UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2022

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File number 001-32959

AIRCASTLE LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	**98-0444035**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

c/o Aircastle Advisor LLC
201 Tresser Boulevard, Suite 400
Stamford
Connecticut
06901
(Address of Principal Executive Offices)

Registrant’s telephone number, including area code: **(203) 504-1020**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Shares, par value $0.01 per share	N/A	NONE
Preference Shares, par value $0.01 per share	N/A	NONE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☑	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the Registrant’s Common Shares based upon the closing price on the New York Stock Exchange on August 31, 2021 (the last business day of registrant’s most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was $0 because the Registrant’s Common Shares were not publicly traded as of that date. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of July 8, 2022, there were 14,048 outstanding shares of the registrant’s common shares, par value $0.01 per share.

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PART I. — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Aircastle Limited and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	May 31, 2022	February 28, 2022
	(Unaudited)	
ASSETS		
Cash and cash equivalents	$ 241,030	$ 167,891
Restricted cash and cash equivalents	650	2,791
Accounts receivable	61,538	63,666
Flight equipment held for lease, net	6,239,217	6,313,950
Net investment in leases, net	148,300	150,325
Unconsolidated equity method investments	38,828	38,317
Other assets	370,336	356,326
Total assets	$ 7,099,899	$ 7,093,266
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net	$ 644,763	$ 684,039
Borrowings from unsecured financings, net	3,837,104	3,835,841
Accounts payable, accrued expenses and other liabilities	174,965	177,424
Lease rentals received in advance	38,499	37,361
Security deposits	68,832	69,189
Maintenance payments	498,355	459,713
Total liabilities	5,262,518	5,263,567
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preference shares, $0.01 par value, 50,000,000 shares authorized, 400 (aggregate liquidation preference of $400,000) shares issued and outstanding at May 31, 2022 and February 28, 2022	—	—
Common shares, $0.01 par value, 250,000,000 shares authorized, 14,048 shares issued and outstanding at May 31, 2022 and February 28, 2022	—	—
Additional paid-in capital	1,878,774	1,878,774
Accumulated deficit	(41,393)	(49,075)
Total shareholders' equity	1,837,381	1,829,699
Total liabilities and shareholders' equity	$ 7,099,899	$ 7,093,266

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Aircastle Limited and Subsidiaries
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Dollars in thousands)
(Unaudited)

	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021
Revenues:		
Lease rental revenue	$ 144,144	$ 132,125
Direct financing and sales-type lease revenue	2,598	2,877
Amortization of lease premiums, discounts and incentives	(5,388)	(5,325)
Maintenance revenue	27,099	26,477
Total lease revenue	168,453	156,154
Gain on sale of flight equipment	3,687	9,021
Other revenue	3,424	635
Total revenues	175,564	165,810
Operating expenses:		
Depreciation	81,318	82,391
Interest, net	50,294	58,037
Selling, general and administrative	19,916	15,583
Provision for credit losses	580	6
Impairment of flight equipment	4,428	20,583
Maintenance and other costs	8,065	7,528
Total operating expenses	164,601	184,128
Other income (expense):		
Loss on extinguishment of debt	(463)	(24)
Other	—	10
Total other income (expense)	(463)	(14)
Income (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investments	10,500	(18,332)
Income tax provision (benefit)	3,329	(8,292)
Earnings of unconsolidated equity method investments, net of tax	511	287
Net income (loss)	$ 7,682	$ (9,753)
Net income (loss) available to common shareholders	$ 7,682	$ (9,753)
Total comprehensive income (loss) available to common shareholders	$ 7,682	$ (9,753)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Three Months Ended May 31,	
	2022	**2021**
Cash flows from operating activities:		
Net income (loss)	$ 7,682	$ (9,753)
Adjustments to reconcile net income (loss) to net cash and restricted cash provided by operating activities:		
Depreciation	81,318	82,391
Amortization of deferred financing costs	3,597	4,191
Amortization of lease premiums, discounts and incentives	5,388	5,325
Deferred income taxes	2,865	1,850
Collections on net investment in leases	2,282	3,913
Security deposits and maintenance payments included in earnings	9,076	(13,139)
Gain on sale of flight equipment	(3,687)	(9,021)
Loss on extinguishment of debt	463	24
Impairment of flight equipment	4,428	20,583
Provision for credit losses	580	6
Other	(508)	(290)
Changes in certain assets and liabilities:		
Accounts receivable	4,274	1,661
Other assets	(5,008)	(11,651)
Accounts payable, accrued expenses and other liabilities	(4,305)	(3,604)
Lease rentals received in advance	1,848	(2,496)
Net cash and restricted cash provided by operating activities	110,293	69,990
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(63,724)	(70,834)
Proceeds from sale of flight equipment	58,233	63,420
Aircraft purchase deposits and progress payments, net of deposits returned and aircraft sales deposits	(8,716)	11,963
Net cash and restricted cash (used in) provided by investing activities	(14,207)	4,549
Cash flows from financing activities:		
Repayments of secured and unsecured debt financings	(39,923)	(27,224)
Debt extinguishment costs	(291)	(24)
Deferred financing costs	(1,860)	(4,604)
Security deposits and maintenance payments received	27,911	22,793
Security deposits and maintenance payments returned	(425)	(475)
Dividends paid	(10,500)	—
Net cash and restricted cash used in financing activities	(25,088)	(9,534)
Net increase in cash and restricted cash:	70,998	65,005
Cash and restricted cash at beginning of period	170,682	580,598
Cash and restricted cash at end of period	$ 241,680	$ 645,603

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
(Dollars in thousands)
(Unaudited)

