

Castlelake Aviation Limited and Subsidiaries

Unaudited Condensed Consolidated Financial Statements

As of September 30, 2024 and December 31, 2023 and for the 3 and 9 months ended September 30, 2024 and September 30, 2023

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Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
As of September 30, 2024 and December 31, 2023
(U.S. dollars in thousands)

		September 30		December 31
	Notes	2024		2023
Assets				
Cash and cash equivalents	3	\$ 157,232	\$	120,386
Trade receivables	9	13,918		9,828
Flight equipment held for operating leases, net	4	3,054,293		3,384,672
Maintenance right assets and lease premiums, net	5	249,657		276,498
Net investment in finance leases	6	396,921		330,380
Other assets	7	20,017		22,725
Loan assets	8	825,446		795,675
Derivative assets	14	41,778		69,455
Deferred tax assets	15	37,826		34,213
Total assets		\$ 4,797,088	\$	5,043,832
Liabilities and equity				
Accounts payable and accrued liabilities		3,371		7,069
Deferred rental income		15,928		22,083
Security deposits		50,116		41,122
Accrued maintenance liabilities	10	37,934		49,415
Derivative liabilities	14	19,675		15,342
Deferred tax liabilities	15	51,666		41,295
Debt	11	3,267,562		3,506,085
Total liabilities		\$ 3,446,252	\$	3,682,411
Ordinary share capital, \$0.01 par value:				
5,000,000 shares authorized, 1,159,709 shares and 1,159,709 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively		11		11
Additional paid-in capital		1,188,803		1,188,803
Accumulated retained earnings		128,620		111,797
Accumulated other comprehensive income		33,402		60,810
Total equity		\$ 1,350,836	\$	1,361,421
Total liabilities and equity		\$ 4,797,088	\$	5,043,832

The accompanying Notes are an integral part of these financial statements.

Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed Consolidated Income Statements
(U.S. dollars in thousands)

		3 months Ended September 30 2024	3 Months Ended September 30 2023	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Revenue and other income					
Rental income from operating and finance leases	Notes 12	\$ 96,220	\$ 97,780	\$ 302,723	\$ 255,609
Interest and other income	13	23,577	15,925	65,841	47,920
Gain on transfer to investment in finance lease	6	-	-	1,914	-
Gain on disposal of aircraft	4	14,648	-	19,086	-
Total revenues and other income		\$ 134,445	\$ 113,705	\$ 389,564	\$ 303,529
Expenses					
Interest expense	11	51,999	51,991	153,871	137,164
Depreciation	4	36,555	39,464	111,264	106,358
Maintenance and other costs		1,565	2,407	5,515	5,693
Selling, general and administrative expenses		12,600	10,345	35,568	26,582
Total expenses		\$ 102,719	\$ 104,207	\$ 306,218	\$ 275,797
Net income before income tax expense		31,726	9,498	83,346	27,732
Income tax (expense)/benefit	15	(4,534)	159	(10,723)	(1,901)
Net income		\$ 27,192	\$ 9,657	\$ 72,623	\$ 25,831

The accompanying Notes are an integral part of these financial statements.

Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed Consolidated Statements of Comprehensive Income
(U.S. dollars in thousands)

		3 Months Ended September 30 2024	3 Months Ended September 30 2023	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Net income	Notes	\$ 27,192	\$ 9,657	\$ 72,623	\$ 25,831
Other comprehensive income					
Net unrealized (loss)/gain on derivatives, net of tax	14	<u>(53,036)</u>	<u>14,808</u>	<u>(27,408)</u>	<u>25,372</u>
Total comprehensive (loss)/income		<u>\$ (25,844)</u>	<u>\$ 24,465</u>	<u>\$ 45,215</u>	<u>\$ 51,203</u>

The accompanying Notes are an integral part of these financial statements.

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

	Number of ordinary shares issued	Ordinary share capital	Additional paid-in capital	Accumulated retained earnings	Accumulated other comprehensive income(loss)	Total
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
Net change	-	-	-	46,228	(58,162)	(11,934)
Balance at December 31, 2023	1,159,709	\$ 11	\$1,188,803	\$ 111,797	\$ 60,810	\$1,361,421
Net change	-	-	-	23,355	31,615	54,970
Balance at March 31, 2024	1,159,709	\$ 11	\$1,188,803	\$ 135,152	\$ 92,425	\$1,416,391
Net change	-	-	-	22,076	(5,987)	16,089
Dividend paid	-	-	-	(55,800)	-	(55,800)
Balance at June 30, 2024	1,159,709	\$ 11	\$1,188,803	\$ 101,428	\$ 86,438	\$1,376,680
Net change	-	-	-	27,192	(53,036)	(25,844)
Balance at September 30, 2024	1,159,709	\$ 11	\$1,188,803	\$ 128,620	\$ 33,402	\$1,350,836

The accompanying Notes are an integral part of these financial statements.

