

Castlelake Aviation Limited and Subsidiaries

Unaudited Condensed Consolidated Financial Statements

As of September 30, 2023 and December 31, 2022 and for the 3 and 9 months ended September 30, 2023

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

	Notes	September 30 2023 USD	December 31 2022 USD
Assets			
Cash and cash equivalents	3	192,902	131,073
Restricted cash	3	1,168	1,094
Trade receivables	9	9,856	10,196
Flight equipment held for operating leases, net	4	3,688,205	2,811,775
Maintenance right assets and lease premiums, net	5	283,445	305,930
Net investment in finance leases	6	190,646	288,472
Other assets	7	23,828	18,940
Loan assets	8	536,267	395,218
Derivative assets	14	120,379	96,787
Deferred tax assets	15	46,549	42,819
Total Assets		5,093,245	4,102,304
Liabilities and Equity			
Accounts payable and accrued liabilities		4,419	4,428
Deferred rental income		23,267	12,706
Security deposits		36,227	26,906
Accrued maintenance liabilities	10	59,842	68,454
Derivative liabilities	14	-	4,661
Deferred tax liabilities	15	54,674	45,345
Debt	11	3,541,461	2,705,653
Total Liabilities		3,719,890	2,868,153
Ordinary share capital, \$0.01 par value: 5,000,000 shares authorized, 1,159,709 shares and 1,060,062 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively		11	11
Additional paid-in capital		1,188,803	1,100,803
Accumulated retained earnings		65,569	39,737
Accumulated other comprehensive income		118,972	93,600
Total Equity		1,373,355	1,234,151
Total Liabilities and Equity		5,093,245	4,102,304

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)

		3 Months Ended September 30 2023 USD	3 Months Ended September 30 2022 USD	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
	Notes				
Revenues and Other Income					
Rental income from operating and finance leases	12	97,780	61,643	255,609	183,237
Interest and other income	13	15,925	8,505	47,920	17,985
Gain on transfer to investment in finance lease		-	-	-	4,792
Total Revenues and Other Income		113,705	70,148	303,529	206,014
Expenses					
Interest expense	11	51,991	29,435	137,164	78,967
Depreciation	4	39,464	26,297	106,358	78,911
Maintenance and other costs		2,407	1,317	5,693	5,655
Selling, general and administrative expenses		10,345	5,569	26,582	16,022
Total Expenses		104,207	62,618	275,797	179,555
Net income before income tax expense		9,498	7,530	27,732	26,459
Income tax benefit/(expense)	15	159	(2,338)	(1,901)	(7,816)
Net Income		9,657	5,192	25,831	18,643

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)

		3 Months Ended September 30 2023 USD	3 Months Ended September 30 2022 USD	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
Net income		9,657	5,192	25,831	18,643
Other comprehensive income:					
Net unrealized gain on derivatives, net of tax	14	14,808	37,081	25,372	104,650
Total Comprehensive Income		<u>24,465</u>	<u>42,273</u>	<u>51,203</u>	<u>123,293</u>

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

Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity
(US dollars in thousands)

	Number of ordinary shares issued	Ordinary share capital USD	Additional paid-in capital USD	Accumulated retained earnings USD	Accumulated other comprehensive income/(loss) USD	Total USD
Balance at December 31 2021	812,814	8	812,806	28,538	(1,330)	840,022
Net change	68,075	-	72,000	6,804	48,350	127,154
Balance at March 31 2022	880,889	8	884,806	35,342	47,020	967,176
Net change	-	1	-	6,647	19,219	25,867
Balance at June 30 2022	880,889	9	884,806	41,989	66,239	993,043
Net change	68,989	-	85,999	5,192	37,081	128,272
Balance at September 30 2022	949,878	9	970,805	47,181	103,320	1,121,315
Net change	110,184	2	129,998	(7,444)	(9,720)	112,836
Balance at December 31 2022	1,060,062	11	1,100,803	39,737	93,600	1,234,151
Net change	42,760	-	50,000	7,783	(31,315)	26,468
Balance at March 31 2023	1,102,822	11	1,150,803	47,520	62,285	1,260,619
Net change	41,942	-	20,000	8,392	41,879	70,271
Balance at June 30 2023	1,144,764	11	1,170,803	55,912	104,164	1,330,890
Net change	14,945	-	18,000	9,657	14,808	42,465
Balance at September 30 2023	1,159,709	11	1,188,803	65,569	118,972	1,373,355

