Castlelake Aviation Limited

Annual Financial Report

for the

Year Ended

December 31, 2021

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 and the aviation industry;*
- *the ability to lease, remarket or sell aircraft on favorable terms or at all;*
- *availability of credit to airlines from the capital markets and financial institutions to provide working capital and to refinance existing indebtedness;*
- *variability of supply and demand for aircraft;*
- *difficulties and costs in acquiring or managing aircraft, on favorable terms or at all;*
- *the competitive environment in the aircraft leasing industry;*
- *the risks on the ability of lessees and other counterparties to perform their obligations under their leases and loans;*
- *the ability of aircraft and engine manufacturers to remain financially stable and producing aircraft and engines;*
- *technological innovation and new types of aircraft and engines;*
- *proper maintenance of the aircraft;*
- *high fuel prices and fuel prices volatility;*
- *airline customers preference to purchase their own aircraft rather than entering into aircraft leasing or financing arrangements;*

- *changes in tax and exposure to a wide range of income and other taxes and tax costs as a result of operating in the multiple jurisdictions;*
- *maintenance cost of airworthiness directives compliance;*
- *environmental regulations;*
- *operational costs and obsolescence of aircraft;*
- *natural disasters;*
- *aircraft repossession costs and timing;*
- *the risk that lessees' or borrowers' fail to maintain the required insurance;*
- *lessees' or borrowers' ability to maintain aircraft duly registered with the appropriate governmental civil aviation authority;*
- *airline customers' ability to appropriately discharge aircraft liens;*
- *changes in global economic conditions and political developments, including with respect to the invasion of Ukraine by Russia;*
- *exposure to trade and economic sanctions and other governmental restrictions;*
- *economic, legal and political risks associated with emerging markets;*
- *terrorist attacks or the fear of such attacks or civil unrest;*
- *data security and privacy risks;*
- *changes in banks' inter-bank lending rate reporting practices or the method pursuant to which LIBOR is determined;*
- *our ability to attract and retain key personnel through Castlelake L.P.;*
- *the performance of support services by Castlelake L.P. and our limited ability to terminate and limited remedies available against Castlelake under our management and servicing agreements;*
- *potential conflicts of interest with Castlelake;*
- *cybersecurity incidents involving us or our customers; and*
- *the other risks and uncertainties identified in this report.*

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

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

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

Overview

We are an aircraft leasing company incorporated in August 2021. We began operations in October 2021 upon the acquisition of our initial portfolio of aircraft and other aviation related assets from funds managed by Castlelake, L.P. ("Castlelake"). We are wholly owned by affiliates of Castlelake, which has offices in Ireland, the United States, the United Kingdom and Singapore. We are engaged in the business of acquiring, marketing, leasing and selling newer generation and mid-life commercial aircraft and providing our aviation customers with other financing solutions for their aircraft and other assets. As of December 31, 2021, our portfolio consisted of 73 assets, including 63 aircraft on operating lease, 2 aircraft on finance lease (together, the "Aircraft"), 1 aircraft off-lease and 7 secured loans made to aviation related companies (collectively, the "Portfolio"). 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 December 31, 2021, our Aircraft had a weighted average age of 6 years and weighted average remaining lease term of 9.6 years. 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. Our Aircraft are on lease to 15 airlines throughout the world, including Delta Air Lines, Qatar, AirAsia, Lion Air, Air Macau and Air France.

Our strategy is to create a high-quality portfolio of aviation assets that are efficiently financed and can provide strong recurring cash flow. We plan to leverage Castlelake's well-established relationships with airlines, financial investors and other aircraft leasing and finance companies to grow our business. We intend to add to our portfolio by entering into purchase and leaseback transactions with airlines for new and used aircraft, purchasing portfolios of aircraft of varying types and ages and opportunistically acquiring individual aircraft that we believe are being sold at attractive prices. We will also seek to"right-size" our portfolio as active participants in the aircraft trading market. We anticipate financing our growth through issuances of additional equity and debt, cash flow from operations and asset sales and access to the capital markets.