Castlelake Aviation Limited and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(U.S. dollars in thousands)

	Notes	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Cash flows from operating activities			
Net income		\$ 72,623	\$ 25,831
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	4	111,264	106,358
Amortization of debt issuance costs	11	8,830	10,060
Amortization of lease premium	5	10,247	11,254
Accretion of upfront fees	8	(2,262)	-
Collection of finance leases	6	19,459	97,826
Collection of loan assets	8	89,543	32,930
Gain on transfer to investment in finance lease	6	(1,914)	-
Gain on disposals of aircraft	4	(19,086)	-
Changes in assets and liabilities			
Receivables and other assets	7 9	407	(6,889)
Deferred tax assets	15	(3,613)	(3,730)
Deferred tax liabilities	15	10,371	9,329
Income tax effect on derivatives	14	3,915	(3,624)
Accounts payable and accrued liabilities		1,383	8,157
Deferred rental income		(4,396)	10,561
Net cash provided by operating activities		\$ 296,771	\$ 298,063
Cash flows from investing activities			
Purchase of aircraft	4	(87,000)	(971,557)
Cash paid for loan assets	8	(118,132)	(170,896)
Cash proceeds on disposals	4	235,222	-
Net cash provided by/(used in) investing activities		\$ 30,090	\$ (1,142,453)
Cash flows from financing activities			
Net cash received from borrowings	11	90,000	1,747,986
Repayment of borrowings	11	(342,248)	(910,580)
Proceeds from issuance of shares		-	88,000
Dividends paid	17	(55,800)	-
Debt issuance costs	11	(348)	(19,822)
Security deposits		13,534	9,321
Maintenance reserves	10	4,847	(8,612)
Net cash provided by/(used in) financing activities		\$ (290,015)	\$ 906,293
Net movement in cash, cash equivalents and restricted cash		36,846	61,903
Cash, cash equivalents and restricted cash at the beginning of the period	3	120,386	132,167
Cash, cash equivalents and restricted cash at the end of the period	3	\$ 157,232	\$ 194,070
Supplemental cash flow information:			
Cash paid for interest expense	11	\$ 139,113	\$ 119,842

The accompanying Notes are an integral part of these financial statements.

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

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 and wholly owned subsidiary of the Company, and CAF DAC’s subsidiaries collectively comprise the “CA Group”. As of September 30, 2024, there were 117 assets (December 31, 2023: 120 assets) in the CA Group’s portfolio, consisting of 86 aircraft on operating lease (December 31, 2023: 92), 11 aircraft and aircraft engines on finance lease (December 31, 2023: 9) and 20 secured loan assets (December 31, 2023: 19). 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).

On September 12, 2024, Castlelake Aviation LLC entered into a sale-purchase agreement with Avolon Holdings Limited to sell the shares of Castlelake Aviation Limited and its' subsidiaries. This transaction is expected to be completed in 2025.

2 Summary of significant accounting policies

Basis of preparation

The condensed consolidated financial statements and the related information in the supporting notes have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

The CA Group consolidates all companies in which the CA Group has control under *ASC 810*. All inter group balances and transactions with consolidated subsidiaries have been eliminated. The results of consolidated entities are included from the effective of control, and the results of subsidiaries sold or otherwise deconsolidated are excluded from the date in which the CA Group ceases to control the subsidiary.

The condensed consolidated financial statements are stated in U.S. dollars, which is the functional and reporting currency of the CA Group.

Going concern

The CA Group relies on its lessees’ continued performance of their lease obligations. The ability of each lessee to perform its obligations under its lease will depend primarily on such a lessee’s financial condition and cash flow, which may be affected by factors beyond the CA Group’s control. The Directors continue to have a reasonable expectation that the CA Group has adequate resources to continue in operation for at least the next 12 months from the date in which the financial statements are authorized for issue, based on future cash flow analyses 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, 2024.

Use of judgements and estimates

The preparation of the condensed consolidated financial statements in conformity with US GAAP requires the Directors to make judgements, 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 Directors believe 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, 2023.

3 Cash and cash equivalents

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 \$157.2 million and \$120.4 million at September 30, 2024 and December 31, 2023, respectively.

