Castlelake Aviation Limited

Annual Financial Report

for the

Period Ended

December 31, 2022

PRELIMINARY NOTE

This report has been prepared in accordance with the requirements of the indenture governing the 5.000% Senior Notes due 2027 issued by Castlelake Aviation Finance Designated Activity Company on October 22, 2021 and has not been prepared and may not be utilized for any other purpose.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and are presented in U.S. Dollars.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements in addition to historical information. These forward-looking statements relate to matters such as the aviation industry, business strategy, goals and expectations concerning our market position, future operations, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words "anticipate," "assume," "believe," "budget," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "future" and similar terms and phrases to identify forward-looking statements in this offering memorandum. Forward-looking statements reflect current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions or judgments that prove to be incorrect. Any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to vary materially from future results, performance or achievements, or those of our industry, expressed or implied in such forward-looking statements. Such factors include, among others:

- *the severity, extent and duration of the ongoing global COVID-19 and any governmental measures to try to contain the virus could have a negative impact on the performance of the airlines and, in turn, our liquidity;*
- *the effects of the Russia/Ukraine conflict on the global economy, in general, and the aviation industry, in particular;*
- *increases in interest rates on our floating rate debt;*
- *changes in global economic conditions and political developments, including with respect to the invasion of Ukraine by Russia, increasing inflation and rising interest rates;*
- *the ability to lease, remarket or sell aircraft on favorable terms or at all;*
- *availability of credit to airlines from the capital markets and financial institutions to provide working capital and to refinance existing indebtedness;*
- *variability of supply and demand for aircraft;*
- *difficulties and costs in acquiring or managing aircraft, on favorable terms or at all;*
- *the competitive environment in the aircraft leasing industry;*
- *the risks regarding the ability of lessees, borrowers and other counterparties to perform their obligations under their leases and loans;*
- *the ability of aircraft and engine manufacturers to remain financially stable and producing aircraft and engines;*
- *technological innovation and new types of aircraft and engines;*
- *proper maintenance of the aircraft;*
- *high fuel prices and fuel prices volatility;*
- *airline customers preference to purchase their own aircraft rather than entering into aircraft leasing or financing arrangements;*

- *changes in tax and exposure to a wide range of income and other taxes and tax costs as a result of operating in multiple jurisdictions;*
- *maintenance cost of airworthiness directives compliance;*
- *environmental regulations;*
- *operational costs and obsolescence of aircraft;*
- *natural disasters;*
- *aircraft repossession costs and timing;*
- *the risk that lessees' or borrowers' fail to maintain the required insurance or that certain types of contingent insurance will become available to us;*
- *lessees' or borrowers' ability to maintain aircraft duly registered with the appropriate governmental civil aviation authority;*
- *airline customers' ability to appropriately discharge aircraft liens;*
- *exposure to trade and economic sanctions and other governmental restrictions;*
- *economic, legal and political risks associated with emerging markets;*
- *terrorist attacks or the fear of such attacks or civil unrest;*
- *industry consolidation and its effects on competition and lease pricing;*
- *data security and privacy risks;*
- *changes in banks' inter-bank lending rate reporting practices or the method pursuant to which SOFR is determined;*
- *our ability to attract and retain key personnel through Castlelake L.P.;*
- *the performance of support services by Castlelake L.P. and our limited ability to terminate and limited remedies available against Castlelake under our management and servicing agreements;*
- *potential conflicts of interest with Castlelake;*
- *cybersecurity incidents involving us or our customers; and*
- *the other risks and uncertainties identified in this report and other reports and documents disseminated to holders of our 5.000% Senior Notes due 2027.*

Such forward-looking statements should be regarded solely as our current plans, estimates or beliefs. We do not intend to update, and do not undertake any obligation to update, any forward-looking statements to reflect future events or circumstances after the date of such statements. Given such limitations, you should not rely on these forward-looking statements in making a decision whether to invest in the Notes.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements included elsewhere in this report and our quarterly reports for the periods ended March 31, June 30 and September 30, 2022. References herein to (i) “we,” “us,” “our,” and the “Company” refer to Castlelake Aviation Limited and its subsidiaries, (ii) “Castlelake Aviation” are to Castlelake Aviation Limited but not its subsidiaries and (iii) “Castlelake DAC” are to Castlelake Aviation Finance Designated Activity Company, a direct wholly owned subsidiary of Castlelake Aviation. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See “Forward Looking Statements” at the beginning of this report.

Overview

We are an aircraft leasing company incorporated in August 2021. We began operations in October 2021 upon the acquisition of our initial portfolio of aircraft and other aviation related assets from funds managed by Castlelake, L.P. (“Castlelake”). We are wholly owned by affiliates of Castlelake, which has offices in Ireland, the United States, the United Kingdom, Spain and Singapore. We are engaged in the business of acquiring, marketing, leasing and selling newer generation and mid-life commercial aircraft and providing our aviation customers with other financing solutions for their aircraft and other assets. As of December 31, 2022, our portfolio consisted of 96 assets, including 78 aircraft on operating lease, 7 aircraft and 2 engines on finance lease, 1 aircraft on finance lease classified as a loan (together, the “Aircraft”) and 8 secured loans made to aviation related companies (collectively with the Aircraft, the “Portfolio”).

Annual Highlights

Over the course of 2022, we

- Completed the purchase of 16 new technology aircraft, all of which were on long term operating leases with a weighted average remaining lease term of 9.7 years and a weighted average age[1] of 1.1 years. Aircraft were acquired for total consideration of $921.1 million[2].
- Completed the purchase of 4 aircraft and 2 engines placed on finance lease, one of which is classified as a loan for total consideration of $232.1 million.
- Provided advances under a secured loan agreement with an EMEIA based lessee
- Provided an additional advance under a secured loan agreement with an Asia Pacific based lessee
- See “Our Portfolio” below for additional information.

