
Income tax effect on derivatives	4,474	-
Accounts payable and accrued liabilities	7,879	1,003
Deferred rental income	2,712	(5,203)
Net cash provided by operating activities	<u>72,216</u>	<u>38,835</u>
Cash Flows from Investing Activities:		
Cash paid for aircraft on operating lease	(53,600)	(226,667)
Cash paid for aircraft on finance lease	-	(100,748)
Cash paid for loan investment	(57,628)	-
Net cash used in investing activities	<u>(111,228)</u>	<u>(327,415)</u>
Cash Flows from Financing Activities:		
Net cash received from borrowings	637,990	220,000
Repayment of borrowings	(631,139)	(5,003)
Cash paid for security deposits	(954)	1,771
Net increase in maintenance reserves	(11,657)	2,291
Proceeds from issuance of shares	50,000	72,000
Debt issuance costs	(11,020)	(67)
Net cash provided by financing activities	<u>33,220</u>	<u>290,992</u>
Net (decrease)/increase in Cash, Cash Equivalents and Restricted Cash	(5,792)	2,412
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	132,167	156,319
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>126,375</u>	<u>158,731</u>
Supplemental Cash Flow Information:		
Cash paid for interest expense	31,735	15,915

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2023

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 March 31, 2023, there were 98 assets (December 31, 2022: 96 assets) in the CA Group's portfolio, consisting of 79 aircraft on operating lease, 9 aircraft and aircraft assets on finance lease (collectively, the "Aircraft") and 10 secured loan receivable assets.

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 March 31, 2023.

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 condensed 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.

Summary of significant accounting policies

The CA Group's significant accounting policies are described in its Annual Audited Financial Statements for the year ended December 31, 2022.

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 \$125.2 million and \$131.1 million at March 31, 2023 and December 31, 2022, respectively.

4 Flight Equipment held for Operating Leases, net

As of March 31, 2023 and December 31, 2022, flight equipment held for operating leases, net were as follows (U.S. dollars in thousands):

	March 31 2023 USD	December 31 2022 USD
Flight Equipment held for Operating Leases, net	2,832,615	2,811,775

Movements in flight equipment held for operating leases during the three months ended March 31, 2023 and the year ended December 31, 2022 were as follows (U.S. dollars in thousands):

	March 31 2023 USD	December 31 2022 USD
Opening balance	2,811,775	2,038,052
Additions	53,600	926,133
Reclassification	-	3,936
Transfers to investment in finance lease	-	(47,955)
Depreciation	(32,760)	(108,391)
Net book value at end of year/period	<u>2,832,615</u>	<u>2,811,775</u>
Accumulated depreciation	(158,324)	(126,951)

During the period ended March 31, 2023, the CA Group acquired one aircraft subject to operating leases.

As of March 31, 2023, the CA Group's aircraft portfolio consisted of 79 aircraft held for operating lease which was made up of 79 aircraft on lease to 18 different lessees in 13 different countries.

As of December 31, 2022, the CA Group's aircraft portfolio consisted of 78 aircraft held for operating lease which was made up of 78 aircraft on lease to 18 different lessees in 13 different countries.

5 Maintenance Right Assets and Lease Premiums, net

Maintenance rights assets and lease premium, net consisted of the following as of March 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	March 31 2023 USD	December 31 2022 USD
Lease Premium	81,889	85,701
Maintenance Right Asset	<u>220,229</u>	<u>220,229</u>
	<u>302,118</u>	<u>305,930</u>

As of March 31, 2023, lease premium and maintenance right asset/(liability) were as follows (U.S. dollars in thousands):

	Lease Premium USD	Maintenance Right Asset USD
Cost:		
Opening balance	85,701	220,229
Amortization charge for the period	(3,812)	-
	<u>81,889</u>	<u>220,229</u>

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

	Lease Premium USD	Maintenance Right Asset USD
Cost:		
Opening balance	103,484	223,411
Addition	(754)	(3,182)
Amortization charge for the year	(17,029)	-
	<u>85,701</u>	<u>220,229</u>

6 Net Investment in Finance lease

As of March 31, 2023 and December 31, 2022, nine leases were accounted for as finance leases. As of March 31, 2023 and December 31, 2022, seven leases had a purchase option in place. During the period ended March 31, 2023, the CA Group acquired no aircraft and aircraft assets subject to finance leases. The following tables list the components of the net investment in finance lease as of March 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	March 31 2023	December 31 2022
	USD	USD
Total lease payments to be received	358,219	373,161
Less: Unearned income	(79,335)	(84,689)
Allowance for credit losses	-	-
Net investment in finance lease	<u>278,884</u>	<u>288,472</u>

During the three months ended March 31, 2023, the CA Group recognized interest income from net investment in finance leases of \$5.1 million (three months ended March 31, 2022: \$3.3m) included in Rental income from operating and finance leases.