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

4 Flight equipment held for operating leases, net

As of September 30, 2024 and December 31, 2023, flight equipment held for operating leases, net, were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Flight equipment held for operating leases, net	\$ 3,054,293	\$ 3,384,672

Movements in flight equipment held for operating leases during the 9 Months ended September 30, 2024 and the year ended December 31, 2023, were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Opening balance	\$ 3,384,672	\$ 2,811,775
Additions	87,000	982,616
Transfers from maintenance intangible	635	353
Disposals	(222,664)	(94,074)
Transfers to investment in finance lease	(84,086)	(169,104)
Depreciation	(111,264)	(146,894)
Flight equipment held for operating leases, net	\$ 3,054,293	\$ 3,384,672
Accumulated depreciation	\$ (341,902)	\$ (252,628)

Depreciation charge on flight equipment held for operating lease during the 3 and 9 Months ended September 30, 2024 and September 30 2023 were as follows (U.S. dollars in thousands):

	3 Months Ended September 30 2024	3 Months Ended September 30 2023	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Depreciation	\$ (36,555)	\$ (39,464)	\$ (111,264)	\$ (106,358)

During the 3 month period ended September 30, 2024, the CA Group disposed of 3 aircraft for total consideration of \$133.2 million resulting in a gain of \$14.6m (September 30,2023, \$Nil).

During the 9 month period ended September 30, 2024, the CA Group acquired 1 aircraft subject to operating lease and disposed of 5 aircraft for total consideration of \$236.5 million (\$235.2 million during the period and \$1.3 million received during the year ended December 31, 2023) resulting in a gain of \$19.1m (September 30,2023, \$Nil) and transferred 2 aircraft to investment in finance leases for a gain of \$1.9m (September 30, 2023, \$Nil).

As of September 30, 2024, the CA Group's aircraft portfolio consisted of 86 aircraft held for operating lease which were on lease to 18 different lessees in 13 different countries.

As of December 31, 2023, the CA Group's aircraft portfolio consisted of 92 aircraft held for operating lease which were on lease to 18 different lessees in 13 different countries.

The following table sets forth the regional concentration based on each lessee's principal place of business of the CA Group's flight equipment held for operating leases based on net book value as of September 30, 2024 and December 31, 2023, (U.S. dollars in thousands, except percentages):

	September 30, 2024		December 31, 2023	
	Net Book Value	% of Total	Net Book Value	% of Total
Europe, Middle East and Africa (EMEA)	\$ 683,840	22	\$ 701,503	21
Asia Pacific (APAC) and India	1,545,652	51	1,705,258	50
Americas	824,801	27	977,911	29
Flight equipment held for operating leases, net	\$ 3,054,293	100	\$ 3,384,672	100

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

5 Maintenance right assets and lease premiums, net

Maintenance right assets and lease premiums, net consisted of the following as of September 30, 2024 and December 31, 2023 (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Lease premiums	\$ 40,111	\$ 59,423
Maintenance right assets	209,546	217,075
Maintenance right assets and lease premiums, net	\$ 249,657	\$ 276,498

As of September 30, 2024 and December 31, 2023, lease premiums/(deficits) and maintenance right assets/(liabilities) were as follows (U.S. dollars in thousands):

	Lease premium September 30 2024	Lease premium December 31 2023	Maintenance right asset September 30 2024	Maintenance right asset December 31 2023
Opening balance	\$ 59,423	\$ 85,701	\$ 217,075	\$ 220,229
Additions to maintenance rights assets/(liabilities)	-	-	-	842
Additions to lease intangible assets/(liabilities)	-	(11,902)	-	-
Disposals	(9,065)	348	(6,894)	(3,643)
Maintenance claims	-	-	(635)	(353)
Amortization charge for the period	(10,247)	(14,724)	-	-
Total	\$ 40,111	\$ 59,423	\$ 209,546	\$ 217,075

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

6 Net investment in finance leases

As of September 30, 2024 and December 31, 2023, 11 and 9 leases were accounted for as finance leases respectively. As of September 30, 2024 and December 31, 2023, 11 and 9 lessees had a purchase option in place respectively. During the 3 month period ended September 30, 2024, the CA Group transferred no aircraft from flight equipment held for operating lease to net investment in finance leases. (September 30, 2023 \$Nil). During the 9 month period ended September 30, 2024, the CA Group transferred 2 aircraft from flight equipment held for operating lease to net investment in finance leases for a gain of \$1.9 million (September 30, 2023 \$Nil). The following tables list the components of the net investment in finance leases as of September 30, 2024 and December 31, 2023 (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Total lease payments to be received	\$ 596,037	\$ 494,427
Less: Unearned income	(199,116)	(164,047)
Net investment in finance leases	\$ 396,921	\$ 330,380

As of September 30, 2024 and December 31, 2023, net investment in finance leases were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Opening balance	\$ 330,380	\$ 288,472
Transfers from flight equipment held for operating lease	84,086	169,104
Gain on transfers from flight equipment held for operating lease	1,914	2,896
Lease principal repayments	(19,459)	(130,092)
Net investment in finance leases	\$ 396,921	\$ 330,380

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 leases credit exposure reflects 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, 2024 and December 31, 2023, 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 9 Months ended September 30, 2024, the CA Group recognized interest income from net investments in finance leases of \$27.9 million, which is included within rental income from operating and finance leases.