1 Remaining lease term and average aircraft age are weighted by book value of the assets. Book values is defined as: (i) “Aircraft and flight equipment” with respect to our aircraft on operating lease, (ii) “Net Investment in Finance Lease” with respect to our aircraft on finance lease and (iii) “Loan investment” with respect to our loan portfolio secured by aircraft, each of which are line items on our consolidated balance sheet.
2. Purchase consideration is net of purchase price adjustments per agreements.

Our Portfolio

The Aircraft in our Portfolio consist of some of the most in-demand narrowbody, widebody and regional jet aircraft types, such as 737 family, A320 NEO, A330 NEO, 787 MAX Family, A220 family and A350 family aircraft. As of December 31, 2022, our Aircraft had a weighted average age of 5.5 years and weighted average remaining lease term of 9.8 years[2]. Most of our Aircraft are subject to long-term net operating leases, under which the lessee is primarily responsible for all operational and insurance costs. We currently have 21 separate airline customers throughout the world, including Delta Air Lines, Indigo, Condor, Scoot, Qatar, and AirAsia Berhad.

As of December, 31 2022, our Portfolio consisted of the following Aircraft:

Manufacturer	**Aircraft Type**	**31 December 2022** [3]	**31 December 2021**
Narrowbody:			
Airbus	A220 Family	8	8
Airbus	A320/321 CEO	22	22
Airbus	A320/321 NEO	12	7
Boeing	B737-NG Family	8	8
Boeing	B737 MAX 8	7	2
Bombardier	CRJ-900	7	7
Embraer	E-190	2	2
Widebody:			
Airbus	A330-200/300 CEO	7	7
Airbus	A330-200F	6	1
Airbus	A330-NEO	2	1
Airbus	A350-900	1	1
Boeing	787 MAX	4	-
Engines:			
CFM	CFM LEAP-1A26	2	-
Grand Total:		88	66

As of December 31, 2022, we had entered into agreements for the acquisition of an additional 26 next generation aircraft, primarily through purchase and leaseback transactions (operating lease),one of which were delivered to the customer subsequent to December 31, 2022. We also entered into agreements for the purchase and leaseback (finance lease) of 14 next generation aircraft of such date and to provide pre-delivery payment ("PDP") financing for 7 such aircraft, one of these aircraft has delivered subsequent to December 31, 2022.

As of December 31, 2022, we had also entered into letters of intent for the acquisition of 9 additional next generation aircraft, primarily through purchase and leaseback transactions. None of these aircraft were acquired after December 31, 2022. See "—Recent Developments."

Transactions noted above are expected to close between 2022 and 2028. For further detail on capital support see below under "—Capital Expenditure"

2 Remaining lease term and average aircraft age are weighted by book value of the assets. Book values is defined as: (i) "Aircraft and flight equipment" with respect to our aircraft on operating lease, (ii) "Net Investment in Finance Lease" with respect to our aircraft on finance lease and (iii) "Loan investment" with respect to our loan portfolio secured by aircraft, each o which are line items on our consolidated balance sheet.

3 Excludes six A330-200 that are owned by Iberia which secure certain loans in our portfolio, one loan secured by intangible assets of an airline and one loan secured by share charge to the borrower entity and recourse to the Company

Ukraine/Russia Conflict

Following the Russian military actions in Ukraine that began on February 24, 2022, the United States, the United Kingdom, the European Union and other jurisdictions-imposed sanctions and other restrictive measures that effectively prohibit the leasing of aircraft to Russian airlines, in addition to prohibiting providing financing to such airlines. We do not have any aircraft on lease to Russian airlines nor do we provide financing to any such airlines and, as a result, we were not required to terminate any leases in connection with the imposition of these sanctions. We also do not have any aircraft on lease to Ukrainian based airlines.

Even though we do not have any aircraft directly affected by the conflict, the indirect consequences of the conflict could be material for the aviation industry as a whole. For instance, as a result of the effective nationalization of aircraft on lease to Russian airlines, certain types of aviation insurance have become significantly more expensive or unavailable.

The conflict in Ukraine is a significant geopolitical and economic event for the global economy and, in particular, the aviation industry, and there is uncertainty over how the future development of this conflict will affect us. At the date of this report, we cannot predict the potential financial impact of these events on our Company or the industry as a whole.

Impact of the COVID-19 Pandemic

In 2020, the global pandemic resulting from the coronavirus ("COVID-19") initially resulted in a significant decrease in travel and materially impacted airline traffic and operations throughout the world, including the operations of lessees.

At the beginning of the pandemic, our airline customers were under increased financial stress, and many airlines avoided insolvency or similar proceedings only with governmental assistance. There is no assurance that governmental assistance will be available in the future if the industry recovery does not continue or remains uneven. While the severe effects the pandemic had on our airline customers and the global economic environment generally could negatively affect their ability to make payments on the leases and/or loans that we have acquired, during 2021 and 2022, our collection rate steadily increased in connection with the recovery of passenger air travel along with the improved financial health of our airline customers.

Inflation

Many developed and developing economies throughout the world have been experiencing significant inflation as a result of, among other things, measures taken by governments to stem the economic effects of COVID-19, increases in fuel prices caused by the Russia/Ukraine conflict and supply-chain issues caused by both of these events. We are monitoring the effects of inflation on both our customers and the global economy in order to address any potential effects on our business.