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)

		9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
Cash Flows from Operating Activities:	Notes		
Net income		25,831	18,643
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	4	106,358	78,911
Amortization of debt issuance cost	11	10,060	6,615
Lease premium amortization	12	11,254	13,086
Collection of finance leases	6	97,826	16,150
Collection of loan assets	8	32,930	-
Gain on transfer to investment in finance lease		-	(4,792)
Changes in assets and liabilities			
Receivables	9	340	(15,910)
Other asset	7/14	(4,146)	(2,010)
Loan assets	8	(3,083)	
Deferred tax asset	15	(3,730)	7,711
Deferred tax liability	15	9,329	-
Income tax effect on derivatives	14	(3,624)	-
Accounts payable		(6)	(4,495)
Accrued liabilities	11	8,163	6,512
Deferred rental income		10,561	(3,777)
Net cash provided by operating activities		298,063	116,644
Cash Flows from Investing Activities:			
Purchase of aircraft	4/5	(971,557)	(502,754)
Cash paid for loan assets	8	(170,896)	(154,896)
Net cash used in investing activities		(1,142,453)	(657,650)
Cash Flows from Financing Activities:			
Net cash received from borrowings	11	1,747,986	406,567
Repayment of borrowings	11	(910,580)	(14,600)
Net increase in security deposits		9,321	1,623
Net (decrease)/increase in maintenance reserves	10	(8,612)	7,588
Proceeds from issuance of shares		88,000	158,000
Debt issuance costs	11	(19,822)	(2,230)
Net cash provided by financing activities		906,293	556,948
Net movement in Cash, Cash Equivalents and Restricted Cash		61,903	15,942
Cash, Cash Equivalents and Restricted Cash at Beginning of Period		132,167	156,319
Cash, Cash Equivalents and Restricted Cash at End of Period		194,070	172,261
Supplemental Cash Flow Information:			
Cash paid for interest expense		119,842	65,839

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
September 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 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.

The Company, Castlelake Aviation Finance Designated Activity Company (“CAF DAC”), a direct wholly owned subsidiary of the Company, and CAF DAC’s subsidiaries collectively comprise (the “CA Group”). As of September 30, 2023, there were 118 assets (December 31, 2022: 96 assets) in the CA Group’s portfolio, consisting of 100 aircraft on operating lease, 6 aircraft and aircraft assets on finance lease and 12 secured loan assets. These assets have been financed by a number of term loans, a Revolving Credit Facility and a High Yield Bond (as outlined in Note 11).

2 Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements and the related information in the footnotes have been prepared on a going concern basis and in accordance with 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 condensed consolidated financial statements are stated in US dollars, which is the CA Group’s functional currency.

Going Concern

The CA Group relies on lessees’ continued 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. 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 September 30, 2023.

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 loan assets 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 \$192.9 million and \$131.1 million at September 30, 2023 and December 31, 2022, respectively.

The CA Group’s restricted cash was \$1.2 million and \$1.1 million as of September 30, 2023 and December 31, 2022, respectively, related to a reserve for the TL 2 defined in Note 11 – Debt.