The following table provides a summary of anticipated future lease payments under outstanding net investment in finance leases as of September 30, 2024, and December 31, 2023, (U.S. dollars in thousands):

	September 30 2024	December 31 2023
2024	\$ 16,247	\$ 50,167
2025	64,085	49,886
2026	62,778	48,787
2027	61,472	47,688
2028	60,184	46,603
Thereafter	331,271	251,296
Undiscounted cash flows receivable	596,037	494,427
Less: Unearned income	(199,116)	(164,047)
Total	\$ 396,921	\$ 330,380

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

7 Other assets

At September 30, 2024 and December 31, 2023, the principal components of the CA Group's other assets were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
VAT receivable	\$ 1,130	\$ 1,419
RCF debt costs	5,897	8,688
Accrued interest	-	175
Other assets	12,990	12,443
Other assets	\$ 20,017	\$ 22,725

Other assets of \$13.0 million (December 31, 2023: \$12.4 million) primarily consists of prepaid expenses, capitalized expenses and other receivables. Other receivables relate to a bank guaranteed amount supported by a letter of credit in favor of an entity within the CA Group that is expected to be received in 2026.

8 Loan assets

	September 30 2024	December 31 2023
Opening balance	\$ 795,675	\$ 400,365
Additions to loan assets	118,132	549,329
Additions to upfront fees	(1,080)	(7,329)
Repayments	(88,568)	(148,470)
Amortization	2,262	2,659
Accrued interest	(975)	(879)
Loan assets	\$ 825,446	\$ 795,675

Loan assets of \$825.4 million is presented gross of interest receivable and remeasure adjustments and net of unamortized upfront fees. The net loan receivable amounts consist of \$261.3 million to 2 Asia Pacific based airlines, \$61.5 million to 2 EMEA based lessors, \$498.6 million to an EMEA based airline and \$4.0 million to a South American based airline.

There are 4 loans provided to Asia Pacific based airlines. One 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, 2024, principal of \$116.7 million is drawn down. The other 3 loans accrue interest at fixed rates ranging from 10.60% to 11.60% per annum and are secured against aircraft owned by the lessor. As of September 30, 2024, principal of \$144.2 million is drawn down.

Loans of \$61.5 million provided to 2 EMEA based lessors accrued interest at a fixed rate of 8.00% per annum and are secured against aircraft owned by the lessors. As of September 30, 2024, there are no undrawn amounts or available commitments under these loans.

The loans provided to the EMEA based airline accrues interest at a fixed rate ranging from 7.37% to 8.58% per annum and are secured by an assignment of certain rights of the airline under the relevant aircraft purchase agreement. As of September 30, 2024, principal of \$503.1 million is drawn down.

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 reflects the risk that its airline customers fail to meet their payment obligations.

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

8 Loan assets (continued)

As of September 30, 2024, and December 31, 2023, 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.

The following table provides a summary of anticipated future principal repayments under outstanding loan assets as of September 30, 2024, and December 31, 2023, (U.S. dollars in thousands):

	September 30 2024	December 31 2023
2024	\$ 66,164	\$ 142,297
2025	49,110	41,280
2026	115,816	111,450
2027	49,191	41,280
2028	93,430	89,280
Thereafter	463,541	389,674
Loan adjustments	(11,806)	(19,586)
Loan assets	\$ 825,446	\$ 795,675

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, 2024, trade receivables of \$13.9 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (U.S. dollars in thousands):

	Lease deferrals	Trade receivables	Total
Balance (gross)	\$ 47,030	\$ 6,686	\$ 53,716
Allowance for bad debts	-	(854)	(854)
Expected credit loss	(38,944)	-	(38,944)
Total	\$ 8,086	\$ 5,832	\$ 13,918

As of December 31, 2023, trade receivables of \$9.8 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (U.S. dollars in thousands):

	Lease deferrals	Trade receivables	Total
Balance (gross)	\$ 55,633	\$ 276	\$ 55,909
Allowance for bad debts	-	(260)	(260)
Expected credit loss	(45,821)	-	(45,821)
Total	\$ 9,812	\$ 16	\$ 9,828

At September 30, 2024, there was a net expected credit loss reversal of 6.3 million (December 31, 2023: \$5.4 million) recognized in the Consolidated Income Statements. This consisted of a reversal of \$6.9 million, all of which is recorded in rental income for operating and finance leases and \$0.6 million of a provision is recorded in interest and other income (December 31, 2023: \$4.4 million, \$0.8 million in rental income from operating and finance leases and \$3.6 million in interest in other income), and no reclassification between allowance for bad debts and lease deferrals (December 31, 2023: \$1.0 million).