In 2022, inflationary pressures resulting from COVID-19 relief and aid programs, supply chain constraints, the impact of the Russia/Ukraine conflict and generally improved economic conditions increased our costs for interest rates and professional fees necessary to operate our business.

After almost 10 years of low interest rate environments, inflationary pressures and efforts in the U.S. and around the world to combat inflation have resulted in increased interest rates by central banks globally. As a result, the costs of our floating-rate note debt increased and to the extent we incur additional indebtedness the interest rates we are charged may be significantly higher than our interest rates in prior years, which increases our cost to operate our business. Further, the increased interest rates could affect our clients' businesses and borrowing costs, which in turn could impact their ability to make timely payments to us.

Our attempts to offset these increasing costs, such as managing increasing interest rates through our hedging policy, may not be successful. To the extent that our offsetting measures are not sufficient to offset these higher costs, our results of operations may be adversely affected.

Significant Factors and Trends Affecting Our Business and Results of Operations

Our results of operations have been and we expect will continue to be affected by a number of factors, including:

- general economic and geopolitical conditions, including the invasion of Ukraine by Russia in February 2022;
- the COVID-19 pandemic, the effects of government actions to reduce the spread of the virus and the related rate of recovery in global economic conditions, ingeneral, and the airline industry, in particular;
- the financing decisions of airlines, including the attractiveness of aircraft leasing to airlines;
- the number, type, age and condition of the aircraft we own;
- supply and demand dynamics for aircraft, which may be affected in the event that aircraft formerly on lease to Russian airlines are repatriated;
- the price we pay for our aircraft and lease rates we are able to obtain for our aircraft;
- the availability and cost of debt capital to finance our operations, aircraft acquisitions and strategic initiatives;
- increases in interest rates and other actions taken to stem inflation;
- success of our aircraft trading and part-out initiatives during any given period;
- the ability of our lessees to meet their lease obligations and to maintain our aircraft in an airworthy and marketable condition;
- the ability of our borrowers to meet their obligations under their loans;
- the utilization rate of our aircraft;
- our expectations of future maintenance reimbursements and lessee maintenance contributions;
- evolving environmental, social and governance factors and related initiatives of our customers; and
- other factors affecting the airline industry, including but not limited to fuel prices, political instability, currency volatility, trade policies, natural disasters, terrorist activities, labor actions, labor shortages and global political and economic events.

Recent Developments

- In January and February 2023, we acquired two narrowbody aircraft that were subject to previously executed binding purchase agreements. One of the acquired aircraft is subject to a long-term operating lease. The other acquired aircraft is subject to a long term financing transactions and classified as a loan.

- In January 2023, we entered binding purchase and leaseback agreements for the acquisition of 9 new technology aircraft which were previously subject to non-binding letters of intent. All the aircraft are narrowbody and are expected to be delivered over the next 12 months.

- In February 2023, we incurred an additional $635 million under a separate tranche of our term loan B transaction. Proceeds from the borrowings have been used to refinance existing debt and for general corporate uses.

- In February 2023, pursuant to the senior secured credit agreement of term loan 1[4], we repaid $235.8 million of principal on our term loan 1.

Comparative results of Operations

Results of operations for the year ended December 31, 2022 and results of operations for the period October 1, 2022 to December 31, 2022, as compared to the period July 1, 2022 to September 30, 2022.

	31-Dec-22 YTD USD'000	31-Dec-22 QTD USD'000	30-Sep-22 QTD USD'000	Movement QoQ USD'000
Revenues:				
Rental income from operating and finance leases	255,868	69,661	62,494	7,167
Interest and other income	26,014	10,839	7,654	3,185
Gain on transfer to investment in Finance lease	4,792	-	-	-
Total revenues	286,674	80,500	70,148	10,352
Expenses:				
Interest expense	114,972	35,845	29,435	6,410
Depreciation	108,391	29,480	26,297	3,183
Maintenance and other costs	6,981	1,326	1,317	9
Selling, general and administrative expenses	22,751	6,735	5,569	1,166
Total Expenses	253,095	73,386	62,618	10,768
Net income before tax expenses	33,579	7,114	7,530	(416)
Income tax (expense)/benefit	(22,380)	(14,564)	(2,338)	(12,226)
Net income	11,199	(7,452)	5,192	(12,642)

[4] Term Loan 1 refers to the AirAsia Facility

Revenue and Expenses

Our revenues and expenses primarily consist of the following:

Revenue

Rental income from operating and finance leases. Revenues primarily consist of (i) basic rent received in respect of aircraft on lease to our airline customers, (ii) usage rent, (iii) interest on finance leases and (iv) end-of-lease compensation.

Basic rent is usually payable monthly or quarterly. Basic rent is generally set at a fixed rate but some leases calculate basic rent at a floating rate based on LIBOR or another appropriate index. Basic rent is recognized on a straight-line basis over the life of the lease.

Usage rent is calculated based on hourly usage or cycles operated, depending on the lease agreement. Usage rent is generally recorded as revenue as it is earned under the terms of the lease. In certain circumstances usage rent is recognized on a straight-line basis, depending on the terms of the applicable contract.

Interest on finance leases is recognized using the effective interest rate method.

End of lease compensation is earned at the end of the lease and is based on usage of the aircraft and its condition upon return.

Interest and other income. Interest and other income consists of (i) interest income earned on secured loan assets and (ii) late interest payments on overdue collections on receivables with airline customers.

Expenses

Interest expenses. Represents interest charges incurred under our debt financings, hedge payments and amortization of debt issuance costs and debt discounts and premiums.