At March 31, 2023, future scheduled minimum lease payments to be received under finance leases were as follows (U.S. dollars in thousands):

	USD
2023	79,655
2024	38,098
2025	36,395
2026	34,726
2027	33,057
Thereafter	136,290
Undiscounted cash flows receivable	<u>358,219</u>
Less: Unearned income	(79,335)
Allowance for credit losses	-
Total	<u>278,884</u>

7 Other Assets

At March 31, 2023 and December 31, 2022, the principal components of the CA Group's other assets were as follows (U.S. dollars in thousands):

	March 31 2023	December 31 2022
	USD	USD
Interest receivables	5,311	6,544
Loan receivables, net	452,590	395,218
Other assets	11,364	12,396
Total	<u>469,265</u>	<u>414,158</u>

Loan receivables of \$452.5 million at March 31, 2023 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 \$275.7 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 March 31, 2023, \$116.7 million is drawn down.

Loans of \$60.1 million provided to two EMEIA based lessors accrue interest at a fixed rate of 8% per annum and are secured against aircraft owned by the lessors. As of March 31, 2023, there are no undrawn amounts or available commitments under these loans.

The loans provided to the EMEIA based airlines accrue interest at fixed rate of 7.87 %, 7.81% 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 March 31, 2023, \$281 million is drawn down with an undrawn portion of \$16.9 million.

Other assets of \$11.3 million (December 31, 2022: \$12.4 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 favour of an entity within the CA Group that is expected to be received in 2024.

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 March 31, 2023 and December 31, 2022, 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 March 31, 2023, trade receivables of \$9.9 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
	USD	USD	USD
Balance (Gross)	55,978	6,243	62,221
Allowance for bad debts	-	(6,167)	(6,167)
Expected credit loss	(46,167)	-	(46,167)
Total	<u>9,811</u>	<u>76</u>	<u>9,887</u>

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
	USD	USD	USD
Balance (Gross)	56,473	5,245	61,718
Allowance for bad debts	-	(4,860)	(4,860)
Expected credit loss	(46,662)	-	(46,662)
Total	<u>9,811</u>	<u>385</u>	<u>10,196</u>

9 Accrued Maintenance liability

As of March 31, 2023 and December 31, 2022, accrued maintenance liability were as follows (U.S. dollars in thousands):

	March 31 2023	December 31 2022
	USD	USD
Accrued maintenance liability	56,797	68,454

Movements in accrued maintenance liability during the period ended March 31, 2023 and the year ended December 31, 2022 were as follows (U.S. dollars in thousands):

	March 31 2023	December 31 2022
	USD	USD
Opening balance	68,454	38,827
Maintenance (claims paid)/payments received	(11,657)	29,627
Accrued maintenance liability at end of period/year	<u>56,797</u>	<u>68,454</u>

10 Debt

The CA Group's outstanding indebtedness consists of senior unsecured notes ("HYB"), two senior secured term loan B facilities ("TLB 1" and "TLB 2"), 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 March 31, 2023 and December 31, 2022 were as follows (U.S. dollars in thousands):

Type	Maturity	Balances as of	
		March 31 2023 USD	December 31 2022 USD
Unsecured			
HYB	4/2027	420,000	420,000
Secured			
TLB 1	10/2026	1,162,300	1,165,250
TLB 2	10/2027	633,413	-
TL 1	5/2024	-	237,201
TL 2	6/2024	112,428	109,439
TL 3	12/2034	132,046	133,632
TL 4	11/2034	123,765	125,679
RCF	10/2024	154,000	539,900
Total secured		2,317,952	2,311,101
Accrued interest		18,167	11,684
Debt issuance costs and debt discounts		(44,177)	(37,132)
Total debt		2,711,942	2,705,653

As of March 31, 2023 the interest rate of the CA Group's unsecured debt of \$420 million is 5% and the weighted average effective interest rate for the CA Group's secured debt is 5.71%. The weighted average interest rate for our floating rate debt of \$2.3 billion is calculated based on the applicable U.S. dollar LIBOR or SOFR rate, as applicable, as of the most recent interest payment date of the respective debt and excludes the impact of related derivative financial instruments which we hold to hedge our exposure to floating interest rates, as well as any amortization of debt issuance costs and debt discounts.