Castlelake Aviation Limited and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2024

9 Trade receivables (continued)

The movement in expected credit loss and allowance for bad debts during the 9 months ended September 30, 2024, is as follows (U.S. dollars in thousands):

	Allowance for bad debts	Expected credit loss	Total
Opening balance	\$ (260)	\$ (45,821)	\$ (46,081)
Movement for the period	(594)	6,877	6,283
Total	\$ (854)	\$ (38,944)	\$ (39,798)

The movement in expected credit loss and allowance for bad debts during the year ended December 31, 2023, is as follows (U.S. dollars in thousands):

	Allowance for bad debts	Expected credit loss	Total
Opening balance	\$ (4,860)	\$ (46,662)	\$ (51,522)
Movement for the year	3,606	841	4,447
Adjustment	994	-	994
Total	\$ (260)	\$ (45,821)	\$ (46,081)

10 Accrued maintenance liabilities

As of September 30, 2024, and December 31, 2023, accrued maintenance liabilities were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Accrued maintenance liabilities	\$ 37,934	\$ 49,415

Movements in accrued maintenance liabilities during the period ended September 30, 2024, and the year ended December 31, 2023, were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Opening balance	\$ 49,415	\$ 68,454
Maintenance payments received	5,434	10,642
Maintenance claims paid	(587)	(17,658)
Maintenance reserves released*	(16,328)	(12,023)
Accrued maintenance liabilities	\$ 37,934	\$ 49,415

*The maintenance reserves released of \$16.3 million for the 9 months ended September 30, 2024 was released upon the disposal of 3 aircraft on operating lease and is recorded in the gain on disposal of aircraft line in the Consolidated Income Statements (year ended December 31, 2023: \$12.0 million related to the release of non-refundable maintenance reserves balances to the Consolidated Income Statements).

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11 Debt

The CA Group's outstanding indebtedness consists of senior unsecured notes ("HYB"), 2 senior secured term loan B facilities ("TLB 1" and "TLB 2"), 6 term loan facilities ("TL 3", "TL 4", "TL 5", "TL 6", "TL 7", "TL 8"), and a secured revolving credit facility ("RCF").

The outstanding principal balances, unamortized discount, legal maturity dates and interest rates of the Debt as at September 30, 2024 and December 31, 2023, were as follows (U.S. dollars in thousands):

		September 30 2024	December 31 2023
Type	Maturity		
<i>Unsecured</i>			
HYB	04/2027	\$ 420,000	\$ 420,000
<i>Secured</i>			
TLB 1	10/2026	1,144,600	1,153,450
TLB 2	10/2027	623,888	628,650
TL 3	12/2034	122,069	127,145
TL 4	11/2034	111,748	117,901
RCF	04/2026	200,000	403,410
TL 5	12/2030	71,383	74,349
TL 6	06/2026	354,315	363,265
TL 7	06/2031	111,602	116,816
TL 8	08/2038	127,443	134,310
Total secured		\$ 2,867,048	\$ 3,119,296
Accrued interest		18,393	13,151
Debt issuance costs		(71,267)	(70,919)
Amortization of debt issuance costs		33,388	24,557
Debt		\$ 3,267,562	\$ 3,506,085

As of September 30, 2024, the interest rate of the CA Group's unsecured debt of \$420.0 million (December 31, 2023, \$420.0 million) is 5.00% (December 31, 2023, 5%) and the weighted average effective interest rate of the CA Group's secured debt is 5.07% (December 31, 2023, 5.34%). The weighted average interest rate for our floating rate debt of \$2.9 billion (December 31, 2023, \$3.1 billion) is calculated based on the applicable U.S. dollar SOFR rate, 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, 2024, were as follows (U.S. dollars in thousands):

	9 Months Ended September 30 2024 Interest	9 Months Ended September 30 2024 Principal
HYB	\$ 10,500	\$ -
TLB 1	67,705	8,850
TLB 2	38,945	4,763
TL 3	5,459	5,076
TL 4	6,097	6,154
RCF	19,502	293,410
TL 5	3,147	2,965
TL 6	20,347	8,950
TL 7	4,911	5,212
TL 8	6,476	6,868
Derivative interest income	(43,976)	-
Total interest and principal repayments and non-interest-bearing convertible loan	\$ 139,113	\$ 342,248

