Castlelake Aviation Limited

Quarterly Financial Report

for the

Period Ended

March 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;*
- *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 on 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 the 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;*
- *changes in global economic conditions and political developments, including with respect to the invasion of Ukraine by Russia;*
- *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;*
- *data security and privacy risks;*
- *changes in banks' inter-bank lending rate reporting practices or the method pursuant to which LIBOR 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.*

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 the consolidated financial statements and management's discussion and analysis included in our Annual Report for the period ended December 31, 2021. 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 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 March 31, 2022, our portfolio consisted of 80 assets, including 67 aircraft on operating lease, 5 aircraft on finance lease, 1 aircraft off-lease (together, the "Aircraft") and 7 secured loans made to aviation related companies (collectively, the "Portfolio"). During the period from January 1, 2022 through March 31, 2022, we acquired 7 assets, consisting of 2 aircraft on finance lease and 5 aircraft held for operating lease. In addition, 2 operating leases were terminated, 1 of which subsequently became subject to a finance lease during the period and a finance lease with a US based lessee has been executed for the other aircraft. See "—Our Portfolio" below for additional information.

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 family, A220 family and A350 family aircraft. As of March 31, 2022, our Aircraft had a weighted average age of 6 years and weighted average remaining lease term of 10.0 years[1]. 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 have secured loans, operating leases and finance leases with 17 airlines throughout the world, including Delta Air Lines, Qatar, AirAsia, Lion Air, Air Macau and Air France.

1 Remaining lease term and average aircraft age aircraft weighted by book value of the assets defined as: (i) "Aircraft and flight equipment" with respect to our 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. Prior methodology used on 31 December 2021 to calculate the remaining lease term and average aircraft age aircraft was weighted by book value that, in addition to the above, included "Maintenance right and lease premium, net".
Under the old methodology that included "Maintenance right and lease premium, net", on 31 December 2021, our Aircraft had a weighted average age of 6 years and weighted average remaining lease term of 9.6 years
Under the updated methodology that excludes "Maintenance right and lease premium, net", on 31 December 2021, our Aircraft had a weighted average age of 5.8 years and weighted average remaining lease term of 10.2 years. This methodology is consistent with the original Offering Memorandum.

Our Portfolio

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

Manufacturer	Aircraft Type	Number [2]
Narrowbody:		
Airbus	A220-100	8
Airbus	A320-200	19
Airbus	A320neo	7
Airbus	A321-200	3
Boeing	B737-800	4
Boeing	B737 MAX 8	4
Boeing	B737-900ER	4
Bombardier	CRJ-900	7
Embraer	E-190	2
Widebody:		
Airbus	A330-200	2
Airbus	A330-200F	6
Airbus	A330-300	5
Airbus	A330-900neo	1
Airbus	A350-900	1
Grand Total:		73

As of March 31, 2022, we had entered into agreements for the acquisition of an additional 31 aircraft, primarily through purchase and leaseback transactions, of which one was acquired subsequent to March 31, 2022.

As of March 31, 2022, we had also entered into letters of intent for the purchase and leaseback (finance lease) of 10 aircraft and to provide PDP financing for 7 such aircraft, none of which have closed subsequent to March 31, 2022.

Subsequent to March 31, 2022, we have entered into letters of intent for the placement of 2 engines on finance lease to an airline, none of which have closed to date. For further detail on capital support see below under "—Capital Expenditure"

Impact of the COVID-19 Pandemic

The global pandemic resulting from the coronavirus ("COVID-19") resulted in a significant decrease in travel and materially impacted airline traffic and operations throughout the world, including the operations of lessees. The decreased demand in travel was caused in large part by governmental authorities around the world implementing numerous measures to try to contain the virus, such as travel bans and restrictions, border closures, quarantines, shelter in place or total lockdown orders and business limitations and shutdowns. While many of these restrictions have been lifted and domestic air traffic has seen the beginnings of a recovery, domestic air travel has not as of yet fully recovered to pre-pandemic levels and international air traffic remains well below pre-pandemic levels. In addition, to the extent infection rates significantly increase or more virulent variants of the virus emerge, it could cause governments and other institutions to re-institute restrictions and/or cause passengers to forego air travel.

Many airlines throughout the world avoided insolvency or similar proceedings solely or in large part as a result of governmental assistance and there is no assurance that governmental assistance will be available to participants in the industry in the future if the industry downturn continues. Many airlines also significantly increased their financial leverage during the pandemic which could adversely affect their future operations and liquidity and, in turn, ability to perform under their leases. The severe effects the pandemic has had on the airlines that are our customers could negatively affect their ability to make payments on the leases and/or loans that we have acquired.