	Three Months Ended May 31,	
	2022	**2021**
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	$ 241,030	$ 642,910
Restricted cash and cash equivalents	650	2,693
Unrestricted and restricted cash and cash equivalents	$ 241,680	$ 645,603
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 44,275	$ 44,948
Cash (received) paid for income taxes	$ (576)	$ 891
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets assumed in asset acquisitions	$ 339	$ —
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets settled in sale of flight equipment	$ 3,800	$ 12,138
Transfers from flight equipment held for lease to Net investment in leases and Other assets	$ 17,734	$ 3,554

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Aircastle Limited and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(Dollars in thousands, except share amounts)
(Unaudited)

	Common Shares		Preference Shares		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balance, February 28, 2022	14,048	$ —	400	$ —	$ 1,878,774	$ (49,075)	$ 1,829,699
Net income	—	—	—	—	—	7,682	7,682
Balance, May 31, 2022	14,048	$ —	400	$ —	$ 1,878,774	$ (41,393)	$ 1,837,381

	Common Shares		Preference Shares		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balance, February 28, 2021	14,048	$ —	—	$ —	$ 1,485,777	$ 245,293	$ 1,731,070
Net loss	—	—	—	—	—	(9,753)	(9,753)
Balance, May 31, 2021	14,048	$ —	—	$ —	$ 1,485,777	$ 235,540	$ 1,721,317

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited ("Aircastle," the "Company," "we," "us" or "our") is a Bermuda exempted company that was incorporated on October 29, 2004 under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle's business consists of acquiring, leasing, managing and selling commercial jet aircraft.

The Company is controlled by affiliates of Marubeni Corporation ("Marubeni") and Mizuho Leasing Company, Limited ("Mizuho Leasing"). Aircastle is a holding company and conducts its business through subsidiaries that are wholly-owned, either directly or indirectly, by Aircastle.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. However, we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 28, 2022.

The consolidated financial statements include the accounts of Aircastle and all its subsidiaries, including any Variable Interest Entity ("VIE") of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We manage and analyze our business and report on our results of operations based on one operating segment: leasing, financing, selling and managing commercial flight equipment. Our Chief Executive Officer is the chief operating decision maker.

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure subsequent to the balance sheet date of May 31, 2022, through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Risk and Uncertainties

In the normal course of business, Aircastle encounters several significant types of economic risk including credit, market, aviation industry and capital market risks. Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments and to fulfill its other contractual obligations to Aircastle. Market risk reflects the change in the value of financings due to changes in interest rate spreads or other market factors, including the value of collateral underlying financings. Aviation industry risk is the risk of a downturn in the commercial aviation industry which could adversely impact a lessee's ability to make payments, increase the risk of early lease terminations and depress lease rates and the value of the Company's aircraft. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of its business or to refinance existing debt facilities.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While

Aircastle believes the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

Lease Revenue Recognition

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven years. We generally do not offer renewal terms or purchase options in our leases, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals.

In certain instances, we may provide lease concessions to customers, generally in the form of lease rental deferrals. While these deferral arrangements affect the timing of lease rental payments, the total amount of lease rental payments required over the lease term is generally the same as that which was required under the original lease agreement. We account for the deferrals as if no modifications to the lease agreements were made and record the deferred rentals as a receivable within other assets.

Should we determine that the collectability of rental payments is no longer probable (including any deferral thereof), we will recognize lease rental revenue using a cash basis of accounting rather than an accrual method. In the period we conclude that collection of lease payments is no longer probable, we recognize any difference between revenue amounts recognized to date under the accrual method and payments that have been collected from the lessee, including security deposit amounts held, as a current period adjustment to lease rental revenue.

Impairment of Flight Equipment

We perform an annual recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis. A recoverability assessment is also performed whenever events or changes in circumstances, or indicators, suggest that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant change in an aircraft type's storage levels, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted lease rental and maintenance payments, future projected lease rates and maintenance payments, transition costs, estimated down time, and estimated residual or scrap values for an aircraft. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge. See Note 2 in the Notes to Unaudited Consolidated Financial Statements.

Management develops the assumptions used in the recoverability analysis based on current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in projected lease rental and maintenance payments, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors, such as the location of the aircraft and accessibility to records and technical documentation.

We continue to closely monitor the impact of recent crises, such as the Russian invasion of Ukraine and the COVID-19 pandemic, on our customers, air traffic, lease rental rates, and aircraft valuations, and have and will continue to perform additional customer and aircraft specific reviews should changes in facts and circumstances arise that may impact the recoverability of our aircraft. We have and will focus on aircraft with near-term lease expirations, customers that have entered judicial insolvency proceedings and any additional customers that may become subject to similar-type proceedings, and certain other customers or aircraft variants that are more susceptible to the impact of the above crises and value deterioration.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2020-04, Reference Rate Reform Topic 848 ("ASC 848"), in response to the market transition from the London interbank offered rates ("LIBOR") and other interbank offered rates ("IBORs") to alternative reference rates. U.S. GAAP requires entities to evaluate whether a contract modification, such as the replacement or change of a reference rate, results in the establishment of a new contract or continuation of an existing contract. ASC 848 allows an entity to elect not to apply certain modification accounting requirements to contracts affected by reference rate reform. The standard provides this temporary election through December 31, 2022, and cannot be applied to contract modifications that occur after December 31, 2022. Reference rate reform will primarily impact our lease and debt arrangements for which floating-rate lease rentals and interest expense are based on LIBOR. As of May 31, 2022, less than 1% of our fleet have floating-rate lease rentals and for three months ended May 31, 2022, 5% of our interest expense was derived from floating-rate debt which is referenced to LIBOR. We have not adopted ASC 848 and are evaluating the election available to us under the standard.

