

Castlelake Aviation Limited

Quarterly Financial Report

for the

Period Ended

September 30, 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;*
- *data security and privacy risks;*
- *changes in banks' inter-bank lending rate reporting practices or the method pursuant to which LIBOR is determined or the method pursuant to which SOFR is determined;*
- *our ability to attract and retain key personnel through Castllake L.P.;*
- *the performance of support services by Castllake L.P. and our limited ability to terminate and limited remedies available against Castllake under our management and servicing agreements;*
- *potential conflicts of interest with Castllake;*
- *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 the consolidated financial statements and management’s discussion and analysis included in our Annual Report for the period ended December 31, 2021 and quarterly reports for the periods ended March 31 and June 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 September 30, 2022, our portfolio consisted of 86 assets, including 69 aircraft on operating lease, 7 aircraft and 2 engines on finance lease, (together, the “Aircraft”) and 8 secured loans made to aviation related companies (collectively with the Aircraft, the “Portfolio”).

During the period from July 1, 2022 through September 30, 2022, we acquired 4 assets, consisting of 2 aircraft assets on finance lease and 2 aircraft on operating lease. In addition, provided further advances on a secured loan. 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 September 30, 2022, our Aircraft had a weighted average age of 6.1 years and weighted average remaining lease term of 9.7 years¹. 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 18 separate airline customers throughout the world, including Delta Air Lines, Qatar, AirAsia Berhad, Lion Air, Air Macau and Air France.

¹ Remaining lease term and average aircraft age aircraft 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.

Our Portfolio

As of September 30, 2022, our Portfolio consisted of the following Aircraft:

Manufacturer	Aircraft Type	Number ²
Narrowbody:		
Airbus	A220 Family	8
Airbus	A320/321 CEO	22
Airbus	A320/321 NEO	7
Boeing	B737-NG Family	8
Boeing	B737 MAX 8	7
Bombardier	CRJ-900	7
Embraer	E-190	2
Widebody:		
Airbus	A330-200/300 CEO	7
Airbus	A330-200F	6
Airbus	A330-NEO	1
Airbus	A350-900	1
Engines:		
CFM	CFM LEAP-1A26	2
Grand Total:		78

As of September 30, 2022, we had entered into agreements for the acquisition of an additional 23 aircraft, primarily through purchase and leaseback transactions (operating lease), none of which were delivered to the customer subsequent to September 30, 2022. We also entered into agreements for the purchase and leaseback (finance lease) of 15 aircraft and to provide PDP financing for 7 such aircraft as of such date, one aircraft has closed subsequent to September 30, 2022.

As of September 30, 2022, we had also entered into letters of intent for the acquisition of additional aircraft, primarily through purchase and leaseback transactions. Four of these aircraft were acquired after September 30, 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”

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. Many of these restrictions have now been lifted and domestic air traffic has seen a recovery close to pre-pandemic levels but international air traffic still remains 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 recovery does not continue or remains uneven. 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

² Excludes six A330-200 that are owned by Iberia which secure the loans in our portfolio, excludes 1 loan secured by intangible assets of an airline and excludes 1 loan secured by share charge to the borrower entity and recourse to the Company

on the leases and/or loans that we have acquired.

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 continue to 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.

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.

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;
- 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 ~~the~~ global political and economic events.

Recent Developments

In October and November 2022, we acquired a total of four widebody aircraft each of which was subject to non-binding letters of intent as of September 30, 2022. All of the acquired aircraft are subject to long-term operating leases. We paid for the aircraft with the proceeds from an equity contribution from our parent and two new term loans, in aggregate principal amount of \$134.5 million and \$126.0 million, respectively. Each of these term loans are secured by the aircraft. In addition, in October 2022 the Company borrowed \$35.1 million under its revolving credit facility to acquire one narrowbody aircraft that was subject to a binding purchase agreement as of September 30, 2022.

In October 2022, we entered into binding purchase agreements for the acquisition of 8 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 to 18 months.

In October 2022, we entered into an amended and restated secured loan agreement with an Asia Pacific based airline pursuant to which, among other things, the principal balance of the loan was increased from \$66.7 million to \$116.7 million and additional collateral was pledged in our favor over certain assets of the airline. A portion of the additional principal balance \$22.7 million represents past-due trade receivables from the customer that were rolled into the term loan. This will result in \$22.7 million decrease in the trade receivables and a reversal of \$5.1 million in allowance for bad debt that will be recorded in the fourth quarter of 2022.