Interest and principal payments on the Debt during the period ended March 31, 2023 were as follows (U.S. dollars in thousands):

	Interest USD	Principal USD
HYB	-	-
TLB 1	21,904	4,538
TLB 2	1,949	-
TL 1	3,240	237,201
TL 2	2,312	-
TL 3	1,925	1,586
TL 4	1,856	1,914
RCF	7,801	385,900
Total interest payments and principal repayment	40,987	631,139

The total interest expense during the three months ended March 31, 2023 and the three months ended March 31, 2022 was comprised of the following (U.S. dollars in thousands):

	Three months March 31 2023 USD	Three months March 31 2022 USD
HYB	5,250	5,192
TLB 1	21,947	9,846
TLB 2	4,277	9,847
TL 1	2,515	1,429
TL 2	7,379	-
TL 3	2,348	-
TL 4	1,901	-
RCF	1,854	1,887
Amortization of debt issuance cost	3,974	1,998
Derivatives	(9,422)	3,183
Total	42,023	33,382

In March 2023, the CA Group entered into a TLB2 which was secured by, among other things, a pledge of the shares of the borrower entity within the CA Group.

As of March 31, 2023, \$154 million was drawn down from the RCF leaving an undrawn amount of \$796 million and \$112.4 million was drawn down from the TL 2 leaving an undrawn amount of \$10.9 million. As of March 31, 2023, 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 March 31, 2023, TLB1, TLB2, TL 1, TL 3 and TL 4 are secured by 82 aircraft, while RCF is secured by 6 aircraft assets.

At March 31, 2023, 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 March 31, 2023 and December 31, 2022 are as follows (U.S. dollars in thousands):

	March 31 2023 USD	March 31 2022 USD
2023	57,849	78,096
2024	266,159	861,362
2025	34,100	27,750
2026	1,762,679	1,146,728
2027	437,832	437,832
Thereafter	179,333	179,333
Total	2,737,952	2,731,101

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 three months ended March 31, 2023 and three months ended March 31, 2022 (U.S dollars in thousands):

	Three months March 31 2023 USD	Three months March 31 2022 USD
Europe, Middle East and Africa (EMEA)	7,299	4,597
Asia Pacific (APAC)	46,467	31,810
Americas	30,543	27,126
Lease premium amortization (Note 5)	(3,813)	(4,347)
Total	<u>80,496</u>	<u>59,186</u>

Total rental income above includes interest income from net investment in finance leases of \$5.1 million and \$3.3 million, respectively for the three months ended March 31, 2023 and the three months ended March 31, 2022, respectively, as disclosed in Note 6 – Net Investment in Finance lease.

The CA Group's top five customers represented 68% of total rental revenues for the three months ended March 31, 2023 and two customers each accounted for 10% or more of total rental revenues at 26% and 19%. At March 31, 2023, 24 of the operating leases provide for unexpired extension options and one of the operating leases provides for an unexpired early termination option.

At March 31, 2023 the CA Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases (U.S. dollars in thousands):

	March 31 2023 USD	March 31 2022 USD
2022	-	172,212
2023	255,242	224,198
2024	342,225	229,198
2025	306,834	209,121
2026	294,298	198,593
Thereafter	278,519	182,814
Total	<u>1,431,576</u>	<u>933,337</u>
	<u>2,908,694</u>	<u>2,149,473</u>

During the quarter ended March 31, 2023, the CA Group recognized an allowance for expected credit losses of \$0.6 million (credit), classified in operating rental income, in respect of the CA Group's deferred operating lease revenue balance at March 31, 2023. See Note 8 - Allowance for credit losses.