[2] Excludes six A330-200 that are owned by Iberia which secure the loans in our portfolio and excludes 1 loan secured by intangible assets of an airline.

Given the dynamic nature of this situation, we cannot reasonably estimate the continued impacts of the COVID-19 pandemic on our business, results of operations and financial condition for the foreseeable future. We do believe, however, that the airline industry will recover and aircraft travel will return to historical levels over the long term. Further, we believe we are well positioned to offer solutions for airlines, because we can offer the ability to lease more fuel-efficient aircraft at a time when airlines will be focused on reducing capital requirements and managing costs.

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. The conflict has caused an increase in fuel prices, which increase has been exacerbated by a significant increase in inflation around the world, each of which will likely impact the purchasing power of airlines customers as well as the airlines themselves. In addition, there have been reports in the press indicating that lessors have terminated leases for over 500 aircraft on lease to Russian Airlines. To the extent that such aircraft are able to be repatriated, it could alter supply and demand dynamics for the industry and affect lease rates and aircraft values. In addition, 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.

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 political conditions, including the invasion of Ukraine by Russia in February 2022;
- the COVID-19 pandemic and the related rate of recovery in global economic conditions, in general, and the airline industry, in particular;
- the effect of government actions related to COVID-19 measures and the ensuing impact on our business and results of operations,financial condition and cash flows;
- 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;
- changes in the interest rate environment 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 airworthy and marketable condition;
- 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 andother global political and economic events.

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 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 our results of operation from January 1, 2022 through March 31, 2022.

Period from January 1, 2022 through March 31, 2022

Rental Income from Operating and Finance Leases. Rental income from operating and finance leases for the period from January 1, 2022 through March 31, 2022 was $59.2 million (net of lease intangible amortization of $4.3 million and expected credit loss of $0.5 million) (Period from inception through December 31, 2021: $42 million). The period over period increase in rental income was primarily due to the current period including results for a full three months as well as 7 net fleet additions. There was no end of lease income earned in the period ending March 31, 2022.

Interest and Other Income. Interest and other income for the period from January 1, 2022 through March 31, 2022, was $4.3 million (Period from inception through December 31, 2021: $3 million) and primarily consisted of interest income earned on the 7 secured loans in our Portfolio and lease deferral interest from airline customers. The period over period increase in interest income was primarily due to the current period including results for a full three months.

Gain on Transfer to investment in finance lease. Gain on transfer to investment in finance lease for the period from January 1, 2022 through March 31, 2022 was $2.3 million (Period from inception through December 31, 2021: $Nil). The balance related to a gain recognized on the transfer of an asset previously classified under flight equipment held for operating leases to net investment in finance lease.

Income Tax. Income tax charge for the period from January 1, 2022 through March 31, 2022, was $2.1 million (Period from inception through December 31, 2021: Income tax benefit $28 million). The balance predominantly relates to a movement in our deferred tax charge. The movement is mainly a result of a release of a previously recognized deferred tax asset in one of our subsidiaries, which is subject to a higher rate of corporation tax, following the transfer of an asset from Operating Lease to Finance Lease in the quarter. 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 loss carry forwards and accelerated tax depreciation on flight equipment held for operating leases give rise to the most significant timing differences.

Interest Expenses. Interest expenses for the period from January 1, 2022 through March 31, 2022, was $23.5 million (Period from inception through December 31, 2021: $17 million), consisting of $18.3 million of interest charges on debt facilities, $3.2 million of interest charges hedge payments and amortization of debt issuance costs of $2 million. The period over period increase in interest expense was primarily due to the current period including results for a full three months, as well as increased balance under our Revolving Credit Facility (as defined below) which was drawn on to acquire 7 assets during the period. As of March 31, 2022, we had $2,088 million in principal amount of indebtedness outstanding and had average outstanding indebtedness for the period of $2 billion. For additional information on our debt facilities, see "—Liquidity and Capital Resources—Financing Arrangements." As of March 31, 2022, the notional amount of the derivatives was $1.2 billion.

Depreciation Expense. Depreciation expense for the period from January 1, 2022 through March 31, 2022, was $26.4 million (Period from inception through December 31, 2021: $19 million), primarily consisting of the depreciation expense related to our Aircraft. The period over period increase in depreciation was primarily due to the current period including results for a full three months, as well as the 5 net fleet additions.