(Dollars in thousands, except per share amounts)

Note 2. Fair Value Measurements

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth our financial assets as of May 31, 2022 and February 28, 2022 that we measured at fair value on a recurring basis by level within the fair value hierarchy. Assets measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

		Fair Value Measurements at May 31, 2022 Using Fair Value Hierarchy			
	Fair Value as of May 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Assets:					
Cash and cash equivalents	$ 241,030	$ 241,030	$ —	$ —	Market
Restricted cash and cash equivalents	650	650	—	—	Market
Total	$ 241,680	$ 241,680	$ —	$ —	

		Fair Value Measurements at February 28, 2022 Using Fair Value Hierarchy			
	Fair Value as of February 28, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Assets:					
Cash and cash equivalents	$ 167,891	$ 167,891	$ —	$ —	Market
Restricted cash and cash equivalents	2,791	2,791	—	—	Market
Total	$ 170,682	$ 170,682	$ —	$ —	

Our cash and cash equivalents and our restricted cash and cash equivalents consist largely of money market securities that are highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

For the three months ended May 31, 2022, we had no transfers into or out of Level 3.

We measure the fair value of certain assets and liabilities on a non-recurring basis, when U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate the carrying amounts of these assets may not be recoverable. Assets subject to these measurements include our aircraft and investment in unconsolidated joint venture. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft in impairment tests are based on the average of the market approach that uses Level 2 inputs, which include third party appraisal data and an income approach that uses Level 3 inputs, which include the Company's assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft discounted using the Company's weighted average cost of capital.

We account for our investment in unconsolidated joint ventures under the equity method of accounting. Investments are recorded at cost and are adjusted by undistributed earnings and losses and the distributions of dividends and capital. These investments are reviewed for impairment whenever events or changes in circumstances indicate the fair value is less than its carrying value and the decline is other-than-temporary.

Aircraft Valuation

Impairment of Flight Equipment

During the three months ended May 31, 2022, the Company wrote off the remaining book value of eight narrow-body aircraft in Russia which have not been returned to us totaling $4.4 million. While we maintain title to the aircraft and will continue to pursue repossession, we determined that it is unlikely we will regain possession of these eight aircraft – see Note 3 in the Notes to Unaudited Consolidated Financial Statements. The Company recognized $1.5 million of other revenue for these aircraft related to payments received on letters of credit.

During the three months ended May 31, 2021, the Company recorded transactional impairment charges totaling $20.6 million which related to two narrow-body aircraft and were the result of an early lease termination and a scheduled lease expiration. The Company recognized $21.1 million of maintenance revenue for these two aircraft.

Annual Recoverability Assessment

We plan to perform our annual recoverability assessment of all our aircraft during the third quarter of 2022.

We continue to closely monitor the impact of recent crises, such as the Russian invasion of Ukraine and the COVID-19 pandemic, on our customers, air traffic, lease rental rates, and aircraft valuations, and have and will continue to perform additional customer and aircraft specific reviews should changes in facts and circumstances arise that may impact the recoverability of our aircraft. We have and will focus on aircraft with near-term lease expirations, customers that have entered judicial insolvency proceedings and any additional customers that may become subject to similar-type proceedings, and certain other customers or aircraft variants that are more susceptible to the impact of the above crises and value deterioration.

The recoverability assessment is a comparison of the carrying value of each aircraft to its estimated undiscounted future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors, such as the location of the aircraft and accessibility to records and technical documentation.

If our estimates or assumptions change, including those related to our customers that have entered judicial insolvency proceedings, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in our recoverability assessments are appropriate, actual results could differ from those estimates.

(Dollars in thousands, except per share amounts)

Financial Instruments

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and amounts borrowed under financings. The fair value of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

The fair value of our senior notes is estimated using quoted market prices. The fair values of all our other financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of our financial instruments at May 31, 2022 and February 28, 2022 were as follows:

	May 31, 2022		February 28, 2022	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Unsecured Term Loan	155,000	152,586	155,000	152,195
Export Credit Agency (“ECA”) Financings	—	—	21,576	21,931
Bank Financings	647,910	638,242	666,258	675,667
Senior Notes	3,700,000	3,574,154	3,700,000	3,776,997

All our financial instruments are classified as Level 2 except for our senior notes, which are classified as Level 1.

Note 3. Flight Equipment Held for Lease, Net

The following table summarizes the activities for the Company’s flight equipment held for lease for the three months ended May 31, 2022:

	Amount
Balance at February 28, 2022	$ 6,313,950
Additions	41,312
Depreciation	(81,011)
Disposals and transfers to net investment in leases and held for sale	(30,606)
Impairments	(4,428)
Balance at May 31, 2022	$ 6,239,217
Accumulated depreciation as of May 31, 2022	$ 2,604,624

Write-off of Russian Aircraft

As of May 31, 2022, nine of our aircraft that were previously leased to Russian airlines remain in Russia. We also have one aircraft outside of Russia that is not operational and not in our possession. Most of the operators of these aircraft have continued to fly the aircraft notwithstanding the leasing terminations and our repeated demands for the return of our assets. While we maintain title to the aircraft and will continue to pursue repossession, we determined that it is unlikely we will regain possession of eight of the nine aircraft that remain in Russia. As a result, the Company wrote off the remaining book value of these eight aircraft totaling $4.4 million during three months ended May 31, 2022. These eight aircraft have been removed from the Company’s owned fleet count. The Company is vigorously pursuing insurance claims to recover its losses relating to these aircraft, however, collection, timing and amounts of any insurance recoveries is uncertain.

(Dollars in thousands, except per share amounts)

Our two aircraft not subject to write-off comprise less than 1% of our net book value of our fleet (flight equipment held for lease and net investment in direct financing and sales-type leases, or "Net Book Value"). It is unclear whether we will be able to recover these aircraft or what the condition of the aircraft will be at the time of repossession if we do so or whether we will be able to recover the related technical records and documentation. The Company recognized $23.9 million of maintenance revenue for these two aircraft related to payments received on maintenance letters of credit and is pursuing collection on remaining letters of credit totaling $24.1 million.