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

4 Flight equipment held for operating leases, net

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

	September 30 2023 USD	December 31 2022 USD
Flight Equipment held for Operating Leases, net	3,688,205	2,811,775

Movements in flight equipment held for operating leases during the 9 months ended September 30, 2023 and the year ended December 31, 2022 were as follows (US dollars in thousands):

	September 30 2023 USD	December 31 2022 USD
Opening balance	2,811,775	2,038,052
Additions	982,617	926,133
Transfer from maintenance intangible	171	-
Reclassification	-	3,936
Transfers to investment in finance lease	-	(47,955)
Depreciation	(106,358)	(108,391)
Net book value at end of period/year	<u>3,688,205</u>	<u>2,811,775</u>
Accumulated depreciation	(231,922)	(126,951)

Depreciation charge on flight equipment held for operating leases during the 3 and 9 months ended September 30, 2023 and September 30, 2022 were as follows (US dollars in thousands):

	3 Months Ended September 30 2023 USD	3 Months Ended September 30 2022 USD	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
Depreciation	(39,464)	(26,297)	(106,358)	(78,911)
	<u>(39,464)</u>	<u>(26,297)</u>	<u>(106,358)</u>	<u>(78,911)</u>

During the 9 month period ended September 30, 2023, the CA Group acquired 22 aircraft subject to operating leases.

As of September 30, 2023, the CA Group's aircraft portfolio consisted of 100 aircraft held for operating lease which were 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 were on lease to 18 different lessees in 13 different countries.

5 Maintenance right assets and lease premiums, net

Maintenance right assets and lease premiums, net consisted of the following as of September 30, 2023 and December 31, 2022 (US dollars in thousands):

	September 30 2023 USD	December 31 2022 USD
Lease Premiums	62,546	85,701
Maintenance Right Assets	220,899	220,229
	<u>283,445</u>	<u>305,930</u>

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

5 Maintenance right assets and lease premiums, net (continued)

As of September 30, 2023, lease premiums/(liabilities) and maintenance right assets/(liabilities) were as follows (US dollars in thousands):

	Lease Premium September 30 2023 USD	Maintenance Right Asset September 30 2023 USD
Opening balance	85,701	220,229
Additions to Maintenance Right Assets	-	841
Additions to Lease intangible liability	(11,901)	-
Transfer to flight equipment	-	(171)
Amortization charge for the period	(11,254)	-
	<u>62,546</u>	<u>220,899</u>

As of December 31, 2022, lease premiums/(liabilities) and maintenance right assets/(liabilities) were as follows (US dollars in thousands):

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

6 Net investment in finance leases

As of September 30, 2023 and December 31, 2022, 6 and 9 leases were accounted for as finance leases, respectively. As of September 30, 2023 and December 31, 2022, 5 and 7 leases had a purchase option in place, respectively. During the period ended September 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 September 30, 2023 and December 31, 2022 (US dollars in thousands):

	September 30 2023 USD	December 31 2022 USD
Total lease payments to be received	257,151	373,161
Less: Unearned income	(66,505)	(84,689)
Net investment in finance lease	<u>190,646</u>	<u>288,472</u>

As at September 30, 2023, net investment in finance lease were as follows (U.S. dollars in thousands)

	September 30 2023 USD
Opening balance	288,472
Additions	-
Lease principal repayments	(97,826)
	<u>190,646</u>

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

6 Net investment in finance leases (continued)

As at December 31, 2022, net investment in finance lease were as follows (U.S. dollars in thousands)

	December 31 2022 USD
Opening balance	70,163
Additions	187,620
Transfer from operating lease	47,955
Gain on transfer from operating lease	4,792
Lease principal repayments	<u>(22,058)</u>
	<u>288,472</u>

The CA Group is exposed to credit losses on its net investment in finance leases provided to its airline customers. The CA Group's net investment in finance lease 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.

As of September 30, 2023 and December 31, 2022, no expected credit loss was recognized for 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.

During the 3 and 9 months ended September 30, 2023, the CA Group recognized interest income from net investment in finance leases of \$5.0m (3 months ended September 30, 2022: \$4.8m) and \$14.3m (9 months ended September 30, 2022: \$12.5m), respectively, included in rental income from operating and finance leases.

