

**Castlelake Aviation Limited and Subsidiaries**

**Unaudited Condensed Consolidated Financial Statements**

**As of June 30, 2023 and December 31, 2022 and for the three and six months ended June 30, 2023**

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**Castlelake Aviation Limited and Subsidiaries**  
**Unaudited Condensed Consolidated Balance Sheets**  
**As of June 30, 2023 and December 31, 2022**  
(US dollars in thousands)

	Notes	June 30 2023 USD	December 31 2022 USD
<b>Assets</b>			
Cash and cash equivalents	3	134,004	131,073
Restricted cash	3	1,124	1,094
Trade receivables	9	10,622	10,196
Flight equipment held for operating leases, net	4	3,297,981	2,811,775
Maintenance right and lease premium, net	5	298,305	305,930
Net investment in finance lease	6	244,460	288,472
Other assets	7	29,821	18,940
Loan assets	8	505,294	395,218
Derivative assets	14	107,359	96,787
Deferred tax assets	15	51,637	42,819
<b>Total Assets</b>		<b><u>4,680,607</u></b>	<b><u>4,102,304</u></b>
<b>Liabilities and Equity</b>			
Accounts payable and accrued liabilities		5,141	4,428
Deferred rental income		23,863	12,706
Security deposits		25,952	26,906
Accrued maintenance liability	10	58,194	68,454
Derivative liabilities	14	3,228	4,661
Deferred tax liabilities	15	57,821	45,345
Debt	11	3,175,518	2,705,653
<b>Total Liabilities</b>		<b><u>3,349,717</u></b>	<b><u>2,868,153</u></b>
Ordinary share capital, \$0.01 par value: 5,000,000 shares authorized, 1,144,764 shares and 1,060,062 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively		11	11
Additional paid-in capital		1,170,803	1,100,803
Accumulated retained earnings		55,912	39,737
Accumulated other comprehensive income/(loss)		104,164	93,600
<b>Total Equity</b>		<b><u>1,330,890</u></b>	<b><u>1,234,151</u></b>
<b>Total Liabilities and Equity</b>		<b><u>4,680,607</u></b>	<b><u>4,102,304</u></b>

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

**Castlelake Aviation Limited and Subsidiaries**  
**Unaudited Condensed Consolidated Income Statements**  
(US dollars in thousands)

	Notes	Three Months Ended June 30 2023 USD	Three Months Ended June 30 2022 USD	Six Months Ended June 30 2023 USD	Six Months Ended June 20 2022 USD
<b>Revenues and Other Income</b>					
Rental income from operating and finance leases	12	77,332	62,408	157,828	121,594
Interest and other income	13	19,881	5,146	31,995	9,480
Gain on transfer to investment in finance lease	4	-	2,541	-	4,792
<b>Total Revenues and Other Income</b>		<b>97,213</b>	<b>70,095</b>	<b>189,823</b>	<b>135,866</b>
<b>Expenses</b>					
Interest expense	11	43,150	25,997	85,173	49,532
Depreciation	4	34,134	26,251	66,894	52,614
Maintenance and other costs		2,063	1,994	3,286	4,338
Selling, general and administrative expenses		8,291	5,842	16,235	10,453
<b>Total Expenses</b>		<b>87,638</b>	<b>60,084</b>	<b>171,588</b>	<b>116,937</b>
Net income before income tax expense		<b>9,575</b>	<b>10,011</b>	<b>18,235</b>	<b>18,929</b>
Income tax expense	15	(1,183)	(3,364)	(2,060)	(5,478)
<b>Net Income</b>		<b>8,392</b>	<b>6,647</b>	<b>16,175</b>	<b>13,451</b>

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**  
(US dollars in thousands)