Note 4. Lease Rental Revenues

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at May 31, 2022 were as follows:

Year Ending February 28/29,	Amount(1)
2023 (Remainder of fiscal year)	$ 434,816
2024	539,300
2025	434,802
2026	314,749
2027	260,343
Thereafter	745,192
Total	$ 2,729,202

(1) Reflects impact of lessee lease rental deferrals.

At May 31, 2022 and February 28, 2022, the amounts of lease incentive liabilities recorded in maintenance payments on our consolidated balance sheets were $18.3 million and $16.5 million, respectively.

Note 5. Net Investment in Leases, Net

At May 31, 2022 and February 28, 2022, our net investment in leases consisted of ten and eleven aircraft, respectively. The components of our net investment in leases at May 31, 2022 and February 28, 2022, were as follows:

	May 31, 2022	February 28, 2022
Lease receivable	$ 49,729	$ 52,021
Unguaranteed residual value of flight equipment	100,909	100,068
Net investment leases	150,638	152,089
Allowance for credit losses	(2,338)	(1,764)
Net investment in leases, net	$ 148,300	$ 150,325

The activity in the allowance for credit losses related to our net investment in leases for the three months ended May 31, 2022 was as follows:

	Amount
Balance at February 28, 2022	$ 1,764
Provision for credit losses	580
Write-offs	(6)
Balance at May 31, 2022	$ 2,338

(Dollars in thousands, except per share amounts)

At May 31, 2022, future lease payments on net investment in leases are as follows:

Year Ending February 28/29,	Amount
2023 (Remainder of fiscal year)	$ 7,705
2024	8,973
2025	9,509
2026	8,580
2027	8,292
Thereafter	16,281
Total lease payments to be received	59,340
Present value of lease payments - lease receivable	(49,729)
Difference between undiscounted lease payments and lease receivable	$ 9,611

Note 6. Concentration of Risk

The classification of regions in the tables below is based on our customers' principal place of business.

The geographic concentration of our Net Book Value as of May 31, 2022 and February 28, 2022 was as follows:

	May 31, 2022		February 28, 2022	
Region	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Asia and Pacific	70	32 %	71	32 %
Europe	87	28 %	98	30 %
Middle East and Africa	10	4 %	10	4 %
North America	34	17 %	36	17 %
South America	25	13 %	25	13 %
Off-lease	15 [(1)]	6 %	11 [(2)]	4 %
Total	241	100 %	251	100 %

(1) Of the fifteen off-lease aircraft at May 31, 2022, we have one narrow-body aircraft and eight wide-body aircraft which we are currently marketing for lease or sale.

(2) Of the eleven off-lease aircraft at February 28, 2022, we have five wide-body aircraft which we are currently marketing for lease or sale.

The following table sets forth individual countries representing at least 10% of our Net Book Value as of May 31, 2022 and February 28, 2022:

	May 31, 2022			February 28, 2022		
Country	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
India	$ 663,307	10%	3	$ 670,523	10%	3

(Dollars in thousands, except per share amounts)

The geographic concentration of our lease rental revenue earned from flight equipment held for lease was as follows:

	Three Months Ended May 31,	
Region	**2022**	**2021**
Asia and Pacific	33 %	34 %
Europe	29 %	34 %
Middle East and Africa	5 %	6 %
North America	17 %	14 %
South America	16 %	12 %
Total	100 %	100 %

The following table shows the number of lessees with lease rental revenue of at least 5% of total lease rental revenue and their combined total percentage of lease rental revenue for the periods indicated:

	Three Months Ended May 31,			
	2022		2021	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	4	30%	5	34%

For the three months ended May 31, 2022, the Company recognized $25.4 million of maintenance and other revenue, or 14% of our total revenues, related to payments received on maintenance and general security letters of credit from our former Russian lessees. Total revenue attributable to Russia was less than 10% for the three months ended May 31, 2021.

For the three months ended May 31, 2022 and 2021, total revenue attributable to India was 12% and 12%, respectively.

Judicial Insolvency Proceedings or Similar Protection

As of July 8, 2022, three of our customers, to which we lease seventeen aircraft, are subject to judicial insolvency proceedings or similar protection. We have signed restructured lease agreements for fifteen of these aircraft, subject only to the lessees emerging from their respective judicial insolvency processes.

Note 7. Unconsolidated Equity Method Investments

We have a joint venture with Mizuho Leasing which has nine aircraft with a net book value of $295.1 million at May 31, 2022.

	Amount
Investment in joint venture at February 28, 2022	$ 38,317
Earnings from joint venture, net of tax	511
Investment in joint venture at May 31, 2022	$ 38,828

On June 30, 2022, the Company received full repayment of the unsecured loan facility it provided to the joint venture in the amount of $1.5 million.

(Dollars in thousands, except per share amounts)

Note 8. Borrowings from Secured and Unsecured Debt Financings

The outstanding amounts of our secured and unsecured debt financings were as follows:

	At May 31, 2022				At February 28, 2022
Debt Obligation	Outstanding Borrowings	Number of Aircraft	Interest Rate	Final Stated Maturity	Outstanding Borrowings
Secured Debt Financings:					
ECA Financings	$ —	—	—%	N/A	$ 21,576
Bank Financings[1]	647,910	31	3.00% to 4.55%	06/17/23 to 03/06/25	666,258
Less: Debt issuance costs and discounts	(3,147)	—			(3,795)
Total secured debt financings, net of debt issuance costs and discounts	644,763	31			684,039
Unsecured Debt Financings:					
Senior 5.00% Notes due 2023	500,000		5.00%	04/01/23	500,000
Senior 4.40% Notes due 2023	650,000		4.40%	09/25/23	650,000
Senior Notes due 2024	500,000		4.125%	05/01/24	500,000
Senior Notes due 2025	650,000		5.25%	08/11/25	650,000
Senior Notes due 2026	650,000		4.25%	06/15/26	650,000
Senior Notes due 2028	750,000		2.85%	01/26/28	750,000
Unsecured Term Loans	155,000		2.38%	02/27/24	155,000
Revolving Credit Facilities	20,000		2.21%	06/27/22 to 04/26/25	20,000
Less: Debt issuance costs and discounts	(37,896)				(39,159)
Total unsecured debt financings, net of debt issuance costs and discounts	3,837,104				3,835,841
Total secured and unsecured debt financings, net of debt issuance costs and discounts	$ 4,481,867				$ 4,519,880

(1) In May 2022, the Company repaid the principal and accrued interest outstanding under our remaining ECA Financing and incurred early extinguishment costs of $0.5 million.