Depreciation. Depreciation is calculated on a straight-line basis over the aircraft's useful life to the estimated residual value. Residual values are determined based on aircraft type. Aircraft are depreciated at rates calculated to write off the cost of the assets to their estimated residual value, on a straight-line basis, over their estimated useful economic lives. The current estimate of useful economic life for passenger aircraft is 25 years from date of manufacture and 35 years from date of manufacture for freighter aircraft.

Maintenance and other costs. Maintenance costs consist of aircraft maintenance expense for which we, as opposed to a lessee, are responsible and the release of intangible assets for aircraft following the termination of their lease. Other costs generally consist of aircraft insurance.

Selling, general and administrative expenses. Selling, general and administrative expenses consist of legal and professional fees, servicing and management fees payable to Castlelake Aviation Holdings (Ireland) Limited and general and administrative expenses.

Income tax expense. Income tax expense is comprised of current and deferred tax.

Results of Operations

The discussion below is limited to a breakdown of our results of operation for the year January 1, 2022 through December 31, 2022 and an analysis of movement for the period July 1, 2022 through September 30, 2022 to October 1, 2022 through December 31, 2022.

Rental Income from Operating and Finance Leases. Rental income from operating and finance leases for the year from January 1, 2022 through December 31, 2022 was $255.9 million. Rental income from operating lease and finance leases primarily consists of:

- Basic rent of $255.8 million related to aircraft on operating lease.
- Finance lease interest income of $17.5 million related to aircraft on finance lease.
- Expected credit loss of ($0.4) million relating to provisions on trade receivables and lease deferrals.
- Lease intangible amortization of ($17.0) million

Rental income from operating and finance leases for the period from October 1, 2022 through December 31, 2022 was $69.7 million (net of lease intangible amortization of $3.9 million and expected credit loss of $1.5 million) (Period from July 1, 2022 through September 30, 2022: $62.5 million). The $7.2 million increase was driven by an increase of $7.6 million in basic rent during the period resulting from the acquisition of 9 additional aircraft on operating lease, an increase of ($1.1) million relating to bad debt provision offset by a reduction of $0.4 million in lease intangible amortization and an increase of $0.3 million of finance lease income through a full three months' rentals for 3 aircraft acquired in the middle of the prior quarter.

Interest and Other Income. Interest and other income for the year from January 1, 2022 through December 31, 2022 was $26.0 million. Interest and other income primarily consisted of,

- Loan interest income of $22.9 million from investment in secured loans.
- Lease deferral interest of $3.5 million related to interest charged on deferred rent balances.
- Bank interest income of $0.9 million earned on deposit amounts.
- Other income amounts of $2.5 million related to amortization of upfront fees and unutilized commitment fee income.
- Expected credit loss of ($3.8) million on deferral interest.

Interest and other income for the period from October 1, 2022 through December 31, 2022, was $10.8 million (net of expected credit loss of $0.9 million). (Period from July 1, 2022 through September 30, 2022: $7.7 million net of expected credit loss of $0.9 million) and primarily consisted of interest income earned on the 9 secured loans in our Portfolio (net of amortization of upfront fees), commitment fee income, bank interest income on our investments and lease deferral interest from airline customers. During the period from October 1, 2022 through December 31, 2022 we provided $117.7 million of additional advances under 2 of the secured loans and delivery to a customer of one aircraft on finance lease which is classified as a loan. The $3.2 million increase in the period was primarily driven by an increase in interest income relating to the additional secured loan assets acquired in the middle of the prior period.

Gain on Transfer to Investment in Finance Lease. Gain on transfer to investment in finance lease for the year from January 1, 2022 through December 31, 2022 was $4.8 million. Gain during the year related to the transfer of two assets previously classified under flight equipment for operating lease to net investment in finance lease.

We did not recognize any gain on transfer to investment in finance lease for the period from October 1, 2022 through December 31, 2022 (Period from July 1, 2022 through September 30, 2022: $0.0 million).

Income Tax. Income tax charge for the period from October, 2022 through December 31, 2022, was $14.6 million (Period from July 1, 2022 through September 30, 2022: $2.3 million). The increase predominantly relates to deferred tax and arose as a result of a change in the tax rate applied to certain entities within the group. These entities changed their tax status to trading companies (taxed at 12.5%), having previously opted to be taxed under the Section 110 regime in Ireland (taxed at 25%). The change to the rate at which deferred tax assets were recognized caused a reduction in the carrying value of existing deferred tax assets, resulting in a corresponding charge to the income statement. The reduction was partially offset by the recognition of previously unrecognized deferred tax assets and prior year accounting adjustments. Adjustments driven by the transition to trading companies are not expected to recur.

Deferred tax is recorded 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. Tax losses carried forward and accelerated tax depreciation on flight equipment held for operating leases give rise to the most significant timing differences. An assessment on deferred tax asset recoverability is performed annually based on future taxable income expectations; if required following these assessments, adjustments to the carrying deferred tax balances may impact our deferred tax rate in any given year.