		<b>Three Months</b>	<b>Three Months</b>	<b>Six Months Ended</b>	<b>Six Months</b>
	<b>Notes</b>	<b>Ended</b>	<b>Ended</b>	<b>June 30 2023</b>	<b>Ended</b>
		<b>June 30 2023</b>	<b>June 30 2022</b>	<b>June 30 2023</b>	<b>June 20 2022</b>
		<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Net income		8,392	6,647	16,175	13,451
Other comprehensive (loss)/income:					
Net unrealized (loss)/gain on derivatives, net of tax	14	41,879	19,219	10,564	67,569
<b>Total Comprehensive (Loss)/Income</b>		<b><u>50,271</u></b>	<b><u>25,866</u></b>	<b><u>26,739</u></b>	<b><u>81,020</u></b>

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**  
(US 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	
<b>Balance at December 31 2021</b>	812,814	8	812,806	28,538	(1,330)	840,022
Net change	68,075	-	72,000	6,804	48,350	127,154
<b>Balance at March 31 2022</b>	<b>880,889</b>	<b>8</b>	<b>884,806</b>	<b>35,342</b>	<b>47,020</b>	<b>967,176</b>
Net change	-	1	-	6,647	19,219	25,867
<b>Balance at June 30 2022</b>	<b>880,889</b>	<b>9</b>	<b>884,806</b>	<b>41,989</b>	<b>66,239</b>	<b>993,043</b>
Net change	179,173	2	215,997	(2,252)	27,361	241,108
<b>Balance at December 31 2022</b>	<b>1,060,062</b>	<b>11</b>	<b>1,100,803</b>	<b>39,737</b>	<b>93,600</b>	<b>1,234,151</b>
Net change	42,760	-	50,000	7,783	(31,315)	26,468
<b>Balance at March 31 2023</b>	<b>1,102,822</b>	<b>11</b>	<b>1,150,803</b>	<b>47,520</b>	<b>62,285</b>	<b>1,260,619</b>
Net change	41,942	-	20,000	8,392	41,879	70,271
<b>Balance at June 30 2023</b>	<b>1,144,764</b>	<b>11</b>	<b>1,170,803</b>	<b>55,912</b>	<b>104,164</b>	<b>1,330,890</b>

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**  
(US dollars in thousands)

	<b>Six Months Ended</b>	<b>Six Months</b>
	<b>June 30 2023</b>	<b>Ended</b>
	<b>USD</b>	<b>June 30 2022</b>
	<b>USD</b>	<b>USD</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	16,175	13,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	66,894	52,614
Amortization of debt issuance cost	6,764	4,225
Lease premium amortization	7,625	8,719
Collection of finance leases	44,012	8,797
Gain on transfer to investment in finance lease	-	(4,792)
Changes in assets and liabilities		
Receivables and other asset	(12,065)	2,321
Deferred tax asset	(8,818)	5,472
Deferred tax liability	12,476	-
Income tax effect on derivatives	(1,509)	-
Accounts payable and accrued liabilities	2,966	(2,656)
Deferred rental income	11,157	(5,651)
Net cash provided by operating activities	<u>145,677</u>	<u>82,500</u>
<b>Cash Flows from Investing Activities:</b>		
Cash paid for aircraft on operating lease	(553,100)	(379,633)
Cash paid for aircraft on finance lease	-	-
Cash paid for loan investment	(109,316)	(130,598)
Net cash used in investing activities	<u>(662,416)</u>	<u>(510,231)</u>
<b>Cash Flows from Financing Activities:</b>		
Net cash received from borrowings	1,334,489	337,888
Repayment of borrowings	(856,940)	(9,802)
Cash (paid)/received security deposits	(954)	1,317
Net (decrease)/increase in maintenance reserves	(10,260)	5,233
Proceeds from issuance of shares	70,000	72,000
Debt issuance costs	(16,635)	(1,301)
Net cash provided by financing activities	<u>519,700</u>	<u>405,335</u>
<b>Net (decrease)/increase in Cash, Cash Equivalents and Restricted Cash</b>	<b>2,961</b>	<b>(22,396)</b>
<b>Cash, Cash Equivalents and Restricted Cash at Beginning of Period</b>	<b>132,167</b>	<b>156,319</b>
<b>Cash, Cash Equivalents and Restricted Cash at End of Period</b>	<u><b>135,128</b></u>	<u><b>133,923</b></u>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest expense	76,773	44,289

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**  
**June 30, 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 US GAAP.