(2) The borrowings under these financings at May 31, 2022 have a weighted-average fixed rate of interest of 3.45%.

Unsecured Debt Financings:

Revolving Credit Facilities

On May 24, 2022, we entered into an amendment for one of our unsecured revolving credit facilities that expanded the size and extended the term of the facility. As a result, the existing $230.0 million commitment was expanded to $280.0 million, with $35.0 million and $245.0 million of the commitment allocated to Tranche B and Tranche C, respectively. Tranche B will mature on February 28, 2023 and Tranche C will mature on May 23, 2025. Tranche A matured on its stated maturity date of December 27, 2021.

As of May 31, 2022, we had $20.0 million outstanding under our revolving credit facilities and had $1.4 billion available for borrowing.

As of May 31, 2022, we were in compliance with all applicable covenants in our financings.

On June 27, 2022, a $100.0 million commitment under one of our unsecured revolving credit facilities, with a total commitment of $1.0 billion, matured on its stated maturity date. The remaining $900.0 million commitment will mature on April 26, 2025.

(Dollars in thousands, except per share amounts)

Note 9. Shareholders' Equity

On March 15, 2022, the Company paid a quarterly dividend in the amount of $10.5 million for its Preference Shares, which was approved by the Company's Board of Directors on January 6, 2022, and accrued as of February 28, 2022.

Note 10. Related Party Transactions

During the three months ended May 31, 2022 and 2021, the Company incurred $1.4 million and $1.0 million, respectively, in fees to Marubeni as part of its intra-company service agreement, whereby Marubeni provides certain management and administrative services to the Company. The Company also entered into a parts management services and supply agreement with an affiliate of Marubeni under which we purchased parts totaling $1.7 million and $0.5 million during the three months ended May 31, 2022 and 2021, respectively.

Note 11. Income Taxes

Income taxes have been provided for based upon the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

The sources of income (loss) from continuing operations before income taxes and earnings of our unconsolidated equity method investments for the three months ended May 31, 2022 and 2021 were as follows:

	Three Months Ended May 31,	
	2022	2021
U.S. operations	$ 5,336	$ 3,711
Non-U.S. operations	5,164	(22,043)
Income (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investments	$ 10,500	$ (18,332)

Our aircraft-owning subsidiaries generally earn income from sources outside the U.S. and typically are not subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in the U.S. and Ireland are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

The Company's effective tax rates ("ETR") for the three months ended May 31, 2022 and 2021 were 31.7% and 45.2%, respectively. The movement in the ETR is primarily caused by changes in the mix of the Company's pre-tax earnings/(losses) in its taxable and non-tax jurisdictions. Further, the three months ended May 31, 2021 included a significant decrease in Bermuda income.

(Dollars in thousands, except per share amounts)

Note 12. Interest, Net

The following table shows the components of interest, net:

	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021
Interest on borrowings and other liabilities	$ 47,241	$ 54,033
Amortization of deferred financing fees and debt discount	3,597	4,191
Interest expense	50,838	58,224
Less: Interest income	(259)	(35)
Less: Capitalized interest	(285)	(152)
Interest, net	$ 50,294	$ 58,037

Note 13. Commitments and Contingencies

Rent expense, primarily for the corporate offices and sales and marketing offices, was $0.5 million and $0.4 million for the three months ended May 31, 2022 and 2021, respectively.

As of May 31, 2022, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut; Dublin, Ireland; and Singapore for future minimum lease payments as follows:

Year Ending February 28/29,	Amount
2023 (Remainder of fiscal year)	$ 1,362
2024	1,753
2025	1,784
2026	1,632
2027	1,571
Thereafter	2,412
Total	$ 10,514

At May 31, 2022, we had commitments to acquire 23 aircraft for $829.3 million.

Commitments, including $63.7 million of remaining progress payments, contractual price escalations and other adjustments for these aircraft, at May 31, 2022, net of amounts already paid, are as follows:

Year Ending February 28/29,	Amount
2023 (Remainder of fiscal year)	$ 472,452
2024	171,258
2025	185,563
2026	—
2027	—
Thereafter	—
Total	$ 829,273

(Dollars in thousands, except per share amounts)

Note 14. Other Assets

The following table describes the principal components of other assets on our consolidated balance sheets as of May 31, 2022 and February 28, 2022:

	May 31, 2022	February 28, 2022
Deferred income tax asset	$ 563	$ 570
Lease incentives and lease premiums, net of amortization of $85,234 and $81,553, respectively	50,906	53,513
Flight equipment held for sale	49,059	77,636
Aircraft purchase deposits and Embraer E-2 progress payments	64,293	56,157
Right-of-use asset[1]	5,828	7,176
Deferred rent receivable	51,988	55,478
Other assets	147,699	105,796
Total other assets	$ 370,336	$ 356,326

(1) Net of lease incentives and tenant allowances.