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11 Debt (continued)

The total interest expense during the 9 Months ended September 30, 2024 and September 30, 2023 was comprised of the following (U.S. dollars in thousands):

	9 Months Ended September 30 2024	9 Months Ended September 30 2023
HYB	\$ 15,750	\$ 15,750
TLB 1	68,980	69,314
TLB 2	38,530	29,830
TL 1	-	2,515
TL 2	-	7,576
TL 3	5,428	5,694
TL 4	6,046	5,997
RCF	19,265	15,439
TL 5	3,117	1,905
TL 6	19,962	7,350
TL 7	4,845	1,458
TL 8	6,409	7
Amortization of debt issuance costs	8,830	10,060
Derivatives	(43,291)	(35,731)
Total	\$ 153,871	\$ 137,164

The total interest expense during the 3 Months ended September 30, 2024 and September 30, 2023 was comprised of the following (U.S. dollars in thousands):

	3 Months Ended September 30 2024	3 Months Ended September 30 2023
HYB	\$ 5,250	\$ 5,250
TLB 1	22,768	24,647
TLB 2	12,823	13,035
TL 2	-	2,688
TL 3	1,798	1,895
TL 4	1,965	2,098
RCF	5,995	4,821
TL 5	1,032	1,089
TL 6	6,680	6,809
TL 7	1,603	1,452
TL 8	2,122	7
Amortization of debt issuance costs	2,946	3,296
Derivatives	(12,983)	(15,096)
Total	\$ 51,999	\$ 51,991

As of September 30, 2024, \$200.0 million was drawn down from the RCF leaving an undrawn amount of \$750.0 million. As of December 31, 2023, TLB 1, TLB 2, TL 3, TL 4, TL 5, TL 6, TL7 and TL 8 were fully drawn.

As of February 28, 2023, TL1 and TL2 have been repaid.

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

As of September 30, 2024, TLB 1, TLB 2, TL 3, TL 4, TL 5, TL 6, TL 7 and TL 8 are secured by 97 (2023: TLB1, TLB2, TL 3, TL 4, TL 5, TL 6, TL 7 and TL 8 are secured by 98) aircraft, while RCF is secured by 12 (2023: 14) aircraft assets.

As of September 30, 2024, the CA Group remained in compliance in all material respects with the covenants in the agreements governing its Debt.

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11 Debt (continued)

Maturities of secured and unsecured debt outstanding as of September 30, 2024 and December 31, 2023, are as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
2024	\$ 16,586	\$ 65,423
2025	67,834	67,834
2026	1,713,080	1,916,491
2027	1,069,733	1,069,733
2028	41,960	41,960
Thereafter	377,855	377,855
Total	\$ 3,287,048	\$ 3,539,296

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 location during the 9 Months ended September 30, 2024 and September 30, 2023 (U.S. dollars in thousands):

	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Europe, Middle East and Africa (EMEA)	\$ 59,472	\$ 35,130
Asia Pacific (APAC)	149,779	134,380
Americas	103,719	97,353
Lease premium amortization (Note 5)	(10,247)	(11,254)
Rental income from operating and finance leases	\$ 302,723	\$ 255,609

The following table details rental income, net of expected credit losses, provision for bad debts and bad debt recoveries, by geographical location during the 3 Months ended September 30, 2024 and September 30, 2023 (U.S. dollars in thousands):

	3 Months Ended September 30 2024	3 Months Ended September 30 2023
Europe, Middle East and Africa (EMEA)	\$ 20,302	\$ 17,350
Asia Pacific (APAC)	46,104	48,240
Americas	33,046	35,819
Lease premium amortization (Note 5)	(3,232)	(3,629)
Rental income from operating and finance leases	\$ 96,220	\$ 97,780

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 reflects the risk that its airline 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.

Total rental income above includes \$27.9 million and \$14.3 million interest income from net investment in finance leases, for the 9 months ended September 30, 2024 and September 30, 2023, respectively, as disclosed in Note 6 – Net Investment in Finance leases.

The CA Group's top 5 customers represented 66.03% of total rental revenues for the 9 Months ended September 30, 2024, and 4 customers each accounted for 10.00% or more of total rental revenues at 19.34%, 13.97%, 12.66% and 12.18%. As at September 30, 2024, 24 of the operating leases provide for unexpired extension options and 1 of the operating leases provides for an unexpired early termination option.