As of June 30, 2023, there were 108 assets (December 31, 2022: 96 assets) in the CA Group's portfolio, consisting of 89 aircraft on operating lease, 8 aircraft and aircraft assets on finance lease (collectively, the "Aircraft") and 11 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 US 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 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 June 30, 2023.

Since Russian troops invaded Ukraine in February 2022, the United States ("US"), 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 US 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 \$134.0 million and \$131.1 million at June 30, 2023 and December 31, 2022, respectively.

The CA Group's restricted cash was \$1.1 million and \$1.1 million as of June 30, 2023 and December 31, 2022, respectively, related to a reserve for the TL 2 defined in Note 11 – Debt.

### 4 Flight Equipment held for Operating Leases, net

As of June 30, 2023 and December 31, 2022, flight equipment held for operating leases, net were as follows (US dollars in thousands):

	June 30 2023 USD	December 31 2022 USD
Flight Equipment held for Operating Leases, net	3,297,981	2,811,775

Movements in flight equipment held for operating leases during the six months ended June 30, 2023 and the year ended December 31, 2022 were as follows (US dollars in thousands):

	June 30 2023 USD	December 31 2022 USD
Opening balance	2,811,775	2,038,052
Additions	553,100	926,133
Reclassification	-	3,936
Transfers to investment in finance lease	-	(47,955)
Depreciation	(66,894)	(108,391)
Net book value at end of year/period	<u>3,297,981</u>	<u>2,811,775</u>
Accumulated depreciation	(192,458)	(126,951)

Depreciation charge on flight equipment held for operating leases during the three months ended June 30, 2023 and June 30, 2022 were as follows (US dollars in thousands):

	Three Months Ended June 30 2023 USD	Three Months Ended June 30 2022 USD	Six Months Ended June 30 2023 USD	Six Months Ended June 30 2022 USD
Depreciation	<u>(34,134)</u>	<u>(26,251)</u>	<u>(66,894)</u>	<u>(52,614)</u>
	<u>(34,134)</u>	<u>(26,251)</u>	<u>(66,894)</u>	<u>(52,614)</u>

During the period ended June 30, 2023, the CA Group acquired 11 aircraft subject to operating leases.

As of June 30, 2023, the CA Group's aircraft portfolio consisted of 89 aircraft held for operating lease which was made up of 89 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 June 30, 2023 and December 31, 2022 (US dollars in thousands):

	June 30 2023 USD	December 31 2022 USD
Lease Premium	78,076	85,701
Maintenance Right Asset	<u>220,229</u>	<u>220,229</u>
	<u>298,305</u>	<u>305,930</u>

As of June 30, 2023, lease premium and maintenance right asset/(liability) were as follows (US dollars in thousands):

	Lease Premium June 30 2023 USD	Maintenance Right Asset June 30 2023 USD
Cost:		
Opening balance	85,701	220,229
Amortization charge for the period	<u>(7,625)</u>	<u>-</u>
	<u>78,076</u>	<u>220,229</u>

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

	Lease Premium December 31 2022 USD	Maintenance Right Asset December 31 2022 USD
Cost:		
Opening balance	103,484	223,411
Addition	(754)	(3,182)
Amortization charge for the year	<u>(17,029)</u>	<u>-</u>
	<u>85,701</u>	<u>220,229</u>

## 6 Net Investment in Finance lease

As of June 30, 2023 and December 31, 2022, eight and nine leases were accounted for as finance leases, respectively. As of June 30, 2023 and December 31, 2022, six and seven leases had a purchase option in place, respectively. During the period ended June 30, 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 June 30, 2023 and December 31, 2022 (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
Total lease payments to be received	320,448	373,161
Less: Unearned income	(75,988)	(84,689)
Allowance for credit losses	-	-
Net investment in finance lease	<u>244,460</u>	<u>288,472</u>

During the three and six months ended June 30, 2023, the CA Group recognized interest income from net investment in finance leases of \$9.4 million (six months ended June 30, 2022: \$7.7m) and \$3.9m (three months ended Jun 30, 2022: \$4.5m), respectively, included in Rental income from operating and finance leases.