Interest Expenses. Interest expenses for the year from January 1, 2022 through December 31, 2022 were $115.0 million. Interest expenses primarily consist of,

- Loan interest expense of $103.4 million related to interest on external debt facilities.
- Unutilized commitment fee of $2.5 million.
- Amortization of debt issuance costs of $9.1 million

Interest expenses for the period from October 1, 2022 through December 31, 2022, was $35.8 million (Period from July 1, 2022 through September 30, 2022: $29.4 million), consisting of $38.7 million of interest charges on debt facilities, $5.1 million of interest income on derivatives and amortization of debt issuance costs of $2.2 million. The period over period increase of $6.4 million in interest expense was primarily due to the increased balance finance expense of $11.0 million under our Revolving Credit Facility which was drawn on to acquire 6 assets during the period, the increased balance under our Term Loan 2 facility (as defined below) to provide PDP financing previously committed to one of our customers, drawdown of our Term loan 3 facility (as defined below) to financing the purchase of two aircraft , drawdown of our Term loan 4 facility (as defined below) to financing the purchase of two aircraft and increased interest rates on our floating rate debt. We expect interest rates to continue to be higher than our historic rates as a result of the current interest rate environment, but plan to manage the increase through our hedging policy. These increases were offset by a $4.4 million reduction in our derivative expense period over period. As of December 31, 2022, we had $2.7 billion in principal amount of indebtedness outstanding and had average outstanding indebtedness for the period from October 1, 2022 through December 31, 2022 of $2.4 billion. For additional information on our debt facilities, see "—Liquidity and Capital Resources—Financing Arrangements." As of December 31, 2022, the notional amount of the derivatives was $1.8 billion.

Depreciation Expense. Depreciation expense for the year from January 1, 2022 through December 31, 2022, was $108.4 million consisting of the depreciation expense related to our Aircraft.

Depreciation expense for the period from October 1, 2022 through December 31, 2022, was $29.5 million (Period from July 1, 2022 through September 30, 2022: $26.3 million), consisting of the depreciation expense related to our Aircraft. The increase relates to additional depreciation charges on the acquisition of 9 aircraft under operating lease.

Maintenance and Other Expenses. Maintenance and other expenses for the year from January 1, 2022 through December 31, 2022, was $7.0 million mainly consisting of aircraft insurance and aircraft maintenance.

Maintenance and other expenses for the period from October 1, 2022 through December 31, 2022, was $1.3 million (Period from July 1, 2022 through September 30, 2022: $1.3 million), primarily consisting of asset maintenance costs, aircraft insurance and consultancy charges. There was no movement period over period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year from January 1, 2022 through December 31, 2022, was $22.8 million consisting of,

- Servicing fees of $12.7. million under our management service agreement.
- Legal, tax and accounting expenses of $5.3 million

- Other general expenses of $4.8 million

Selling, general and administrative expenses for the period from October 1, 2022 through December 31, 2022, were $6.7 million (Period from April 1, 2022 through June 30, 2022: $5.6 million), primarily consisting of servicing and management fees payable to Castlelake of $4.3 million, legal fees of $0.9 million, audit and accounting fees of $0.6 million, RCF debt placement fees of $0.6 million and other expenses of $0.3 million. The period over period increase mainly relates to an increase in acquisition related expenses and increased cash receipts related to our servicing fee charged.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity include available cash and cash equivalents balances, cash flows from operations, including through aircraft sales and trading activity, and amounts available under our Revolving Credit Facility and Term Loan 2 Facility. We may also seek to raise liquidity or address liquidity needs by accessing the capital markets including through the incurrence of additional revolving or term loan facilities or the issuance and sale of debt securities, as well as through the sale of equity to Castlelake and potentially third-party investors. Access to additional debt and equity capital will be a driver of our growth. In addition to the previously mentioned items, we have considered the impact of trade receivables and deferral balances on our liquidity position. We believe that we will have sufficient liquidity to finance our operations and strategic objectives for at least the foreseeable future.

As of December 31, 2022, we had total principal indebtedness of $2,731 million (as at December 31, 2021: $1,873 million), consisting of $2,311 million (as at December 31, 2022: $1,453 million) of aggregate principal amount of secured indebtedness and $420 million (as at December 31,2021: $420 million) of aggregate principal amount of unsecured indebtedness.

As of December 31, 2022, receivables due from customers amounted to $10.2 million (as at December 31, 2021: $18.0 million) and consisted of trade receivables and deferred receivables. As of December 31, 2022, we had gross trade receivables of $5.2 million of which an allowance for bad debt of $4.7 million has been provided for. As of December 31, 2022, we had gross deferral amounts of $56.5 million of which an expected credit loss of $46.7 million has been provided for. Deferral amounts represent amounts contractually agreed with customers to be paid at a date in the future that are not overdue at period end. The majority of our expected credit loss provision on lease deferrals were assumed as part of the acquisition accounting, upon acquisition of our initial portfolio.

As of December 31, 2022, we had $131.1 million (as at December 31, 2021: $156.3 million) of cash and cash equivalents, restricted cash of $1.1 million (as at December 31, 2021: $0.0 million), $410.1 million of unused capacity under our Revolving Credit Facility (as at December 31, 2021: $719.0 million) and $13.9 million of unused capacity under our Term Loan 2 Facility (as at December 31, 2021: 0.0 million).

Contractual Obligations

As of December 31, 2022, we had both short and long-term obligations. Our capital commitments consist of principal and interest repayments on our secured and unsecured debt and purchase obligations under signed purchase agreements. We intend to fund our contractual obligations through operating cash flows, available cash, external financing, and equity. We believe we will have sufficient cash to fund our contractual obligations.

The following table provides details regarding the timing of contractual obligations payments dates as of December 31 2022.

	2023	2024	2025	2026	2027	Thereafter	Total
				USD in thousands '000			
Unsecured Debt Facilities	-	-	-	-	420,000	-	420,000
Secured Debt Facilities	78,096	861,362	27,750	1,146,729	17,832	179,333	2,311,101
Capital Commitments	1,024,945	108,000	-	-	580,309	730,545	2,443,799
Total	1,103,040	983,311	27,750	1,146,729	1,018,141	909,878	5,188,850

Cash Flows from Operating Activities

For the period from January 1, 2022 through December 31, 2022, net cash provided by operating activities was $188.3 million (For the period from Inception through December 31, 2021: $300.6 million), reflecting revenues, expenses and certain balance sheet movements, net of non-cash adjustments as noted on the statement of cash flows.