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12 Rental income from operating and finance leases (continued)

As at September 30, 2024, and September 30, 2023, the CA Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases (U.S. dollars in thousands):

	September 30 2024	September 30 2023
2023	\$ -	\$ 104,630
2024	88,360	409,876
2025	345,320	396,302
2026	310,000	357,615
2027	277,844	321,899
2028	268,523	312,281
Thereafter	1,175,994	1,318,695
Total	\$ 2,466,041	\$ 3,221,298

During the 9 Months ended September 30, 2024, the CA Group recognized a reversal for expected credit losses of \$6.9 million, classified in operating rental income, in respect of the CA Group's deferred operating lease revenue balance as at September 30, 2024. Refer to *Note 9 – Trade Receivables*.

13 Interest and other income

Interest and other income net of provisions for bad debts during the 9 Months ended September 30, 2024, and September 30, 2023, were as follows (U.S. dollars in thousands):

	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Interest income from loan assets	\$ 56,483	\$ 32,139
Bank interest income	3,857	3,469
Other interest income	2,263	5,557
Late payment interest	3,832	2,889
(Provision for bad debts)/reversal of provision for bad debts (Note 9)	(594)	3,866
Interest and other income	\$ 65,841	\$ 47,920

Interest and other income net of provisions for bad debts during the 3 Months ended September 30, 2024, and September 30, 2023, were as follows (U.S. dollars in thousands):

	3 Months Ended September 30 2024	3 Months Ended September 30 2023
Interest income from loan assets	\$ 18,934	\$ 11,862
Bank interest income	2,253	1,533
Other interest income	909	2,264
Late payment interest	1,483	266
Reversal of provision for bad debts (Note 9)	(2)	-
Interest and other income	\$ 23,577	\$ 15,925

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14 Derivative financial instruments

The CA Group entered into interest rate swaps to hedge the current and future interest payments of a portion of external debt which has an underlying variable interest rate. As of September 30, 2024 and December 31, 2023, the underlying variable benchmark interest rates under the interest rate swaps were 3-month U.S. dollar SOFR and 1-month U.S. 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, 2024 and December 31, 2023 (U.S. dollars in thousands):

	September 30 2024 Notional amounts	September 30 2024 Fair value	December 31 2023 Notional amounts	December 31 2023 Fair value
Derivative assets/(liabilities) designated as accounting cash flow hedges:				
Interest rate swap assets	\$ 1,175,778	\$ 41,309	\$ 1,478,802	\$ 68,300
Accrued interest		1,898		2,745
Interest rate swap unwind		(1,429)		(1,590)
Derivative assets		<u>\$ 41,778</u>		<u>\$ 69,455</u>
Interest rate swaps liability	1,868,792	(19,675)	1,688,514	(15,342)
Total	<u>\$ 3,044,570</u>	<u>\$ 22,103</u>	<u>\$ 3,167,316</u>	<u>\$ 54,113</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 \$2.4 million (Notional \$611.0 million).

The CA Group has recorded the following in other comprehensive income gain related to derivative financial instruments for the 9 month period ended 30 September, 2024, and the period ended 30 September, 2023 (U.S. dollars in thousands):

	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Effective portion of change in FV of derivatives designated as cash flow hedges:		
Interest rate swaps	\$ (31,323)	\$ 28,996
Income tax effects	3,915	(3,624)
Net (loss)/ gain on derivative, net of tax	<u>\$ (27,408)</u>	<u>\$ 25,372</u>

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14 Derivative financial instruments (continued)

The CA Group has recorded the following in other comprehensive income gain related to derivative financial instruments for the 3 month period ended 30 September, 2024, and the period ended 30 September, 2023 (U.S. dollars in thousands):

	3 Months Ended September 30 2024	3 Months Ended September 30 2023
Effective portion of change in FV of derivatives designated as cash flow hedges:		
Interest rate swaps	\$ (60,618)	\$ 16,923
Income tax effects	7,582	(2,115)
Net gain/(loss) on derivative, net of tax	\$ (53,036)	\$ 14,808

15 Income tax

The following table presents the CA Group's income tax expense/(benefit) for the 9 Months ended September 30, 2024, and September 30, 2023 (U.S. dollars in thousands):

	9 Months Ended September 30 2024	9 Months Ended September 30 2023
Current tax expense/(benefit)	\$ 50	\$ (73)
Deferred tax expenses	10,673	1,974
Provision for income taxes	\$ 10,723	\$ 1,901

The following table presents the CA Group's income tax expense/(benefit) for the 3 Months ended September 30, 2024, and September 30, 2023 (U.S. dollars in thousands):

	3 Months Ended September 30 2024	3 Months Ended September 30 2023
Current tax expense	\$ 37	\$ 17
Deferred tax expenses/(benefit)	4,497	(176)
Provision for income taxes	\$ 4,534	\$ (159)

As of September 30, 2024 and December 31, 2023, deferred tax assets and deferred tax liabilities were as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
Deferred tax assets	\$ 37,826	\$ 34,213
Deferred tax liabilities	51,666	41,295

Effective from 1 January 2022, the CA Group elected to no longer subject 16 of the aircraft 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.