Castlelake is a global private equity firm co-founded in 2005 by Rory O'Neill and Evan Carruthers, with approximately $21 billion in AUM as of December 31, 2021. Castlelake is a top 15 global lessor with 324 aircraft in its current fleet as of December 31, 2021, including the Aircraft in our Portfolio. With a 16-year track record of aviation investing, Castlelake has successfully deployed more than $15 billion of capital in aviation opportunities since inception across 650 aircraft. Castlelake is one of the largest participants in the aviation capital markets, having raised approximately $6 billion across 7 asset-backed securitization ("ABS") vehicles, and approximately $6 billion of other non-ABS secured aircraft financings. Castlelake is a well-known aviation financier with deep sector experience across nearly all commercial aircraft types and over 175 airline relationships across 60 jurisdictions. Castlelake's aviation team is comprised of 66 dedicated team members, including underwriters, technical managers, marketers and servicers. We are managed by affiliates of Castlelake and have full access to and the benefit of the Castlelake aviation team.

Our Relationship with Castlelake

We are managed by a wholly owned affiliate of Castlelake, Castlelake Aviation Holdings (Ireland) Limited. Pursuant to long-term management and servicing agreements, Castlelake provides us with all services related to managing and operating our company, including marketing aircraft for lease, re-lease and sale and evaluating acquisition and other strategic opportunities, in addition to collecting rents and other payments from the lessees of our aircraft, monitoring maintenance, insurance and other obligations under our leases and enforcing rights against lessees. Castlelake also acts as the servicer under certain of our secured debt facilities.

Castlelake's team is comprised of a diverse group of former high-level airline, part-out and leasing company employees, giving it a wide range of experience and technical expertise within the aviation sector.

Our Portfolio

As of December 31, 2021, our Portfolio consisted of the following Aircraft:

Manufacturer	**Aircraft Type**	**Number**
Narrowbody:		
Airbus	A220-100	8
Airbus	A320-200	19
Airbus	A320neo	7
Airbus	A321-200	3
Boeing	B737-800	4
Boeing	B737 MAX 8	2
Boeing	B737-900ER	4
Bombardier	CRJ-900	7
Embraer	E-190	2
Widebody:		
Airbus	A330-200	2
Airbus	A330-200F	1
Airbus	A330-300	5
Airbus	A330-900	1
Airbus	A350-900	1
Grand Total:		66[1]

1. Excludes six A330-200 that are owned by Iberia and secure the loans in our initial portfolio.

As of December 31, 2021, we had entered into agreements for the acquisition of an additional 28 aircraft, primarily through purchase and leaseback transactions, with the airlines that were party to the purchase agreement for the aircraft with the OEM and will lease the aircraft from us upon acquisition. Subsequent to December 31, 2021, we acquired 5 of the aircraft subject to these agreements.

In addition, as of December 31, 2021, we had entered into letters of intent for the purchase and leaseback (operating lease) of 10 aircraft, of which two were acquired subsequent to December 31, 2021. We have also entered into letters of intent for the purchase and leaseback (finance lease) of 10 aircraft and to provide PDP financing for 7 aircraft, none of which have closed subsequent to December 31, 2021.

Impact of the COVID-19 Pandemic

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

Many airlines throughout the world avoided insolvency or similar proceedings solely or in large part as a result of governmental assistance and there is no assurance that governmental assistance will be available to participants in the industry in the future if the industry downturn continues. Many airlines also significantly increased their financial leverage during the pandemic which could adversely affect their future operations and liquidity and, in turn, ability to perform under their leases. The severe effects the pandemic has had on the airlines that are our customers could negatively affect their ability to make payments on the leases and/or loans that we have acquired. Given the dynamic nature of this situation, we cannot reasonably estimate the continued impacts of the COVID-19 pandemic on our business, results of operations and financial condition for the foreseeable future.

We do believe, however, that the airline industry will recover and aircraft travel will return to historical levels over the long term. Further, we believe we are well positioned to offer solutions for airlines, because we can offer the ability to lease more fuel-efficient aircraft at a time when airlines will be focused on reducing capital requirements and managing costs.

Ukraine/Russia Conflict

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

Even though we do not have any aircraft directly affected by the conflict, the indirect consequences of the conflict could be material for the aviation industry as a whole. The conflict has caused an increase in fuel prices, which increase has been exacerbated by a significant increase in inflation around the world, each of which will likely impact the purchasing power of airlines customers as well as the airlines themselves. In addition, there have been reports in the press indicating that lessors have terminated leases for over 500 aircraft on lease to Russian Airlines. To the extent that such aircraft are able to be repatriated, it could alter supply and demand dynamics for the industry and affect lease rates and aircraft values.