Maintenance and Other Expenses. Maintenance and other expenses for the period from January 1, 2022 through March 31, 2022, was $2.3 million (Period from inception through December 31, 2021: $3 million), primarily consisting of asset maintenance costs and consultancy charges.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the period from January 1, 2022 through March 31, 2022, was $4.6 million (Period from inception through December 31, 2021: $4 million), primarily consisting of legal and professional fees of $0.6 million, servicing and management fees payable to Castlelake of $2.6 million, management services fees of $0.4 million, accounting fees of $0.4 million and various other general and administrative expenses of $0.6m.

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 availability under our Revolving Credit Facility (as defined below). 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 March 31, 2022, we had total principal indebtedness of $2,088 million (as at December 31, 2021: $1,873 million), consisting of $1,668 million (as at December 31, 2021: $1,453 million) of secured principal indebtedness and $420 million (as at December 31, 2021: $420 million) of unsecured principal indebtedness.

As of March 31, 2022, receivables due from customers amounted to $17.3 million (as at December 31, 2021: $18 million) and consisted of trade receivables and deferred receivables. We had gross trade receivables of $3.7 million of which an allowance for bad debt of $3 million has been provided for. Trade receivables represent amounts billed and overdue from customers as at March 31, 2022. We had gross deferral amounts of $59 million of which an expected credit loss of $42 million has been provided for. Deferral amounts represent amounts contractually agreed with customers to be paid at a date in the future and are not overdue as at March 31, 2022. 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 March 31, 2022, we had $159 million (as at December 31, 2021: $156 million) of cash and cash equivalents and $499 million (as at December 31, 2021: $719 million) of unused capacity under our Revolving Credit Facility.

Cash Flows from Operating Activities

For the period from January 1, 2022 through March 31, 2022, net cash provided by operating activities was $38.8 million (For the period from Inception through December 31, 2021: $301 million), which primarily consisted of revenues and expenses as discussed above, net of non-cash adjustments.

Cash Flows from Investing Activities

For the period from January 1, 2022 through March 31, 2022, net cash used by investing activities was $327.4 million (For the period from Inception through December 31, 2021: $2,604 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 March 31, 2022, net cash provided by financing activities was $291 million (For the period from Inception through December 31, 2021: $2,460 million), which primarily consisted of $220 million of proceeds from borrowings under the Revolving Credit Facility to fund fleet acquisitions as described below under "—Financing Arrangements" and $72 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 disclosed as at December 31, 2021 other than as noted below;

For the period from January 1, 2022 through March 31, 2022, we borrowed an additional $220 million under the Revolving Credit Facility to finance the acquisition of 7 aircraft (2 aircraft on finance lease and 5 aircraft held for operating leases).

As of March 31, 2022 and December 31, 2021, we held the following interest rate swaps to manage interest rate exposure arising from the Term Loan B facility, which bears interest at a floating rate.

March 31, 2022				
Swap maturities	**Notional amount [3]**	**Weighted Average Fixed Pay Rate**	**Weighted Average Receive Rate [4]**	**Weighted Average Maturity (Years)**
2026	$158,125,000	1.779%	2.362%	4.6
2026	$158,125,000	1.820%	2.362%	4.6
2026	$455,000,000	1.816%	2.270%	4.6
2026	$405,000,000	1.994%	2.270%	4.6
Total	$1,176,250,000	1.873%	2.295%	4.6

December 31, 2021				
Swap maturities	**Notional amount**	**Weighted Average Fixed Pay Rate**	**Weighted Average Receive Rate**	**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[5]

As of March 31, 2022, we had entered into agreements for the acquisition of an additional 31 aircraft, primarily through purchase and leaseback transactions, of which one was acquired subsequent to March 31, 2022.

As of March 31, 2022, we had also entered into letters of intent for the purchase and leaseback (finance lease) of 10 aircraft and to provide PDP financing for 7 such aircraft, none of which have closed subsequent to March 31, 2022.

Subsequent to March 31, 2022, we have entered into letters of intent for the placement of 2 engines on finance lease to an airline, none of which have closed to date.

Quantitative and Qualitative Disclosures About Market Risk

For a discussion of quantitative and qualitative disclosures about market risks, please refer to our Annual Report. There have been no significant changes to those disclosed at December 31, 2021.

Significant Accounting Policies

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

[3] Notional Amount is at hedge inception date
[4] Calculation based on rates from inception of hedge to maturity
[5] Our capital expenditure will continue to be supported by Castlelake Aviation IV Stable Yield, L.P.