Cash Flows from Investing Activities

For the period from January 1, 2022 through December 31, 2022, net cash used by investing activities was $1,385.4 million (For the period from Inception through December 31, 2021: $2,604.3 million), which for each period primarily consisted of the consideration paid for the Assets acquired during the period (see “Overview” for additional information).

Cash Flows from Financing Activities

For the period from January 1, 2022 through December 31, 2022, net cash provided by financing activities was $1,173.0 million (For the period from Inception through December 31, 2021: $2,460.0 million), which primarily consisted of $540.4 million of proceeds from borrowings under the Revolving Credit Facility, $109.4 million under the Term Loan 2 facility and $260.5 million under the two additional Term Loan 3 and 4 facilities to fund fleet acquisitions and a secured loan asset as described below under “—Financing Arrangements” and $288 million of proceeds from the issuance of shares to affiliates of Castlelake.

Financing Arrangements

For a summary of our financing arrangements, please refer to our Annual Report. There have been no significant changes to the financing arrangements as previously disclosed at December 31, 2021 other than as noted below;

Term Loan 2 Facility

On June 1, 2022, AS Air Lease 173 (Ireland) Limited (the “Borrower”), a direct wholly owned subsidiary of Castlelake DAC, and an indirect wholly owned subsidiary of Castlelake Aviation, entered into a secured credit facility with a certain bank, (the “Term Loan 2 Facility”). The Term Loan 2 Facility provided senior secured financing in an aggregate principal amount of $123.4 million to fund, in part, certain secured loans advanced and to be advanced by the Borrower to the customer under a loan agreement in respect of certain predelivery payments for seven (7) A21neo Aircraft (the "Aircraft") (the "Loan Agreement"). See “—Capital Expedites” below. Drawings under the Term Loan 2 Facility may be advanced based on the corresponding advance under the PDP Loan Agreement, subject to the further requirement that the LTV Ratio under the Term Loan 2 Facility does not, at that time, exceed 65%. Borrowings under the Term Loan 2 Facility bear interest at a rate per annum equal to Compounded SOFR, plus a margin, subject to no interest rate floors and additional default interest on occurrence of an Event of Default. Interest under the Term Loan 2 Facility accrues on a monthly basis, and the Term Loan 2 Facility is scheduled to mature in June 2024.

The Term Loan 2 Facility requires the Borrower to prepay outstanding loans under the following circumstances: (1) if the LTV Ratio is greater than 68%, the Borrower must prepay a sufficient amount to reduce the LTV Ratio to no greater than 65%; (2) on any payment or prepayment of the Loan under the Loan Agreement (a "Cash Sweep Event"), 65% of the amount paid or prepaid by the customer will be used to discharge prepay the Term Loan 2 Facility and 50% of the excess amount will be for administrative expenses and to prepay the borrowings, in each case under the Term Loan 2 Facility; (3) on a failure by the Borrower to exercise its step-in right in connection with the Aircraft when entitled to do so, on the failure by Airbus to exercise its Option to purchase the Aircraft and failure by Airbus to pay the Option Price, in each case within specified time periods; (4) if a change of control in respect of the customer occurs, or (5) if the jurisdiction in which the customer is located is rated Caa1/CCC+/CCC or lower by any of Moody’s, S&P or Fitch. The Borrower is permitted to prepay the loans voluntarily at any time, in whole or part, subject to certain conditions being met and for the prices set forth in the Term Loan 2 Facility .

The Term Loan 2 Facility contains the following financial and maintenance covenants: (i) a loan to value ratio of no greater than 68%; (ii) a consolidated liquidity of the Borrower, Castlelake DAC and Castlelake Aviation of at least $75 million, with an unrestricted cash and cash equivalents portion of at least $25 million; (iii) a total debt to equity ratio not to exceed 4.25x; (iv) a fixed charge coverage ratio of at least 1.2x; and (v) an Interest Reserve Account in an amount equal to 1% of the borrowings then outstanding.

The Term Loan 2 Facility contains certain affirmative and negative covenants, including negative covenants that restrict, subject to certain exceptions, the ability of Borrower to (A) incur, assume or guarantee additional indebtedness or issue any additional securities; (B) pledge, mortgage or encumber any of its assets; (C) permit any lien, charge, security interest, mortgage or other encumbrance to be created on the collateral securing the Term Loan 2 Facility ; (D) dispose, sell, transfer or assign any part of the collateral securing the Term Loan 2 Facility ; (E) restrict dividends or distributions; (F) incur any capital expenditure, acquire any assets or make any investments; (G) restrict certain transactions with affiliates; (H) engage in mergers or consolidations; and (I) make amendments, waivers or supplements to certain provisions in the underlying Loan Documents.

The Term Loan 2 Facility also contains certain customary events of default (including breach of financial covenants, a change in control event, and events of default in the underlying Loan Agreement (subject to certain grace periods)). The Term Loan 2 Facility also contains an ability for the lender to direct the Borrower or Castlelake Aviation to exercise the step-in right contained in the Step-In Agreement with Airbus to purchase the Aircraft, subject to certain conditions being met. The Term Loan 2 Facility permits the lenders to request a revaluation of the collateral securing the Term Loan 2 Facility on a frequent basis. If Castlelake Aviation is rated B/B2 or lower by any of Moody’s, S&P or Fitch, the lender will have an ability to determine the market value of the collateral (subject to Borrower's ability to dispute such value) which will affect the LTV Ratio covenant in the Term Loan 2 Facility.