At June 30, 2023, future scheduled minimum lease payments to be received under finance leases were as follows (US dollars in thousands):

	USD
2023	41,104
2024	38,274
2025	36,571
2026	34,902
2027	33,233
Thereafter	136,364
Undiscounted cash flows receivable	<u>320,448</u>
Less: Unearned income	(75,988)
Allowance for credit losses	-
Total	<u>244,460</u>

## 7 Other Assets

At June 30, 2023 and December 31, 2022, the principal components of the CA Group's other assets were as follows (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
Interest receivables	3,786	6,544
Other assets	26,035	12,396
Total	<u>29,821</u>	<u>18,940</u>

Other assets of \$26.0 million (December 31, 2022: \$12.4million) Primarily consists of prepaid expenses, capitalized expenses, other receivables, VAT receivable 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 Loan Assets

	June 30 2023	December 31 2022
	USD	USD
Loan assets	505,294	395,218
Total	<u>505,294</u>	<u>395,218</u>

Loan receivables of \$505.3 million 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, \$60.4 million to two EMEIA based lessors, and \$328.2 million (net of accrued interest and upfront fee) 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. As of June 30, 2023, \$116.7 million is drawn down.

Loans of \$60.4 million provided to two EMEIA based lessors accrues interest at a fixed rate of 8% per annum and are secured against aircraft owned by the lessors. As of June 30, 2023, there are no undrawn amounts or available commitments under these loans.

The loans provided to the EMEIA based airline accrues interest at fixed rate of 7.87 %, 7.81%, 7.70% 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 June 30, 2023, \$330 million is drawn down with an undrawn portion of \$16.9 million.

## 9 Allowance for credit losses

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

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

As of June 30, 2023 and December 31, 2022, no expected credit loss was recognized for loan 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 June 30, 2023, trade receivables of \$10.6 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (US dollars in thousands):

	Lease deferrals	Trade Receivables	Total
	USD	USD	USD
Balance (Gross)	61,773	1,013	62,786
Allowance for bad debts	-	(231)	(231)
Expected credit loss	<u>(51,933)</u>	<u>-</u>	<u>(51,933)</u>
Total	<u>9,840</u>	<u>782</u>	<u>10,622</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 (US 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	<u>(46,662)</u>	<u>-</u>	<u>(46,662)</u>
Total	<u>9,811</u>	<u>385</u>	<u>10,196</u>

## 10 Accrued maintenance liability

As of June 30, 2023 and December 31, 2022, accrued maintenance liability were as follows (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
Accrued maintenance liability	58,194	68,454

Movements in accrued maintenance liability during the period ended June 30, 2023 and the year ended December 31, 2022 were as follows (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
Opening balance	68,454	38,827
Maintenance (claims paid)/payments received	<u>(10,260)</u>	<u>29,627</u>
Accrued maintenance liability at end of period/year	<u>58,194</u>	<u>68,454</u>

## 11 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"), seven term loan facilities ("TL 1", "TL 2", "TL 3", "TL 4", "TL 5", "TL 6" and "TL 7"), a secured revolving credit facility ("RCF") and a non-interest bearing convertible loan (together the "Debt").

The outstanding principal balances, unamortized discount, legal maturity dates and interest rates of the Debt at June 30, 2023 and December 31, 2022 were as follows (US dollars in thousands):

Type	Maturity	Balances as of	
		June 30 2023 USD	December 31 2022 USD
<b>Unsecured</b>			
HYB	04/2027	420,000	420,000
<b>Secured</b>			
TLB 1	10/2026	1,159,349	1,165,250
TLB 2	10/2027	631,825	-
TL 1	05/2024	-	237,201
TL 2	06/2024	112,428	109,439
TL 3	12/2034	130,456	133,632
TL 4	11/2034	121,825	125,679
RCF	04/2026	129,500	539,900
TL 5	12/2030	76,267	-
TL 6	06/2026	369,000	-
TL 7	06/2031	40,000	-
Total secured		<u>2,770,650</u>	<u>2,311,101</u>
Convertible loan	08/2023	18,000	-
Accrued interest		13,871	11,684
Debt issuance costs and debt discounts		(47,003)	(37,132)
Total debt		<u>3,175,518</u>	<u>2,705,653</u>