	USD
2023	8,546
2024	32,336
2025	30,923
2026	29,539
2027	28,155
Thereafter	<u>127,652</u>
Undiscounted cash flows receivable	257,151
Less: Unearned income	(66,505)
Allowance for credit losses	-
Total	<u>190,646</u>

7 Other assets

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

	September 30 2023 USD	December 31 2022 USD
Interest receivable	3,731	6,544
Other assets	<u>20,097</u>	<u>12,396</u>
Total	<u>23,828</u>	<u>18,940</u>

Other assets of \$20.1 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.

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

8 Loan assets

	September 30 2023 USD	December 31 2022 USD
Opening balance	395,218	126,171
Additions	170,896	268,460
Repayments	(32,930)	(900)
Amortisation	1,883	1,487
Movement in accrued interest	1,200	-
Closing balance	<u>536,267</u>	<u>395,218</u>

Loan assets of \$536.3 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, \$60.6 million to two EMEA based lessors, and \$359 million to an EMEA 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 September 30, 2023, \$116.7 million is drawn down.

Loans of \$60.6 million provided to two EMEA based lessors accrues interest at a fixed rate of 8% per annum and are secured against aircraft owned by the lessors. As of September 30, 2023, there are no undrawn amounts or available commitments under these loans.

The loans provided to the EMEA based airline accrues interest at fixed rate of 7.88 %, 7.81%, 7.70%, 8.16% and 8.40% per annum and are secured by an assignment of the certain rights of the airline under the relevant aircraft purchase agreement. As of September 30, 2023, \$361.3 million is drawn down with an undrawn portion of \$10.7 million.

The CA Group is exposed to credit losses on its loan assets provided to its airline customers. The CA Group's loan assets credit exposure reflect the risk that its customers fail to meet their payment obligations.

As of September 30, 2023 and December 31, 2022, no expected credit loss was recognized for loan receivables. An evaluation in accordance with ASC 326 Financial Instruments – Credit Losses was completed, and it was deemed that no expected credit loss was required.

9 Trade receivables

The CA Group is exposed to credit losses on its lease deferrals and trade receivables provided to its airline customers. The CA Group's lease deferrals and trade receivables 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 September 30, 2023, trade receivables of \$9.9 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (US dollars in thousands):

	Lease deferrals USD	Trade receivables USD	Total USD
Balance (Gross)	60,720	16	60,736
Allowance for bad debts	-	-	-
Expected credit loss	(50,880)	-	(50,880)
Total	<u>9,840</u>	<u>16</u>	<u>9,856</u>

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

9 Trade receivables (continued)

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

10 Accrued maintenance liabilities

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

	September 30 2023 USD	December 31 2022 USD
Accrued maintenance liabilities	<u>59,842</u>	<u>68,454</u>

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

	September 30 2023 USD	December 31 2022 USD
Opening balance	68,454	38,827
Maintenance payments received	8,634	32,777
Maintenance claims paid	(17,246)	(3,150)
Accrued maintenance liabilities	<u>59,842</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 2", "TL 3", "TL 4", "TL 5", "TL 6", "TL 7" and "TL 8") and a secured revolving credit facility ("RCF").

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

Type	Maturity	September 30 2023 USD	December 31 2022 USD
Unsecured			
HYB	04/2027	420,000	420,000
Secured			
TLB 1	10/2026	1,156,400	1,165,250
TLB 2	10/2027	630,238	-
TL 1	05/2024	-	237,201
TL 2	06/2024	94,197	109,439
TL 3	12/2034	128,802	133,632
TL 4	11/2034	119,857	125,679
RCF	04/2026	368,410	539,900
TL 5	12/2030	75,320	-
TL 6	06/2026	366,155	-
TL 7	06/2031	118,528	-
TL 8	08/2038	90,600	-
Total secured		<u>3,148,507</u>	<u>2,311,101</u>
Accrued interest		19,847	11,684
Debt issuance costs		(67,717)	(47,895)
Amortisation of Debt issuance costs		20,824	10,763
Total debt		<u>3,541,461</u>	<u>2,705,653</u>

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

11 Debt (continued)

As of September 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 \$3.1 billion is calculated based on the applicable US dollar SOFR rate, as applicable, as of the most recent interest payment date of the respective debt and excludes the impact of related derivative financial instruments which we hold to hedge our exposure to floating interest rates, as well as any amortization of debt issuance costs and debt discounts.