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15 Income tax (continued)

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 gives 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.

The CA Group's primary tax jurisdiction is Ireland. The tax returns in Ireland for Castlelake Aviation Limited and the entities that were incorporated in 2022 are open for examination by the Irish Revenue from 2022 onwards. There were a number of existing entities which were acquired by Castlelake Aviation Limited in 2022; tax returns for these entities remain open for enquiries by the Irish Revenue for four years from the end of the year in which a particular return is filed.

16 Commitments and contingencies

As of September 30, 2024, the CA Group was under an agreement for purchase and leaseback transactions for 20 aircraft. Commitments for the acquisition of these aircraft, calculated at an estimated aggregate purchase price (including adjustments for anticipated inflation) of approximately \$1.3 billion and of \$1.5 billion as of September 30, 2024 and December 31, 2023 are as follows (U.S. dollars in thousands):

	September 30 2024	December 31 2023
2024	\$ -	\$ 195,000
2025	-	-
2026	-	-
2027	580,309	580,309
2028	730,545	730,545
Thereafter	-	-
Total	\$ 1,310,854	\$ 1,505,854

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 yet been determined.

As of September 30, 2024 and December 31, 2023, all debt was guaranteed by the Company, the respective CA Group borrower or issuer and their subsidiaries.

Each of the HYB, TLB, and RCF loans 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 the principal, 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 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 \$2.0 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.

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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 \$21.4 million during the 9 Months ended September 30, 2024 (September 30, 2023: \$15.4 million). As of September 30, 2024, the accrued but unpaid Servicer fee balance is \$1.6 million (December 31, 2023: \$3.0 million), which has been subsequently paid in October 2024. The CA Group incurred Management fees in the amount of \$1.5 million during the 9 Months ended September 30, 2024 (September 30, 2023: \$1.1 million). As of September 30, 2024, the prepaid Management fee balance is \$1.1 million (31 December 2023: \$Nil). As of September 30, 2024 the CA Group declared and paid a dividend of \$55.8 million to its immediate parent (September 30, 2023 \$Nil).

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, 2024 and December 31, 2023, the CA Group's derivative portfolio consisted of interest rate swaps. The fair value of derivatives is based on dealer quotes for identical instruments. The CA Group has also considered the credit rating and risk of the counterparty of the derivative contract based on quantitative and qualitative factors. As such, the valuation of these instruments was classified as Level 2.

The following table presents the CA Group's financial assets and liabilities that the CA Group has measured at fair value on a recurring basis by level within the fair value hierarchy as of September 30, 2024 and December 31, 2023 (U.S. dollars in thousands):

	Notes	USD	Total USD	September 30, 2024				
				Level 1 USD	Level 2 USD	Level 3 USD		
Assets								
Derivative assets	14	\$	41,309	\$	-	\$ 41,309	\$	-
Liabilities								
Derivative liabilities	14	\$	19,675	\$	-	\$ 19,675	\$	-
				December 31, 2023				
				Level 1 USD	Level 2 USD	Level 3 USD		
Assets								
Derivative assets	14	\$	68,300	\$	-	\$ 68,300	\$	-
Liabilities								
Derivative liabilities	14	\$	15,342	\$	-	\$ 15,342	\$	-

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 U.S. GAAP requires the application of fair value, including when events or changes in circumstances indicate that the carrying amounts of 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.

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18 Fair value measurements (continued)

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, 2024 and December 31, 2023, but require disclosure of their fair values: cash and cash equivalents. The estimated fair value of such instruments at September 30, 2024 and December 31, 2023, approximates the carrying value as reported on the 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

The CA Group has evaluated the effects of events that have occurred subsequent to September 30, 2024 and through November 13, 2024, the date the financial statements were available to be issued.

On October 2, 2024, the lessee of an aircraft on finance lease to a lessee based in the America's exercised its option to purchase the aircraft in accordance with the terms of the lease with a gain being recorded.

On October 9, 2024, the CA Group executed a voluntary early termination notice of the RCF facility whereby the total commitment shall be reduced from \$950.0 million to \$350.0 million.

On October 25, 2024, the directors of Castlelake Aviation Limited paid a dividend of \$110m.