As of June 30, 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 5.53%. The weighted average interest rate for our floating rate debt of \$2.8 billion is calculated based on the applicable US 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. As of June 30, 2023 there is a non-interest bearing loan ("Convertible Loan") of \$18 million which will be converted to equity within 45 days of the loan issuance.

Interest payments, principal payments and loan conversion on the Debt during the period ended June 30, 2023 were as follows (US dollars in thousands):

	Six months	
	June 30 2023	June 30 2022
	Interest USD	Principal USD
HYB	10,500	-
TLB 1	44,527	5,900
TLB 2	14,547	3,175
TL 1	3,240	237,201
TL 2	4,854	-
TL 3	3,847	3,176
TL 4	3,883	3,855
RCF	10,834	582,900
TL 5	625	733
TL 6	-	-
TL 7	-	-
*Loan conversion	-	20,000
Total interest repayments, principal repayments and non-interest bearing convertible loan	<u>96,857</u>	<u>856,940</u>

\*During the period the Company entered into a non-interest bearing convertible loan of \$20 million which was converted to equity within the period.

The total interest expense during the six months ended June 30, 2023 and the six months ended June 30, 2022 was comprised of the following (US dollars in thousands):

	Six months	
	June 30 2023	June 30 2022
	USD	USD
HYB	10,500	10,442
TLB 1	44,666	20,976
TLB 2	16,795	-
TL 1	2,515	3,207
TL 2	4,889	300
TL 3	3,799	-
TL 4	3,900	-
RCF	10,618	4,622
TL5	816	-
TL6	540	-
TL 7	6	-
Amortization of debt issuance cost	6,764	4,225
Derivatives	(20,635)	5,760
Total	<u>85,173</u>	<u>49,532</u>

The total interest expense during the three months ended June 30, 2023 and June 30, 2022 was comprised of the following (US dollars in thousands):

	Three Months Ended	
	June 30 2023	June 30 2022
	USD	USD
HYB	5,250	5,250
TLB 1	22,719	11,130
TLB 2	12,518	-
TL 1	-	1,778
TL 2	3,035	300
TL 3	1,451	-
TL 4	1,999	-
RCF	3,239	2,735
TL5	816	-
TL6	540	-
TL 7	6	-
Amortization of debt issuance cost	2,790	2,227
Derivatives	(11,213)	2,577
Total	<u>43,150</u>	<u>25,997</u>

## 11 Debt - continued

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 June 30, 2023 \$129.5 million was drawn down from the RCF leaving an undrawn amount of \$820.5 million and \$112.4 million was drawn down from the TL 2 leaving an undrawn amount of \$10.9 million and \$40 million was drawn from T7 leaving \$80 million undrawn. As of June 30, 2023 TL 3, TL 4, TL 5 and TL 6 were fully drawn down.

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

As of June 30, 2023 TLB 1, TLB 2, TL 1, TL 3, TL 4, TL 5, TL 6 and TL 7 are secured by 86 aircraft, while RCF is secured by 3 aircraft assets.

As of June 30, 2023 \$18 million has been drawn as a convertible loan.