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 March 31, 2023 and December 31, 2022, 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 March 31, 2023 and December 31, 2022, (U.S. dollars in thousands):

	March 31 2023		December 31 2022	
	Notional USD	Fair Value USD	Notional USD	Fair Value USD
Derivative assets (liabilities) designated as accounting cash flow hedges:				
Interest rate swaps asset	1,176,250	75,889	1,400,221	95,094
Accrued interest		<u>1,864</u>		<u>1,693</u>
Derivative asset		<u>77,753</u>		<u>96,787</u>
Interest rate swaps asset (liability)	<u>1,585,323</u>	<u>(21,246)</u>	<u>428,043</u>	<u>(4,661)</u>
	<u>2,761,573</u>	<u>56,507</u>	<u>1,828,264</u>	<u>92,126</u>

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 fair value and notional value of the swaps includes swaps with an effective date into the future (2023 to 2026) \$5.2M and \$734M respectively.

The CA Group recorded the following in other comprehensive gain related to derivative financial instruments for the period ended March 31, 2023 and the period ended March 31, 2022 (U.S. dollars in thousands):

	Three months March 31 2023 USD	Three months March 31 2022 USD
Effective portion of change in fair market value of derivatives designated as cash flow hedges:		
Interest rate swaps	(35,789)	55,067
Income tax effect	<u>4,474</u>	<u>(6,717)</u>
Net (loss)/gain on derivative, net of tax	<u>(31,315)</u>	<u>48,350</u>

13 Income Taxes

The following table presents the CA Group's income tax expense/(benefit) for the period ended March 31, 2023 and period ended March 31, 2022 (U.S. dollars in thousands):

	Three months March 31 2023	Three months March 31 2022
	USD	USD
Current tax expense	4	1
Deferred tax expense/(benefit)	873	2,113
Provision for income taxes	<u>877</u>	<u>2,114</u>

As of March 31, 2023 and December 31, 2022, deferred tax assets and deferred tax liabilities were as follows (U.S. dollars in thousands):

	March 31 2023	December 31 2022
	USD	USD
Deferred tax assets	53,935	42,819
Deferred tax liabilities	(52,861)	(45,345)

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 entities 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.

14 Commitments and Contingencies

As of March 31, 2023, the CA Group was under an agreement for purchase and leaseback transactions for 47 aircraft (and associated financing of seven of these 47 aircraft). 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 \$2.7 billion of \$2.4 billion as of March 31, 2023 and December 31, 2022 are as follows (U.S. dollars in thousands):

	March 31 2023	December 31 2022
	USD	USD
2022	-	-
2023	1,362,845	1,024,945
2024	108,000	108,000
2025	-	-
2026	-	-
2027	580,309	580,309
Thereafter	730,545	730,545
Total	<u>2,781,699</u>	<u>2,443,799</u>

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 March 31, 2023 and December 31, 2022, all debt was guaranteed by the Company, the respective CA Group borrower or issuer and their subsidiaries.

Each of the HYB, TLB 1, TLB 2, 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 1, TLB 2, 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 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.

15 Related Parties

Pursuant to various servicing agreements as well as pursuant to a management agreement, affiliates of Castlake perform aircraft, lease and administrative services for the CA Group. The CA Group incurred servicer fees in the amount of \$4.6 million during the period ended March 31, 2023 and \$2.5 million during the period ended March 31, 2022. As of March 31, 2023 and December 31, 2022, accrued but unpaid servicer fee balance was \$2 million and \$1.2 million, respectively which was subsequently paid in April 2023 and January 2023 respectively. A service fee of \$1.3 million to Castlake Aviation Services Limited ("CASL") was prepaid in Feb 2023.

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 March 31, 2023 and December 31, 2022, 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 March 31, 2023 and December 31, 2022:

	Total USD	March 31 2023 Level 1 USD	Level 2 USD	Level 3 USD
Assets				
Derivative assets	77,753	-	77,753	-
Liabilities				
Derivative liability	21,246	-	21,246	-
		December 31 2022 Level 1 USD	Level 2 USD	Level 3 USD
Assets				
Derivative assets	96,787		96,787	-
Liabilities				
Derivative liability	4,661		4,661	-

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 March 31, 2023 and December 31, 2022, but require disclosure of their fair values: cash and cash equivalents. The estimated fair value of such instruments at March 31, 2023 and December 31, 2022 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.

17 Subsequent Event

Post quarter end two aircraft were delivered on operating lease to a lessee based in the Middle East. The CA Group drewdown on a new term loan 5 facility and in May 2023 the CA Group received equity of \$20 million.

The CA Group has evaluated the effects of events that have occurred subsequent to March 31, 2023 and through May 12, 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 March 31, 2023 financial statements, other than the matters presented elsewhere in the financial statements.