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

Significant Factors and Trends Affecting Our Business and Results of Operations

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

- general economic and political conditions, including the invasion by Russia of Ukraine 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 impacts of government actions related to COVID-19 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 mid- and late-life aircraft, which may be significantly affected if 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;
- success of our aircraft trading and part-out initiatives during any given period;
- the ability of our lessees to meet their lease obligations and to maintain our aircraft in airworthy and marketable condition;
- the utilization rate of our aircraft;
- our expectations of future maintenance reimbursements and lessee maintenance contributions;
- evolving environmental, social and governance factors and related initiatives of our customers; and
- other factors affecting the airline industry such as fuel prices, political instability, currency volatility, trade policies, natural disasters, terrorist activities, labor actions, labor shortages and other global political and economic events.

Revenue and Expenses

Our revenues and expenses primarily consist of the following:

Revenue

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

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

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

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

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

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

Expenses

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

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

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

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

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

Results of Operations

We were formed on August 6, 2021 ("Inception") and commenced operations on October 22, 2021 upon the acquisition of our initial portfolio from funds managed by Castlelake. As a result, the discussion below is limited to our results of operation from our Inception through December 31, 2021.

Period from Inception Through December 31, 2021

Rental Income from Operating and Finance Leases. Rental income from operating and finance leases for the period from Inception through December 31, 2021 was $42 million (net of lease intangible amortization of $3 million and expected credit loss of $0.05 million). There was no end of lease income earned in the period ending December 31, 2021.

Interest and Other Income. Interest and other income for the period from Inception through December 31, 2021 was $3 million and primarily consisted of interest income earned on the 7 secured loans in our Portfolio and lease deferral interest from airline customers.

Income Tax. Income tax benefit for the period from Inception through December 31, 2021 was $28 million. The balance relates to a deferred tax benefit. 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 Inception through December 31, 2021 was $17 million, consisting of $13 million of interest charges on debt facilities, $2 million of interest charges hedge payments and amortization of debt issuance costs of $2 million. As of December 31, 2021, we had $1,873 million in principal amount of indebtedness outstanding and had average outstanding indebtedness for the period of $927 million. For additional information on our debt facilities, see "—Liquidity and Capital Resources—Financing Arrangements." As of December 31, 2021, the notional amount of the derivatives was $860 million.

Depreciation Expense. Depreciation expense for the period from Inception through December 31, 2021 was $19 million, primarily consisting of the depreciation expense related to our Aircraft.

Maintenance and Other Expenses. Maintenance and other expenses for the period from Inception through December 31, 2021 was $4 million, primarily consisting of a release of intangibles of $3 million and maintenance and insurance costs of $1 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the period from Inception through December 31, 2021 was $4 million, primarily consisting of legal and professional fees of $1 million, servicing and management fees payable to Castlelake of $2 million and other general and administrative expenses.

Liquidity and Capital Resources

Overview

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

As of December 21, 2021, we had total principal indebtedness of $1,873 million, consisting of $1,453 of secured principal indebtedness and $420 million of unsecured principal indebtedness. As of December 31, 2021, we had total indebtedness of $1,840 million (net of debt issuance costs and inclusive of accrued interest), consisting of $1,426 million of secured indebtedness and $414 million of unsecured indebtedness primarily comprised of the Notes (as defined below).

As of December 31, 2021, receivables due from customers amounted to $18 million and consisted of trade receivables and deferred receivables. We had gross trade receivables of $3 million of which an allowance for bed debt of $1 million has been provided for. Trade receivables represent amounts billed and overdue from customers as at December 31, 2021. We had gross deferral amounts of $59 million of which an expected credit loss of $43 million has been provided for. Deferral amounts represent amounts contractually agreed with customers to be paid at a date in the future and are not overdue as at December 31, 2021.The expected credit loss provision on lease deferrals were assumed as part of the acquisition accounting.

As of December 31, 2021, we had $156 million of cash and cash equivalents and $719 million of unused capacity under our Revolving Credit Facility.

Cash Flows from Operating Activities

For the period from Inception through December 31, 2021, net cash provided by operating activities was $301 million, which primarily consisted of revenues and expenses as discussed above, net of non-cash adjustments. Material non-cash adjustments include movements in assumed debt related to the Air Asia Facility discussed below that was assumed from affiliates of Castlelake upon acquisition of our initial portfolio, receivables, payables and depreciation.