At June 30, 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 June 30, 2023 and December 31, 2022 are as follows (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
2023	87,618	78,096
2024	119,574	861,362
2025	53,682	27,750
2026	1,628,150	1,146,728
2027	1,054,995	437,832
Thereafter	264,631	179,333
Total	<u>3,208,650</u>	<u>2,731,101</u>

## 12 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 six months ended June 30, 2023 and six months ended June 30, 2022 (U.S dollars in thousands):

	Six months June 30 2023	Six months June 30 2022
	USD	USD
Europe, Middle East and Africa (EMEA)	17,782	9,197
Asia Pacific (APAC)	86,140	64,587
Americas	61,531	56,529
Lease premium amortization (Note 5)	(7,625)	(8,719)
Total	<u>157,828</u>	<u>121,594</u>

During the three and six months ended June 30, 2023, the CA Group recognized interest income from net investment in finance leases of \$9.4 million (six months ended June 30, 2022: \$7.7m) and \$3.9m (three months ended June 30, 2022: \$4.5m), respectively, included in 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 June 30, 2023 and three months ended June 30, 2022 (U.S dollars in thousands):

	Three Months Ended June 30 2023	Three Months Ended June 30 2022
	USD	USD
Europe, Middle East and Africa (EMEA)	10,483	4,600
Asia Pacific (APAC)	39,673	32,776
Americas	30,988	29,404
Lease premium amortization (Note 5)	(3,812)	(4,372)
Total	<u>77,332</u>	<u>62,408</u>

The CA Group's top five customers represented 65% of total rental revenues for the six months ended June 30, 2023 and two customers each accounted for 10% or more of total rental revenues at 22% and 19%. At June 30, 2023, 33 of the operating leases provide for unexpired extension options and one of the operating leases provides for an unexpired early termination option.

At June 30, 2023 the CA Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases (US dollars in thousands):

	June 30 2023	June 30 2022
	USD	USD
2022	-	127,984
2023	184,449	255,279
2024	361,373	260,279
2025	347,799	234,179
2026	309,663	221,643
2027	274,612	205,864
Thereafter	1,423,241	1,022,916
Total	<u>2,901,137</u>	<u>2,328,144</u>

During the six months ended June 30, 2023, the CA Group recognized an allowance for expected credit losses of \$642k, classified in operating rental income, in respect of the CA Group's deferred operating lease revenue balance at June 30, 2023. See Note 9 - Allowance for credit losses.

## 13 Interest and Other Income

Interest and other income net of provision for bad debts and bad debt provisions during the three and six months ended June 30, 2023 and June 30, 2022 were as follows (US dollars in thousands):

	Three Months Ended June 30 2023	Three Months Ended June 30 2022	Six Months Ended June 30 2023	Six Months Ended June 30 2022
	USD	USD	USD	USD
Interest income	18,275	4,905	29,659	9,079
Other income	1,606	241	2,336	401
	<u>19,881</u>	<u>5,146</u>	<u>31,995</u>	<u>9,480</u>

#### 14 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 June 30, 2023 and December 31, 2022, the underlying variable benchmark interest rates under the interest swaps were three-month US dollar LIBOR and three-month US 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 June 30, 2023 and December 31, 2022, (US dollars in thousands):

	June 30 2023	June 30 2023	December 31 2022	December 31 2022
	Notional USD	Fair Value USD	Notional Amounts USD	Fair Value USD
Derivative assets (liabilities) designated as accounting cash flow hedges:				
Interest rate swaps asset	1,948,347	105,732	1,400,221	95,094
Accrued interest		2,245		1,693
Interest rate swap unwind		(618)		
Derivative asset		<u>107,359</u>		<u>96,787</u>
Interest rate swaps asset (liability)	1,209,783	(3,228)	428,043	(4,661)
Total	<u>3,158,130</u>	<u>104,131</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) \$0.9 million (Notional \$34.3M) and \$1.4 million (Notional \$611M).

In June 2023 an interest rate swap with a notional amount of \$41M (March 2023: Nil) was unwound resulting in a cash inflow of \$618k. This swap was in an asset position prior to unwinding. The unwind value has been capitalised and will be amortised over the life of the original swap to 31 May 2031.