Note 15. Accounts Payable, Accrued Expenses and Other Liabilities

The following table describes the principal components of accounts payable, accrued expenses and other liabilities recorded our consolidated balance sheets as of May 31, 2022 and February 28, 2022:

	May 31, 2022	February 28, 2022
Accounts payable, accrued expenses and other liabilities	$ 52,565	$ 58,882
Deferred income tax liability	68,982	66,123
Accrued interest payable	44,690	42,013
Lease liability	8,330	9,846
Lease discounts, net of amortization of $45,355 and $45,546, respectively	398	560
Total accounts payable, accrued expenses and other liabilities	$ 174,965	$ 177,424

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under "Risk Factors" and included in our Annual Report on Form 10-K for the year ended February 28, 2022. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and, unless otherwise indicated, the other financial information contained in this report has also been prepared in accordance with U.S. GAAP. Unless otherwise indicated, all references to "dollars" and "$" in this report are to, and all monetary amounts in this report are presented in, U.S. dollars.

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q (this "report"), other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA and Adjusted EBITDA and the global aviation industry and aircraft leasing sector. Words such as "anticipates," "expects," "intends," "plans," "projects," "believes," "may," "will," "would," "could," "should," "seeks," "estimates" and variations on these words and similar expressions are intended to identify such forward-looking statements. These statements are based on our historical performance and that of our subsidiaries and on our current plans, estimates and expectations and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. These risks or uncertainties include, but are not limited to, those described from time to time in Aircastle's filings with the Securities and Exchange Commission (the "SEC") and previously disclosed under "Risk Factors" in Part I - Item 1A of Aircastle's Annual Report on Form 10-K for the year ended February 28, 2022. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. Aircastle expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

WEBSITE AND ACCESS TO THE COMPANY'S REPORTS

Statements and information concerning our status as a Passive Foreign Investment Company ("PFIC") for U.S. taxpayers are available free of charge through our website at www.aircastle.com under "Investors — Tax Information (PFIC)."

The information on the Company's Internet website is not part of, nor incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

OVERVIEW

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs. However, in many cases we are obligated to pay a specified portion of maintenance or modification costs. During the three months ended May 31, 2022, we purchased one aircraft and sold four aircraft and other flight equipment. As of May 31, 2022, we owned and managed on behalf of our joint ventures 250 aircraft leased to 74 lessees located in 44 countries. As of May 31, 2022, the Net Book Value of our fleet was $6.4 billion. The weighted average age of our fleet was 10.4 years and the weighted average remaining lease term was 5.1 years. As of May 31, 2022, we have commitments to acquire 23 aircraft for $829.3 million, which includes estimated amounts for pre-delivery deposits, contractual price escalations and other adjustments.

Our total revenues, net income (loss) and Adjusted EBITDA were $175.6 million and $7.7 million, $152.9 million for the three months ended May 31, 2022 and $165.8 million, and $(9.8) million and $148.3 million for the three months ended May 31, 2021. Cash flow provided by operating activities was $110.3 million and $70.0 million for the three months ended May 31, 2022 and 2021, respectively. Our business and financial results, customers, and the aviation industry has and will continue to be impacted by the COVID-19 pandemic and the Russian invasion of Ukraine. We believe our platform and personnel position us to effectively manage through these crises and will enable us to take advantage of new investment opportunities when they arise.

While the industry continues to recover from the impact of COVID-19, according to the International Air Transit Association (“IATA”), as of May 31, 2022, air travel was still down to approximately 64% compared to normal levels. We continue to believe long-term demand for air travel will gradually return to historical trends over time.

Historically, growth in commercial air traffic has been correlated with world economic activity. Prior to the COVID-19 pandemic, commercial air traffic growth expanded at a rate 1 to 2 times that of global GDP growth. This expansion of air travel has driven growth in the world aircraft fleet; and there are approximately 25,000 commercial mainline passenger and freighter aircraft in the world fleet today. Aircraft leasing companies own approximately 48% of the world’s commercial jet aircraft. Under normal circumstances, we would expect the global fleet to continue expanding at a two to four percent average annual rate.

We believe that our long-standing business strategy of maintaining conservative leverage, limiting long-term financial commitments, and focusing our portfolio on more liquid narrow-body aircraft will enable us to manage through recent crises, such as the COVID-19 pandemic and the Russian invasion of Ukraine. Our portfolio of primarily mid-life, narrow-body aircraft should remain attractive relative to new technology aircraft due to their lower capital costs in an environment of tight airline margins.

We believe that we have sufficient liquidity to meet our contractual obligations over the next twelve months and as of July 1, 2022, total liquidity of $1.9 billion includes $1.2 billion of undrawn credit facilities, $0.2 billion of unrestricted cash, $0.1 billion of contracted asset sales and $0.4 billion of projected adjusted operating cash flows through July 1, 2023.

Update on Russian Invasion on Ukraine

As of May 31, 2022, nine of our aircraft that were previously leased to Russian airlines remain in Russia. We also have one aircraft outside of Russia that is not operational and not in our possession. Most of the operators of these aircraft have continued to fly the aircraft notwithstanding the leasing terminations and our repeated demands for the return of our assets. While we maintain title to the aircraft and will continue to pursue repossession, we determined that it is unlikely we will regain possession of eight of the nine aircraft that remain in Russia. As a result, the Company wrote off the remaining book value of these eight aircraft totaling $4.4 million during the three months ended May 31, 2022. These eight aircraft have been removed from the Company’s owned fleet count. The Company is vigorously pursuing insurance claims to recover its losses relating to these aircraft, however, collection, timing and amounts of any insurance recoveries is uncertain.

Our two aircraft not subject to write-off comprise less than 1% of our Net Book Value. It is unclear whether we will be able to recover these aircraft or what the condition of the aircraft will be at the time of repossession if we do so or whether we will be able to recover the related technical records and documentation.

During the three months ended May 31, 2022, the Company recognized $25.4 million of maintenance and other revenue related to payments received on maintenance and general security letters of credit for our former Russian lessees. The Company is pursuing collection on remaining letters of credit totaling $24.1 million.