Cash Flows from Investing Activities

For the period from Inception through December 31, 2021, net cash used by investing activities was $2,604 million, which primarily consisted of the consideration paid to funds managed by Castlelake for our initial portfolio.

Cash Flows from Financing Activities

For the period from Inception through December 31, 2021, net cash provided by financing activities was $2,460 million, which primarily consisted of $1,631 million of proceeds from the financing arrangements described below under "—Financing Arrangements" and $812 million of proceeds from the issuance of shares to affiliates of Castlelake.

Financing Arrangements

Our financing arrangements consist of the credit and debt facilities outlined below.

5.000% Senior Notes due 2027

On October 22, 2021, Castlelake DAC, a direct wholly owned subsidiary of Castlelake Aviation, issued $420,000,000 aggregate principal amount of its 5.000% Senior Notes due 2027 (the "Notes") pursuant to an indenture among Castlelake DAC, the Note Guarantors (as defined below) and Citibank, N..A as trustee (the "Indenture"). The Notes bear interest at the rate of 5.000% per year. Interest on the Notes is payable on April 15 and October 15 of each year, beginning on April 15, 2022. The Notes will mature on April 15, 2027. The Notes are senior unsecured obligations of Castlelake DAC and are guaranteed (the "Guarantees") on a senior unsecured basis by Castlelake Aviation and certain subsidiaries of Castlelake DAC (the "Subsidiary Guarantors" and, together with Castlelake Aviation, the "Note Guarantors").

The Notes may be redeemed, in whole or in part, at any time on or after April 15, 2024 at the redemption prices specified in the Indenture plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. The Notes may be redeemed, in whole or in part, at any time before April 15, 2024 at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date, plus a ‘‘make whole’’ premium. Up to 40% of the Notes may be redeemed before April 15, 2024 with an amount equal to or less than the net cash proceeds from certain equity offerings, at a redemption price equal to 105.0% of the principal amount the Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. In addition, in the event that certain taxes become payable in respect of payments on the Notes all, but not less than all, of the Notes may be redeemed at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption.

If Castlelake Aviation experiences a change of control (as defined in the Indenture), the issuer must make an offer to repurchase the Notes at a repurchase price equal to 101% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest.

The Indenture governing the Notes includes negative covenants that, among other things, restrict, subject to certain exceptions, Castlelake DAC’s ability and the ability of its subsidiaries to: (i) incur additional indebtedness, issue preferred equity and disqualified stock and guarantee indebtedness, (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, capital stock; (iii) prepay, redeem or repurchase certain subordinated debt; (iv) make loans and investments; (v) enter into agreements restricting our subsidiaries’ ability to pay dividends; (vi) engage in transactions with affiliates; (vii) sell, transfer, lease or otherwise dispose of assets; (viii) consolidate, merge, liquidate or dissolve; and (ix) incur liens. The Notes are also subject to customary events of default.

Term Loan Facility

On October 22, 2021, 2021, Castlelake Aviation One Designated Activity Company (the “Borrower”), a direct wholly owned subsidiary of Castlelake DAC, and an indirect wholly owned subsidiary of Castlelake Aviation, entered into a senior secured term loan facility with a syndicate of banks, financial institutions and other entities and Citibank, N.A., as administrative agent and collateral agent (the “Term Loan Facility”). The Term Loan Facility provided senior secured financing in an aggregate principal amount of $1,180 million all of which was borrowed prior to December 31, 2021. Borrowings under the Term Loan Facility bear interest at a rate *per annum* equal to, at the Borrower’s option, either (a) a base rate, *plus* a margin or (b) a LIBOR rate *plus* a margin, in each case subject to interest rate floors. The Term Loan Facility amortizes in equal quarterly instalments in aggregate annual amounts of 1% of the original principal amount of the Term Loan Facility, with the balance due on the fifth anniversary of the entry into the Term Loan Facility.

The Term Loan Facility provides the Borrower with the right to request incremental term loans or increases to the then-existing term loans in an aggregate principal amount of not less than $5,000,000 (or such lesser amount to which the administrative agent may reasonably agree). The lenders under the Term Loan Facility are not obligated to provide incremental term loans, and any such addition of or increase in term loans will be subject to certain customary conditions precedent and other provisions.