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

	9 Months Ended September 30 2023 Interest USD	9 Months Ended September 30 2023 Principal USD
HYB	10,500	-
TLB 1	69,124	8,850
TLB 2	27,472	4,763
TL 1	3,240	237,201
TL 2	7,583	22,216
TL 3	5,704	4,830
TL 4	5,974	5,823
RCF	13,391	582,900
TL 5	1,716	1,680
TL 6	6,530	2,845
TL 7	1,164	1,472
TL 8	-	-
*Loan conversion	-	38,000
Total interest repayments, principal repayments and non-interest bearing convertible loan	<u>152,398</u>	<u>910,580</u>

*During the period ended September 30, 2023 the Company entered into two non-interest bearing convertible loans of \$20 million and \$18 million which were both converted to equity within the period. They also entered into a new TL8 that is secured by aircraft during the period.

The total interest expense during the 9 months ended September 30, 2023 and the 9 months ended September 30, 2022 was comprised of the following (US dollars in thousands):

	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
HYB	15,750	15,692
TLB 1	69,314	35,435
TLB 2	29,830	-
TL 1	2,515	5,856
TL 2	7,576	1,738
TL 3	5,694	-
TL 4	5,997	-
RCF	15,439	8,498
TL 5	1,905	-
TL 6	7,350	-
TL 7	1,458	-
TL 8	7	-
Amortization of debt issuance costs	10,060	6,615
Derivatives	(35,731)	5,133
Total	<u>137,164</u>	<u>78,967</u>

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023

11 Debt (continued)

The total interest expense during the 3 months ended September 30, 2023 and September 30, 2022 was comprised of the following (US dollars in thousands):

	3 Months Ended September 30 2023	3 Months Ended September 30 2022
HYB	5,250	5,250
TLB 1	24,647	14,459
TLB 2	13,035	-
TL 1	-	2,649
TL 2	2,688	1,438
TL 3	1,895	-
TL 4	2,098	-
RCF	4,821	3,876
TL 5	1,089	-
TL 6	6,809	-
TL 7	1,452	-
TL 8	7	-
Amortization of debt issuance costs	3,296	2,390
Derivatives	(15,096)	(627)
Total	<u>51,991</u>	<u>29,435</u>

In March 2023, the CA Group entered into a TLB 2 which was secured by, among other things, a pledge of the shares of the borrower entity within the CA Group.

As of September 30, 2023 \$368.4 million was drawn down from the RCF leaving an undrawn amount of \$581.6 million, \$94.2 million was drawn down from the TL 2 leaving an undrawn amount of \$7.0 million and \$90.6 million was drawn down from the TL8 leaving an undrawn amount of \$46 million. As of September 30, 2023 TL 3, TL 4, TL 5, TL 6 and TL 7 were fully drawn.

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

As of September 30, 2023 TLB 1, TLB 2, TL 2, TL 3, TL 4, TL 5, TL 6, TL 7 and TL 8 are secured by 98 aircraft, while RCF is secured by 12 aircraft assets.