All obligations of the Borrower under the Term Loan 2 Facility are guaranteed on a full recourse basis by Castlelake Aviation. The obligations of the Borrower under the Term Loan 2 Facility are secured by, among other things, the Loan Agreement in respect of the Aircraft, the right to step-in and purchase the Aircraft under the Step-In Agreement and a share charge over the Borrower.

Term loan 3 Facility

On October 7, 2022, As Air Lease 172 (Ireland) Limited (the “Borrower”), a direct wholly owned subsidiary of Castlelake DAC, and an indirect wholly owned subsidiary of Castlelake Aviation, entered into a secured credit facility with a certain bank, (the “Term Loan 3 Facility”). Capitalised terms not defined in this section has the meaning given to it in the Term Loan 3 Facility. The Term Loan 3 Facility provided senior secured financing in an aggregate principal amount of approximately $134.5 million to fund in part the acquisition and leaseback of two (2) Boeing 787 aircraft (the "Aircraft") by the Borrower to Singaporean Airline Borrowings under the Term Loan 3 Facility bear interest at a rate per annum of:

Fixed Rate in respect of the Facility A Loan is 5.7240%;
Fixed Rate in respect of the Facility B Loan is 5.7170%; and

any additional default interest in relation to an Unpaid Sum. Interest under the Term Loan 3 Facility accrues on a monthly basis, and the Term Loan 3 Facility is repayable on the earlier of (a) the final repayment date in June 2034 (Facility A Loan) or December 2034 (Facility B Loan) and (b) the date such borrowings become due by acceleration, prepayment or otherwise.

The Term Loan 3 Facility requires the Borrower to prepay outstanding loans under several circumstances, including the following: (1) subject to Clause 30 (Remarketing) of the Term Loan 3 Facility (“Clause 30”), if the leasing of an Aircraft to the Lessee is terminated pursuant to Clause 18.17 (Termination of Leasing) of the Term Loan 3 Facility (2) a Total Loss occurs with respect to an Aircraft or the relevant

Airframe; (3) subject to Clause 30, the leasing of an Aircraft is terminated for any reason (other than pursuant to Clause 18.17) prior to its scheduled expiry date; (4) a Final Disposition of an Aircraft occurs; (5) the Lessee is declared by the Minister of Finance of Singapore to be a company or entity to which Part 9 of the Companies Act 1967 of Singapore applies; (6) the Borrower fails to comply with the provisions of Clause 18.14.5 with respect to an Aircraft; or (7) under Clause 15 (Mitigation) of the Proceeds Agreement, it is or becomes unlawful for any Obligor to perform or observe any of its obligations under any of the provisions of the Transaction Documents to which it is a party, or any obligation of an Obligor thereunder ceases to be legally valid and binding.

No prepayment premium fee shall be payable by the Borrower except pursuant to Clause 7.3.2 (Voluntary Prepayment of Loan) and 7.5.3 (Mandatory Prepayment).

The Term Loan 3 Facility contains certain affirmative and negative covenants, including negative covenants that restrict, subject to certain exceptions, the ability of Borrower to (A) incur, assume or guarantee additional indebtedness or issue any additional securities; (B) pledge, mortgage or encumber any of its assets; (C) permit any lien, charge, security interest, mortgage or other encumbrance to be created on the collateral securing the Term Loan 3 Facility; (D) dispose, sell, transfer or assign any part of the collateral securing the Term Loan 3 Facility;(E) restrict distributions; (F) acquire any assets or capital stock; (G) restrict certain transactions with affiliates; (H) engage in any amalgamations, demergers, mergers or corporate reconstructions; and (I) make amendments, waivers or supplements to certain provisions in the underlying Transaction Documents.

The Term Loan 3 Facility also contains certain customary events of default (including breach of financial covenants event of default, a change in control event of default in respect of the Borrower and CAL, and an event of default triggered by any events of default in the underlying Term Loan 3 Facility (subject to certain grace periods)).

The obligations of the Borrower under the Term Loan 3 Facility are guaranteed on a limited basis (with a maximum exposure of $2 million) by Castlelake Aviation Limited. The obligations of the Borrower under the Term Loan 3 Facility are secured by, among other things, the Mortgage in respect of the Aircraft, the Borrower Security Assignment, the account pledge over the Borrower's Irish bank account and a share charge over the Borrower.

Term Loan 4 Facility

On October 26, 2022, As Air Lease 175 (Ireland) Limited (the "Borrower"), a direct wholly owned subsidiary of Castlelake DAC, and an indirect wholly owned subsidiary of Castlelake Aviation, entered into a secured credit facility with a certain bank, (the Term Loan 4 Facility"). Capitalized terms not defined in this section has the meaning given to it in the Term Loan 4 Facility. The Term Loan 4 Facility provided senior secured financing in an aggregate principal amount of approximately $126 million to fund in part the acquisition and leaseback of two (2) Boeing 787 aircraft (the "Aircraft") by the Borrower to Singaporean airline. Borrowings under the Term Loan 4 Facility bear interest at a rate per annum of:

Swap Rate (i.e. the all in fixed rate) in respect of the Facility A Loan is 5.5755%;
Swap Rate (i.e. the all in fixed rate) in respect of the Facility B Loan is 5.5660%; and

any additional default interest in relation to an Unpaid Sum. Interest under the Term Loan 4 Facility accrues on a monthly basis, and the Term Loan 4 Facility is repayable on the earlier of (a) the final repayment date in September 2034 (Facility A Loan) or November 2034 (Facility B Loan) and the date the borrowings become due by acceleration, prepayment or otherwise.