Fiscal Year 2022 Lease Expirations and Lease Placements

As of July 8, 2022, we had nine off-lease aircraft and ten aircraft with leases expiring in fiscal year 2022, which combined account for 6.7% of our Net Book Value at May 31, 2022, still to be placed or sold. This includes two aircraft that were previously leased to Russian airlines which have not been returned to us and which account for less than 1% of our Net Book Value at May 31, 2022.

Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the fiscal years 2023-2026, representing the percentage of our Net Book Value at May 31, 2022, specified below:

- 2023: 35 aircraft, representing 10%;
- 2024: 45 aircraft, representing 17%;
- 2025: 29 aircraft, representing 12%; and
- 2026: 13 aircraft, representing 4%.

Acquisitions and Sales

During the three months ended May 31, 2022, we acquired one aircraft. As of May 31, 2022, we had commitments to acquire 23 aircraft for $829.3 million, with delivery through the fourth quarter of 2024, which includes estimated amounts for pre-delivery deposits, contractual price escalations and other adjustments. As of July 8, 2022, we have acquired four additional aircraft and have commitments to acquire 23 aircraft for $790.6 million.

During the three months ended May 31, 2022, we sold four aircraft and other flight equipment for net proceeds of $58.2 million, and recognized a net gain on sale of $3.7 million. As of July 8, 2022, we have sold two additional aircraft.

Finance

We operate in a capital-intensive industry and have a demonstrated track record of raising substantial amounts of capital from debt and equity investors. Since our inception in late 2004, we have raised $2.1 billion in equity capital from private and public investors. We also raised $18.9 billion in debt capital from a variety of sources including export credit agency-backed debt, commercial bank debt, the aircraft securitization markets and the unsecured bond market. The diversity and global nature of our financing sources demonstrates our ability to adapt to changing market conditions and seize new growth opportunities.

We intend to fund new investments through cash on hand, funds generated from operations, maintenance payments received from lessees, secured and unsecured borrowings for aircraft, draws on our revolving credit facilities and proceeds from any future aircraft sales. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See "Liquidity and Capital Resources — Secured Debt Financings" and "Liquidity and Capital Resources — Unsecured Debt Financings" below.

AIRCASTLE AIRCRAFT INFORMATION

The following table sets forth certain information with respect to the aircraft owned by us as of May 31, 2022 and 2021 (dollars in millions):

Owned Aircraft	**As of May 31, 2022**	**As of May 31, 2021**
Net Book Value of Flight Equipment	$ 6,388	$ 6,584
Net Book Value of Unencumbered Flight Equipment	$ 5,322	$ 5,400
Number of Aircraft[(1)]	241	250
Number of Unencumbered Aircraft[(1)]	210	218
Number of Lessees	74	76
Number of Countries	44	42
Weighted Average Age (Years)[(2)]	10.4	10.8
Weighted Average Remaining Lease Term (Years)[(2)]	5.1	4.5
Weighted Average Fleet Utilization during the three months ended May 31, 2022 and 2021[(3)]	94.8 %	93.1 %
Portfolio Yield for the three months ended May 31, 2022 and 2021[(4)]	9.2 %	8.4 %
Managed Aircraft on behalf of Joint Venture		
Net Book Value of Flight Equipment	$ 295	$ 309
Number of Aircraft	9	9

(1) Excludes eight aircraft that remain in Russia with zero net book value – see Note 3 in the Notes to Unaudited Consolidated Financial Statements

(2) Weighted by net book value.

(3) Aircraft on-lease days as a percent of total days in period weighted by net book value.

(4) Lease rental revenue, interest income and cash collections on our net investment in leases for the period as a percent of the average Net Book Value for the period; quarterly information is annualized. The calculation of portfolio yield includes our net investment in leases in the average net book value, and the interest income and cash collections from our net investment in leases.

PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of May 31, 2022		Owned Aircraft as of May 31, 2021	
	Number of Aircraft	% of Net Book Value	Number of Aircraft	% of Net Book Value
Aircraft Type				
Passenger:				
Narrow-body - new technology[1]	28	19 %	15	10 %
Narrow-body - current technology	187	63 %	209	68 %
Wide-body - current technology	22	16 %	22	18 %
Total Passenger	237	98 %	246	96 %
Freighter - current technology	4	2 %	4	4 %
Total	241	100 %	250	100 %
Manufacturer				
Airbus	156	65 %	166	64 %
Boeing	74	30 %	77	34 %
Embraer	11	5 %	7	2 %
Total	241	100 %	250	100 %
Regional Diversification				
Asia and Pacific	70	32 %	77	36 %
Europe	87	28 %	92	28 %
Middle East and Africa	10	4 %	10	4 %
North America	34	17 %	28	12 %
South America	25	13 %	26	13 %
Off-lease	15 (2)	6 %	17 (3)	7 %
Total	241	100 %	250	100 %

(1) Includes Airbus A320-200neo and A321-200neo, Boeing 737-MAX8 and Embraer E2 aircraft.

(2) Of the fifteen off-lease aircraft at May 31, 2022, we have one narrow-body aircraft and eight wide-body aircraft which we are currently marketing for lease or sale.

(3) Of the seventeen off-lease aircraft at May 31, 2021, we have three wide-body aircraft which we are currently marketing for lease or sale.

The top ten customers for aircraft we owned at May 31, 2022, are as follows:

Customer	Country	Percent of Net Book Value	Number of Aircraft
IndiGo	India	7.7%	11
LATAM[(1)]	Chile	7.6%	13
Air Canada	Canada	3.6%	5
Iberia	Spain	3.5%	14
American Airlines	United States	3.5%	8
KLM	Netherlands	3.1%	6
Frontier Airlines	United States	3.1%	4
Aerolineas Argentinas	Argentina	2.9%	5
Lion Air	Indonesia	2.8%	6
easyJet	United Kingdom	2.8%	11
Total top ten customers		40.6%	83
All other customers		59.4%	158
Total all customers		100.0%	241

(1) LATAM filed for Chapter 11 in May 2020. We have signed restructured leases for all thirteen of the LATAM aircraft, subject only to LATAM emerging from the Chapter 11 process.