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 Castlake 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 July 1, 2022 through September 30, 2022.

Three Month Period from July 1, 2022 through September 30, 2022

Rental Income from Operating and Finance Leases. Rental income from operating and finance leases for the three-month period from July 1, 2022 through September 30, 2022 was \$61.6 million (net of lease intangible amortization of \$4.4 million and expected credit loss of \$1.1 million) (Period from April 1, 2022 through June 30, 2022: \$62.4 million). The \$0.8 million decrease was driven by an increase in the bad debt provision of \$1.1 million, due to non-payment of trade receivables, which have subsequently settled post period end, offset by an additional \$0.3 million of revenue relating to two aircraft acquired in the middle of the prior quarter and the addition to the Portfolio of two aircraft under operating lease and two engines under finance lease during the current quarter. There was no end of lease income earned in the nine-month period ending September 30, 2022.

Interest and Other Income. Interest and other income for the period from July 1, 2022 through September 30, 2022, was \$8.5 million (Period from April 1, 2022 through June 30, 2022: \$5.1 million) and primarily consisted of interest income earned on the 8 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 July 1, 2022 through September 30, 2022 we provided \$24.1 million of additional advances under 1 of the secured loans. The \$3.2 million increase in the period was primarily driven by an increase in interest income relating to the secured loan asset acquired in the middle of the prior period.

Gain on Transfer to investment in finance lease. We did not recognize any gains on transfer to investment in finance lease for the period from July 1, 2022 through September 30, 2022 (Period from April 1, 2022 through June 30, 2022: \$2.5 million). The prior period gain of \$2.5 million related to a transfer of assets previously classified under flight equipment held for operating leases to net investment in finance lease made in June 2022.

Income Tax. Income tax charge for the period from July 1, 2022 through September 30, 2022, was \$2.3 million (Period from April 1, 2022 through June 30, 2022: \$3.4 million). The balance predominantly relates to a movement in our deferred tax charge. The period over period decrease is due to the transfer of an asset from Operating Lease to Finance Lease during the prior period with no such transfer in the current period. 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 June 1, 2022 through September 30, 2022, was \$29.4 million (Period from April 1, 2022 through June 30, 2022: \$26.0 million), consisting of \$27.7 million of interest charges on debt facilities, \$0.6 million of interest income on derivatives and amortization of debt issuance costs of \$2.4 million. The period over period increase in interest expense of \$6.5 million was primarily due to the increased balance under our Revolving Credit Facility which was drawn on to acquire an asset 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 and increased interest rates on our floating rate debt. We expect interest rates to continue to be higher than our historic rates, but plan to manage the increase through our hedging policy. These increases were offset by a \$3.2 million reduction in our derivative expense period over period. As of September 30, 2022, we had \$2.3 billion in principal amount of indebtedness outstanding and had average outstanding indebtedness for the period from July 1, 2022 through September 30, 2022 of \$2.2 billion. For additional information on our debt facilities, see “—Liquidity and Capital Resources—Financing Arrangements.” As of September 30, 2022, the notional amount of the derivatives was \$1.2 billion.

Depreciation Expense. Depreciation expense for the period from July 1, 2022 through September 30, 2022, was \$26.3 million (Period from April 1, 2022 through June 30, 2022: \$26.3 million), consisting of the depreciation expense related to our Aircraft. There has been no movement period over period.

Maintenance and Other Expenses. Maintenance and other expenses for the period from July 1, 2022 through September 30, 2022, was \$1.3 million (Period from April 1, 2022 through June 30, 2022: \$2.0 million), primarily consisting of asset maintenance costs, aircraft insurance and consultancy charges. The period over period net decrease was primarily due to a decrease in asset maintenance expense of \$0.7 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the period from July 1, 2022 through September 30, 2022, were \$5.6 million (Period from April 1, 2022 through June 30, 2022: \$5.8 million), primarily consisting of servicing and management fees payable to Castlelake of \$2.8 million, legal fees of \$0.4 million, audit and accounting fees of \$0.5 million, RCF debt placement fees of \$0.6 million, professional fees of \$0.6 million and various other general and administrative expenses of \$0.8 million. The period over period decrease mainly relates to a decrease in servicing fees and legal fees.