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

	September 30 2023 USD	December 31 2022 USD
2023	81,895	78,096
2024	89,906	861,362
2025	64,767	27,750
2026	1,878,424	1,146,728
2027	1,066,666	437,832
Thereafter	386,848	179,333
Total	<u>3,568,506</u>	<u>2,731,101</u>

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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 9 months ended September 30, 2023 and 9 months ended September 30, 2022 (U.S dollars in thousands):

	9 Months Ended September 30 2023	9 Months Ended September 30 2022
Europe, Middle East and Africa (EMEA)	35,130	14,001
Asia Pacific (APAC)	134,380	95,462
Americas	97,353	86,860
Lease premium amortization (Note 5)	(11,254)	(13,086)
Total	<u>255,609</u>	<u>183,237</u>

The CA Group is exposed to credit losses on its net investment in finance leases provided to its airline customers. The CA Group's net investment in finance lease 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 following table details rental income, net of expected credit losses, provision for bad debts and bad debt recoveries, by geographical source during the 3 months ended September 30, 2023 and 3 months ended September 30, 2022 (U.S dollars in thousands):

	3 Months Ended September 30 2023	3 Months Ended September 30 2022
Europe, Middle East and Africa (EMEA)	17,350	4,804
Asia Pacific (APAC)	48,240	31,292
Americas	35,819	29,915
Lease premium amortization (Note 5)	(3,629)	(4,368)
Total	<u>97,780</u>	<u>61,643</u>

The CA Group's top five customers represented 65% of total rental revenues for the nine months ended September 30, 2023 and three customers each accounted for 10% or more of total rental revenues at 21%, 17% and 10%. At September 30, 2023, 36 of the operating leases provide for unexpired extension options and one of the operating leases provides for an unexpired early termination option.

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

	September 30 2023	September 30 2022
2022	-	65,825
2023	104,630	263,091
2024	409,876	268,091
2025	396,302	241,991
2026	357,615	229,455
2027	321,899	213,676
Thereafter	1,630,976	1,074,844
Total	<u>3,221,298</u>	<u>2,356,973</u>

During the 9 months ended September 30, 2023, the CA Group recognized an allowance for expected credit losses of \$4.2m, classified in operating rental income, in respect of the CA Group's deferred operating lease revenue balance at September 30, 2023. See Note 9 - Allowance for credit losses.

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13 Interest and other income

Interest and other income net of provisions for bad debts during the 3 and 9 months ended September 30, 2023 and September 30, 2022 were as follows (US dollars in thousands):

	3 Months Ended September 30 2023 USD	3 Months Ended September 30 2022 USD	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
Interest income	1,798	970	10,224	2,503
Loan interest income	13,008	7,535	35,466	15,482
Other income	1,119	-	2,230	-
	<u>15,925</u>	<u>8,505</u>	<u>47,920</u>	<u>17,985</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 September 30, 2023 and December 31, 2022, the underlying variable benchmark interest rates under the interest swaps were three-month US dollar SOFR and one-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 September 30, 2023 and December 31, 2022, (US dollars in thousands):

	September 30 2023 Notional amounts USD	September 30 2023 Fair value USD	December 31 2022 Notional amounts USD	December 31 2022 Fair value USD
Derivative assets/(liabilities) designated as accounting cash flow hedges:				
Interest rate swap assets	3,196,404	119,428	1,400,221	95,094
Accrued interest		2,595		1,693
Interest rate swap unwind		(1,644)		-
Derivative assets		<u>120,379</u>		<u>96,787</u>
Interest rate swaps asset/(liability)	-	-	428,043	(4,661)
Total	<u>3,196,404</u>	<u>120,379</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 (2026) of \$2.3 million (Notional \$611M).

In July 2023 two interest rate swaps with a combined notional amount of \$82m (June 2023: \$41m) was unwound resulting in a cash inflow of \$1.0m (June 2023:\$0.6m). These swaps were in an asset position prior to unwinding. The unwind value has been capitalised and will be amortised over the life of the original swaps to 31 May 2031.