The Term Loan 4 Facility requires the Borrower to prepay outstanding loans under several circumstances, including the following: (1) subject to clause 30 (Remarketing) of the Term Loan 4 Facility ("Clause 30-TL 4"), if the leasing of an Aircraft to the Lessee is terminated pursuant to Clause 18.17 (Termination of Leasing) of the Term Loan 4 Facility; (2) a Total Loss occurs with respect to an Aircraft or the relevant Airframe; (3) subject to Clause 30-TL 4, the leasing of an Aircraft is terminated for any reason (other than pursuant to Clause 18.17)) prior to its scheduled expiry date; (4) a Final Disposition of an Aircraft occurs; (5) an Obligor does not comply with any of the provisions of Clauses 18.13(Anti-Money Laundering

Laws and Anti-Terrorism Financing Laws, Anti-Corruption and Anti-Bribery) or 18.14 (Sanctions) of the Term Loan 4 Facility; (6) the Lessee is declared by the Minister of Finance of Singapore to be a company or entity to which Part 9 of the Companies Act 1967 of Singapore applies; or (7) under clause 15 (Mitigation) of the Proceeds Agreement, it is or becomes unlawful for any Obligor to perform or observe any of its obligations under any of the provisions of the Transaction Documents to which it is a party, or any obligation of an Obligor thereunder ceases to be legally valid and binding.

No prepayment premium fee shall be payable by the Borrower except pursuant to Clause 7.3.2 (Voluntary Prepayment of Loan).

The Term Loan 4 Facility contains certain affirmative and negative covenants, including negative covenants that restrict, subject to certain exceptions, the ability of Borrower to (A) incur, assume or guarantee additional indebtedness or issue any additional securities; (B) pledge, mortgage or encumber any of its assets; (C) permit any lien, charge, security interest, mortgage or other encumbrance to be created on the collateral securing the Term Loan 4 Facility; (D) dispose, sell, transfer or assign any part of the collateral securing the Term Loan 4 Facility ; (E) restrict distributions; (F) acquire any assets or capital stock; (G) restrict certain transactions with affiliates; (H) engage in any amalgamations, demergers, mergers or corporate reconstructions; and (I) make amendments, waivers or supplements to certain provisions in the underlying Transaction Documents.

The Term Loan 4 Facility also contains certain customary events of default (including breach of financial covenants event of default, a change in control event of default in respect of the Borrower and CAL, and an event of default triggered by any events of default in the underlying Term Loan 4 Facility (subject to certain grace periods)).

All obligations of the Borrower under the Term Loan 4 Facility are guaranteed on a full recourse basis by Castlelake Aviation Limited. The obligations of the Borrower under the Term Loan 4 Facility are secured by, among other things, the Mortgage in respect of the Aircraft, the Borrower Security Assignment, the account pledge over the Borrower's bank account in Singapore and a share charge over the Borrower.

For the period from January 1, 2022 through December 31, 2022 we borrowed an additional $508.9 million under the Revolving Credit Facility to finance the acquisition of aircraft on finance and operating lease.

During the period from January 1, 2022 through December 31, 2022 , we borrowed an additional $109.4 million under the Term Loan 2, relating to the PDP financing advances in the period.

As of December 31, 2022 and January 1, 2022, we held the following interest rate swaps to manage interest rate exposure arising from the Term Loan B Facility and Revolving Credit Facility, which bears interest at a floating rate.

December 31, 2022				
Swap maturities	**Notional amount [5]**	**Weighted Average Fixed Pay Rate**	**Weighted Average Receive Rate [6]**	**Weighted Average Maturity (Years)**
2026	31,211,755	4.080%	3.501%	3.8
2026	158,125,000	1.779%	3.361%	3.8
2026	158,125,000	1.820%	3.359%	3.8
2026	455,000,000	1.816%	3.219%	3.8
2026	405,000,000	1.994%	3.179%	3.8
2026	34,515,000	4.386%	3.524%	3.8
2026	236,637,045	3.978%	3.585%	3.8
2026	38,000,000	3.691%	3.620%	3.8
2026	60,900,000	3.691%	3.529%	3.8
2026	69,200,000	3.755%	3.503%	3.8
2026	69,200,000	3.723%	3.488%	3.8
2034	55,000,000	5.576%	3.210%	11.7
2034	71,000,000	5.566%	3.252%	11.9
Total	$1,841,913,0	2.719%	3.332%	4.4

December 31, 2021				
Swap maturities	**Notional amount [7]**	**Weighted Average Fixed Pay Rate**	**Weighted Average Receive Rate [8]**	**Weighted Average Maturity (Years)**
2026	455,000,000	1.816%	1.310%	4.8
2026	405,000,000	1.994%	1.310%	4.8
Total	$860,000,000	1.900%	1.310%	4.8

Capital Expenditures

As of December 31, 2022, we had entered into agreements for the acquisition of an additional 26 aircraft, primarily through purchase and leaseback transactions (operating lease), one of which were delivered to the customer subsequent to December 31, 2022. We also entered into agreements for the purchase and leaseback (finance lease) of 14 aircraft and to provide PDP financing for 7 such aircraft as of such date, one aircraft has delivered subsequent to December 31, 2022.

Transactions noted above are expected to close between 2022 and 2028.

[5] Notional Amount is at hedge inception date.
[6] Calculation based on rates from inception of hedge to maturity. Rates are reset for future forecast based on interest curves on each reporting date.
[7] Notional Amount is at hedge inception date
[8] Calculation based on rates from inception of hedge to maturity. Rates are reset for future forecast based on interest curves on each reporting date.

Significant Accounting Policies

For a summary of our significant accounting policies, please refer to Note 2 of the Annual audited financial statements.