The CA Group recorded the following in other comprehensive gain related to derivative financial instruments for the period ended June 30, 2023 and the period ended June 30, 2022 (US dollars in thousands):

	Three Months Ended June 30 2023 USD	Three Months Ended June 30 2022 USD	Six Months Ended June 30 2023 USD	Six Months Ended June 30 2022 USD
Effective portion of change in FV of derivatives designated as cash flow hedges:				
Interest rate swaps	47,862	21,964	12,073	77,032
Income tax effect	(5,983)	(2,745)	(1,509)	(9,463)
Net (loss)/gain on derivative, net of tax	<u>41,879</u>	<u>19,219</u>	<u>10,564</u>	<u>67,569</u>

## 15 Income Taxes

The following table presents the CA Group's income tax expense/(benefit) for the six months ended June 30, 2023 and period ended June 30, 2022 (US dollars in thousands):

	Six Months Ended June 30 2023	Six Months Ended June 30 2022
	USD	USD
Current tax expense	(89)	6
Deferred tax expense/(benefit)	2,149	5,472
Provision for income taxes	<u>2,060</u>	<u>5,478</u>

The following table presents the CA Group's income tax expense/(benefit) for the three months ended June 30, 2023 and June 30, 2022 (US dollars in thousands):

	Three Months Ended June 30 2023	Three Months Ended June 30 2022
	USD	USD
Current tax expense	(93)	5
Deferred tax expense/(benefit)	1,276	3,359
Provision for income taxes	<u>1,183</u>	<u>3,364</u>

As of June 30, 2023 and December 31, 2022, deferred tax assets and deferred tax liabilities were as follows (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
Deferred tax assets	51,637	42,819
Deferred tax liabilities	(57,821)	(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.

## 16 Commitments and Contingencies

As of June 30, 2023, the CA Group was under an agreement for purchase and leaseback transactions for 44 aircraft (and associated financing of seven of these 44 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 \$2.5 billion of \$2.4 billion as of June 30, 2023 and December 31, 2022 are as follows (US dollars in thousands):

	June 30 2023	December 31 2022
	USD	USD
2022	-	-
2023	1,048,985	1,024,945
2024	108,000	108,000
2025	-	-
2026	-	-
2027	580,309	580,309
Thereafter	730,545	730,545
Total	<u>2,467,839</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 June 30, 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, and the RCF is guaranteed on a senior unsecured basis by the Company and a senior secured basis by certain subsidiaries of the Company. Specifically, the each of the TLB, RCF and HYB is guaranteed by the Company and each of the Company's subsidiaries, other than the borrower or issuer of the associated debt. Each of these guarantees is a full and unconditional guarantee of the payment of all of the principal of, and any premium and interest, if any, on, the associated debt when due, whether at maturity or otherwise, and all other obligations of the CA Group entity under the associated debt instruments. Each of TL 2, TL 3, TL 4, TL 5, TL 6 and TL 7 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.

## 17 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 \$9.8 million during the period from January 1, 2023 to June 30, 2023. As of June 30, 2023, accrued but unpaid Servicer fee balance is \$1.7 million which has been subsequently paid in July 2023.

As of June 30, 2023 there is a non-interest bearing loan ("Convertible Loan") of \$18 million with an affiliate entity which will be converted to equity within in 45 days of the loan issuance.

## 18 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 June 30, 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 June 30, 2023 and December 31, 2022:

	Total USD	June 30 2023		
		Level 1 USD	Level 2 USD	Level 3 USD
<b>Assets</b>				
Derivative assets	107,359	-	107,359	-
<b>Liabilities</b>				
Derivative liability	3,228	-	3,228	-
December 31 2022				
	Total USD	Level 1 USD	Level 2 USD	Level 3 USD
<b>Assets</b>				
Derivative assets	95,094	-	95,094	-
<b>Liabilities</b>				
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 US 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 June 30, 2023 and December 31, 2022, but require disclosure of their fair values: cash and cash equivalents. The estimated fair value of such instruments at June 30, 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.

## 19 Subsequent Event

Post quarter end ten aircraft were delivered on operating lease, two to a lessee based in the Asia and eight to a lessee based in South America.

The CA Group has evaluated the effects of events that have occurred subsequent to June 30, 2023 and through August 15, 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 June 30, 2023 financial statements, other than the matters presented elsewhere in the financial statements.