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 September 30, 2022, we had total principal indebtedness of \$2,265 million (as at June 30, 2022: \$2,220.1 million), consisting of \$1,845 million (as at June 30, 2022: \$1,781 million) of aggregate principal amount of secured indebtedness and \$420 million (as at June 30, 2022: \$420 million) of aggregate principal amount of unsecured indebtedness.

As of September 30, 2022, receivables due from customers amounted to \$33.9 million (as at June 30, 2022: \$17.0 million) and consisted of trade receivables and deferred receivables. As of September 30, 2022, we had gross trade receivables of \$24.8 million of which an allowance for bad debt of \$8.1 million has been provided for. For additional information see “—Recent Developments.” As of September 30, 2022, we had gross deferral amounts of \$58.3 million of which an expected credit loss of \$41.0 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 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 September 30, 2022, we had \$171.3 million (as at June 30, 2022: \$133.1 million) of cash and cash equivalents, restricted cash of \$1.0 million (as at June 30, 2022: \$0.9), \$413 million of unused capacity under our Revolving Credit Facility (as at June 30, 2022: \$466 million) and \$22.8 million of unused capacity under our Term Loan 2 Facility (as at March 31, 2022: \$38.5 million).

Cash Flows from Operating Activities

For the period from January 1, 2022 through September 30, 2022, net cash provided by operating activities was \$116.6 million (For the period from January 1, 2022 through June 30, 2022: \$85.5 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 September 30, 2022, net cash used by investing activities was \$657.7 million (For the period from January 1, 2022 through June 31, 2022: \$510.2 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 September 30, 2022, net cash provided by financing activities was \$556.9 million (For the period from January 1, 2022 through June 30, 2022: \$405.3 million), which primarily consisted of \$406.6 million of proceeds from borrowings under the Revolving Credit Facility and Term Loan 2 to fund fleet acquisitions and a secured loan asset as described below under “—Financing Arrangements” and \$158.0 million of proceeds from the issuance of shares to affiliates of Castllake.

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 Castllake DAC, and an indirect wholly owned subsidiary of Castllake Aviation, entered into a secured credit facility with certain banks, financial institutions and other entities party thereto from time to time as lenders and UMB Bank, N.A., as administrative agent and collateral agent (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, Castlake DAC and Castlake 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 Castlake 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 Castlake 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 Castlake 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.

For the period from July 1, 2022 through September 30, 2022 we borrowed an additional \$53.0 million under the Revolving Credit Facility to finance the acquisition of one aircraft on finance lease.

During the period from July 1, 2022 through September 30, 2022, we borrowed an additional \$15.7 million under the Term Loan 2, relating to the PDP financing advance in the period.

As of September 30, 2022 and June 30, 2022, 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.

September 30, 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%	3.607%	4.1
2026	\$158,125,000	1.820%	3.607%	4.1
2026	\$455,000,000	1.816%	3.454%	4.1
2026	\$405,000,000	1.994%	3.454%	4.1
2026	\$31,211,755	4.080%	3.867%	4.1
Total	<u>\$1,207,461,755</u>	1.930%	3.649%	4.1

June 30, 2022				
Swap maturities	Notional amount ⁵	Weighted Average Fixed Pay Rate	Weighted Average Receive Rate ⁶	Weighted Average Maturity (Years)
2026	\$158,125,000	1.779%	2.740%	4.3
2026	\$158,125,000	1.820%	2.740%	4.3
2026	\$455,000,000	1.816%	2.630%	4.3
2026	\$405,000,000	1.994%	2.630%	4.3
Total	<u>\$1,176,250,000</u>	1.873%	2.660%	4.3

Capital Expenditures⁷

As of September 30, 2022, we had entered into agreements for the acquisition of an additional 23 aircraft, primarily through purchase and leaseback transactions (operating lease), none of which were delivered to the customer subsequent to September 30, 2022. We also entered into agreements for the purchase and leaseback (finance lease) of 15 aircraft and to provide PDP financing for 7 such aircraft as of such date, one aircraft has delivered subsequent to September 30, 2022.

As of September 30, 2022, we had also entered into letters of intent for the acquisition of additional aircraft, primarily through purchase and leaseback transactions.

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

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.

³ Notional Amount is at hedge inception date

⁴ Calculation based on rates from inception of hedge to maturity

⁵ Notional Amount is at hedge inception date

⁶ Calculation based on rates from inception of hedge to maturity

⁷ Our capital expenditure will continue to be supported by Castlelake Aviation IV Stable Yield, L.P.

Significant Accounting Policies

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