The Term Loan Facility contains the following financial and maintenance covenants: (i) a maximum loan to value ratio covenant no greater than 0.70:1.00; (ii) a maximum average age of the Aircraft constituting collateral securing the Term Loan Facility of no greater than the average age of such aircraft on the closing date of the Term Loan Facility, *plus* the amount of time elapsed since such closing date, *plus* 6 months; and (iii) certain pool specifications levels with respect to the aggregate appraised value of the Aircraft constituting collateral securing the Term Loan Facility.

All obligations of the Borrower under the Term Loan Facility are guaranteed by Castlelake Aviation, each entity that pledges any collateral securing the Term Loan Facility, and each other, direct or indirect, wholly owned subsidiary of Castlelake Aviation. The obligations of the Borrower under the Term Loan Facility are secured by, among other things, 52 of the Aircraft in our Portfolio.

The Term Loan Facility contains certain affirmative and negative covenants, including negative covenants that restrict, subject to certain exceptions, the ability of the Borrower and the guarantors under the Term Loan Facility to: (i) incur additional indebtedness; (ii) create or incur liens on the collateral securing the Term Loan Facility; (iii) enter into certain transactions with affiliates; (iv) engage in mergers or consolidations; and (v) dispose of collateral securing the Term Loan Facility. The Term Loan Facility also provides for customary events of default.

Revolving Credit Facility

On October 19, 2021, Castlelake DAC entered into a revolving credit facility with a syndicate of banks, financial institutions and other entities and Citibank, N.A., as administrative agent and security trustee (the "Revolving Credit Facility"). The Revolving Credit Facility provides senior secured financing of up to $750 million. Borrowings under the Revolving Credit Facility bear interest at a rate *per annum* equal to a LIBOR rate, *plus* a margin, subject to zero-interest rate floors. Borrowings under the Revolving Credit Facility are due and payable in full on the third anniversary of the entry into the Revolving Credit Facility. As of December 31, 2021, we had $719million of unused capacity under our Revolving Credit Facility.

Drawings under the Revolving Credit Facility may be advanced based on the corresponding advance rate for the aircraft type and the appraised value of the aircraft subject to leases with eligible lessees ("Eligible Aircraft"), subject to the further requirement that the applicable LTV Ratio (as defined in the Revolving Credit Facility) may not exceed 0.70:1.00.

The Revolving Credit Facility provides that Castlelake DAC has the right to request that commitments under the facility be increased up to $1 billion. The lenders under the Revolving Credit Facility are not under any obligation to provide any such incremental revolving credit commitments. Any increase in revolving credit commitments will be subject to certain customary conditions precedent and other provisions.

The Revolving Credit Facility contains the following financial and maintenance covenants: (i) a loan to value ratio no greater than 0.70:1:00; (ii) a consolidated liquidity of Castlelake DAC 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 4.25:1.00; and (iv) a fixed charge coverage ratio of at least 1.20:1.00. The Revolving Credit Facility contains certain affirmative and negative covenants, including negative covenants that restrict, subject to certain exceptions, the ability of Castlelake Aviation and each guarantor under the Revolving Credit Facility, including, to (A) change the nature of its business, (B) create or incur, or permit any subsidiary to create or incur, liens on the collateral securing the Revolving Credit Facility, (C) restrict dividends or distributions by any guarantor, and (D) use, or permit any subsidiary to use, the proceeds of the loans in violation of anti-corruptions laws or sanctions. The Revolving Credit Facility also contains certain customary events of default.

All obligations of Castlelake DAC under the Revolving Credit Facility are guaranteed by Castlelake Aviation, each entity that pledges any collateral securing the Revolving Credit Facility, and each other, direct or indirect, wholly owned subsidiary of Castlelake Aviation. The obligations of Castlelake DAC under the Revolving Credit Facility, are secured by, among other things, 1 of the Aircraft in our Portfolio.

The Revolving Credit Facility requires the Borrower to prepay outstanding loans under certain circumstances and permits the Borrower to prepay the loans at any time, in whole or in part.