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

	3 Months Ended September 30 2023 USD	3 Months Ended September 30 2022 USD	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
Effective portion of change in FV of derivatives designated as cash flow hedges:				
Interest rate swaps	16,923	42,378	28,996	119,410
Income tax effect	(2,115)	(5,297)	(3,624)	(14,760)
Net gain on derivative, net of tax	<u>14,808</u>	<u>37,081</u>	<u>25,372</u>	<u>104,650</u>

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15 Income tax

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

	9 Months Ended September 30 2023 USD	9 Months Ended September 30 2022 USD
Current tax (benefit)/expense	(73)	106
Deferred tax expense	1,974	7,710
Provision for income taxes	<u>1,901</u>	<u>7,816</u>

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

	3 Months Ended September 30 2023 USD	3 Months Ended September 30 2022 USD
Current tax expense	17	100
Deferred tax expense	(176)	2,238
Provision for income taxes	<u>(159)</u>	<u>2,338</u>

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

	September 30 2023 USD	December 31 2022 USD
Deferred tax assets	46,549	42,819
Deferred tax liabilities	(54,674)	(45,345)

Effective from 1 January 2022, the CA 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 losses carried forward 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 September 30, 2023, the CA Group was under an agreement for purchase and leaseback transactions for 35 aircraft (and associated financing of six of these 35 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 \$2.1 billion and of \$2.4 billion as of September 30, 2023 and December 31, 2022 are as follows (US dollars in thousands):

	September 30 2023 USD	December 31 2022 USD
2023	318,000	1,024,945
2024	506,500	108,000
2025	-	-
2026	-	-
2027	580,309	580,309
2028	730,545	730,545
Thereafter	-	-
Total	<u>2,135,354</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 some transactions have not been determined yet.

As of September 30, 2023 and December 31, 2022, all debt was guaranteed by the Company, the respective CA Group borrower or issuer and their subsidiaries.

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16 Commitments and contingencies (continued)

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, 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, TL 7 and TL 8 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.

The CA Group may be involved in legal and administrative proceedings that arise from time to time in the normal conduct of business. No provision for any liability has been recorded in the accompanying financial statements, and the CA Group believes that the ultimate disposition of any such matters will not have a material adverse effect on the financial position or results of operations of the CA Group.

17 Related parties

Pursuant to various servicing agreements as well as pursuant to a management agreement, affiliates of Castlelake perform aircraft, lease and administrative services for the CA Group. The CA Group incurred Servicer fees in the amount of \$15.4 million during the nine months ended September 30, 2023. As of September 30, 2023, the accrued but unpaid Servicer fee balance is \$1.8 million which has been subsequently paid in October 2023. The CA Group incurred Management fees in the amount of \$1.1 million during the nine months ended September 30, 2023. As of September 30, 2023, the accrued but unpaid Management fee balance is Nil.

During the period the non-interest bearing loan with an affiliate entity ("Convertible Loan") of \$18.0 million was converted to equity.

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 September 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 were classified as Level 2.

The following tables present the CA Group's financial assets and liabilities that the CA Group measured at fair value on a recurring basis by level within the fair value hierarchy as of September 30, 2023 and December 31, 2022:

	Total USD	September 30 2023		
		Level 1 USD	Level 2 USD	Level 3 USD
Assets				
Derivative assets	119,428	-	119,428	-
Liabilities				
Derivative liabilities	-	-	-	-
	Total USD	December 31 2022		
		Level 1 USD	Level 2 USD	Level 3 USD
Assets				
Derivative assets	95,094	-	95,094	-
Liabilities				
Derivative liabilities	4,661	-	4,661	-

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18 Fair value measurements (continued)

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 September 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 September 30, 2023 and December 31, 2022 approximates the carrying value as reported on the Condensed Consolidated Balance Sheets on Page 2. The fair value of all these instruments would be categorized as Level 1 in the fair value hierarchy.

19 Subsequent events

Post quarter end three aircraft were delivered on finance lease, classified as loans, two to a lessee based in Asia and one to a lessee based in the Middle East. The CA Group entered into a Sale and Purchase agreement for the sale of three aircraft.

The CA Group has evaluated the effects of events that have occurred subsequent to September 30, 2023 and through 16 November, 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 has not become aware of any additional material events that would require recognition or disclosure in the September 30, 2023 financial statements, other than the matters presented elsewhere in the financial statements.