AirAsia Facility

On October 22, 2021, Castlelake DAC acquired AS Air Lease Holdings 5T Designated Activity Company ("ASAL 5T") and its subsidiaries. At the time of the acquisition ASAL 5T, together with its wholly-owned subsidiary, AS Air Lease Holdings 5T Malta Limited, were borrowers (the "AirAsia Facility Borrowers") under a senior secured credit facility with a syndicate of banks, financial institutions and other entities and UMB Bank, N.A., as administrative agent and security trustee (as amended, modified or otherwise supplemented, the "AirAsia Facility") that was amended in connection with the acquisition of ASAL 5T and its subsidiaries. As of December 31, 2021, $245 million remained outstanding under the AirAsia Facility. The AirAsia Facility amortizes in equal monthly instalments in aggregate annual amounts of 3% (or, at any time that the fixed charge coverage ratio is lower than 2.00:1.00, 4%) of the outstanding principal amount of the AirAsia Facility as of the closing date, with the balance being payable on the maturity date in April 2024. Borrowings under the AirAsia Facility bear interest at a rate *per annum* equal to a LIBOR rate *plus* a margin, subject to an interest rate floor.

The AirAsia Facility contains the following financial and maintenance covenants: (i) a loan to value ratio no greater than 0.80:1.00; (ii) a consolidated liquidity of the Issuer 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 4.25:1.00; and (iv) a fixed charge coverage ratio of at least 1.20:1.00. The AirAsia Facility contains certain affirmative and negative covenants, including negative covenants that restrict, subject to certain exceptions, the ability of the AirAsia Facility Borrowers and their respective subsidiaries to: (A) incur additional indebtedness, (B) create or incur liens on the collateral securing the AirAsia Facility, (iii) enter into certain transactions, (C) engage in mergers or consolidations, and (D) dispose of collateral securing the AirAsia Facility. The AirAsia Facility also contains certain customary events of default.

All obligations of AirAsia Facility Borrowers under the AirAsia Facility are unconditionally guaranteed on a senior unsecured basis by, among others, Castlelake Aviation, Castlelake DAC and each subsidiary of Castlelake Aviation. The obligations of the AirAsia Facility Borrowers under the AirAsia Facility are secured by, among other things, 11 aircraft on lease to AirAsia and indirectly wholly-owned by ASAL 5T.

Off-Balance Sheet Arrangements

As of December 31, 2021, we do not have any off-balance sheet arrangements.

Capital Expenditures

As of December 31, 2021, we had entered into agreements for the acquisition of an additional 28 aircraft primarily through purchase and leaseback transactions with the airlines that were party to the purchase agreement for the aircraft with the OEM and will lease the aircraft from us upon acquisition. Subsequent to December 31, 2021, we acquired 5 of the aircraft subject to these agreements.

In addition, as of December 31, 2021, we had entered into letters of intent for the purchase and leaseback (operating lease) of 10 aircraft, of which two were acquired subsequent to December 31, 2021. We have also entered into letters of intent for the purchase and leaseback (finance lease) of 10 aircraft and to provide PDP financing for 7 aircraft, none of which have closed subsequent to December 31, 2021.

Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments and lease contracts give rise to risks including from interest rate, liquidity, credit and foreign exchange risk. We identify market risk as associated with changes in our underlying business receipts and expenditures from fluctuations in interest rates and foreign exchange rates, and these factors could cause fluctuations in our results of operations and cash flows.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates impact our cash flows due under financials instruments. Our floating rate instruments, notably the Term Loan Facility, the Revolving Credit Facility and the AirAsia Facility, are floating rate instruments. While we aim to hedge floating rate risk in the swaps market, a rise in benchmark rates could increase interest expense payable.

Liquidity Risk

Liquidity risk is the risk arising from the mismatch of assets and liabilities and/or refinancing risk. To ensure we meet our financial obligations, we plan on maintaining sufficient minimum cash throughout the financing period to service amortization and interest payments. Revenue from lease rentals is sufficient to meet annual interest and scheduled loan amortization over the next year. As of December 31, 2021, none of our indebtedness is expected to mature within one year.

Credit Risk

Credit risk is the risk of loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Our exposure to credit risk is based, principally, on the collection of rental payments under our aircraft lease agreements. We seek security deposits in the form of cash or letters of credit to mitigate overall financial exposure to our lessees. We assess the creditworthiness of each new customer and consider qualitative and quantitative information specific to the customer, including business activities, management team, financial well-being, resources and performance, and business risks, to the extent that this information is publicly available or otherwise disclosed to us by a customer or counterparty.

Foreign Currency Risk

All our borrowings are denominated in U.S. Dollar and match our current lease rental contracts, which are payable in U.S. Dollar. Some of our lessees may have foreign currency risks from passenger revenue denominated in regional subsidiaries.

Significant Accounting Policies

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