RESULTS OF OPERATIONS

Comparison of the three months ended May 31, 2022 to the three months ended May 31, 2021:

	Three Months Ended May 31,	
	2022	2021
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	$ 144,144	$ 132,125
Direct financing and sales-type lease revenue	2,598	2,877
Amortization of lease premiums, discounts and incentives	(5,388)	(5,325)
Maintenance revenue	27,099	26,477
Total lease revenue	168,453	156,154
Gain on sale of flight equipment	3,687	9,021
Other revenue	3,424	635
Total revenues	175,564	165,810
Operating expenses:		
Depreciation	81,318	82,391
Interest, net	50,294	58,037
Selling, general and administrative	19,916	15,583
Provision for credit losses	580	6
Impairment of flight equipment	4,428	20,583
Maintenance and other costs	8,065	7,528
Total operating expenses	164,601	184,128
Other income (expense):		
Loss on extinguishment of debt	(463)	(24)
Other	—	10
Total other income (expense)	(463)	(14)
Income (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investments	10,500	(18,332)
Income tax provision (benefit)	3,329	(8,292)
Earnings of unconsolidated equity method investments, net of tax	511	287
Net income (loss)	$ 7,682	$ (9,753)

Revenues

Total revenues increased $9.8 million for the three months ended May 31, 2022 as compared to the three months ended May 31, 2021.

Lease rental revenue increased $12.0 million as a result of:

- a $15.0 million increase related to nineteen aircraft purchased since March 1, 2021;
- an $11.1 million increase in revenue as the three months ended May 31, 2022 included a lower amount of customers for which lease rental revenue was recognized using a cash basis of accounting rather than an accrual method as compared to three months ended May 31, 2021 – see Note 1 in the Notes to Unaudited Consolidated Financial Statements for our lease revenue recognition policy; and
- a $3.3 million increase due to lease extensions, amendments, transitions and other changes.

These increases were partially offset by:

- a $12.7 million decrease due to lease terminations, of which $8.6 million relates to aircraft that were previously leased to Russian airlines; and
- a $4.6 million decrease related to the sale of twelve aircraft since March 1, 2021.

Direct financing and sales-type lease revenue decreased $1.0 million related to the sales of five aircraft since March 1, 2021, partially offset by $0.7 million related to the reclassification of two aircraft to sales-type leases.

Amortization of lease premiums, discounts and lease incentives:

	Three Months Ended May 31,	
	2022	2021
	(Dollars in thousands)	
Amortization of lease premiums	$ (2,555)	$ (2,904)
Amortization of lease discounts	129	231
Amortization of lease incentives	(2,962)	(2,652)
Amortization of lease premiums, discounts and incentives	$ (5,388)	$ (5,325)

Maintenance revenue. For the three months ended May 31, 2022, we recorded $27.1 million of maintenance revenue, of which $23.9 million related to payments received on maintenance letters of credit for two freighter aircraft that were previously leased to a Russian airline. In addition, we recorded maintenance revenue of $2.1 million related to the scheduled lease expiration of one narrow-body aircraft. For the three months ended May 31, 2021, we recorded $26.5 million of maintenance revenue, comprised primarily of $21.7 million related to the scheduled lease expirations of two narrow-body aircraft and the early lease termination of one narrow-body aircraft. In addition, we recorded $4.8 million of maintenance revenue related to one narrow-body and one wide-body aircraft for which the customers were subject to judicial insolvency proceedings or similar protection.

Gain on sale of flight equipment. During the three months ended May 31, 2022, we sold four aircraft for a gain of $3.7 million as compared to the sale of three aircraft during the three months ended May 31, 2021 for a gain of $9.0 million.

Other revenue increased $2.8 million to $3.4 million for the three months ended May 31, 2022 attributable to $1.5 million of payments received on general security letters of credit for aircraft that were previously leased to Russian airlines and $1.8 million of security deposits retained by us in connection with an aircraft lease amendment.

Operating expenses

Total operating expenses decreased $19.5 million for the three months ended May 31, 2022 as compared to the three months ended May 31, 2021.

Depreciation expense decreased $1.1 million primarily attributable to $9.6 million resulting from thirteen aircraft sold since March 1, 2021 and lower depreciation related to aircraft subject to aircraft impairments, including aircraft that were previously leased to Russian airlines. This was partially offset by an increase of $6.8 million related to nineteen aircraft acquired since March 1, 2021.

Interest, net consisted of the following:

	Three Months Ended May 31,	
	2022	2021
	(Dollars in thousands)	
Interest on borrowings and other liabilities	$ 47,241	$ 54,033
Amortization of deferred financing fees and debt discount	3,597	4,191
Interest expense	50,838	58,224
Less: Interest income	(259)	(35)
Less: Capitalized interest	(285)	(152)
Interest, net	$ 50,294	$ 58,037

Interest, net decreased $7.7 million due to $633.3 million in lower weighted average debt outstanding and a lower average cost of borrowing.

Selling, general and administrative expenses increased $4.3 million primarily due to an increase in personnel costs, as well as Russia-related legal costs and travel expenses due to increased business travel.

Impairment of aircraft. During the three months ended May 31, 2022, the Company wrote off the remaining book value of eight narrow-body aircraft in Russia which have not been returned to us totaling $4.4 million. While we maintain title to the aircraft and will continue to pursue repossession, we determined that it is unlikely we will regain possession of these eight aircraft – see Note 3 in the Notes to Unaudited Consolidated Financial Statements. The Company recognized $1.5 million of other revenue for these aircraft related to payments received on letters of credit.

During the three months ended May 31, 2021, the Company recorded transactional impairment charges totaling $20.6 million which related to two narrow-body aircraft and were the result of an early lease termination and a scheduled lease expiration. The Company recognized $21.1 million of maintenance revenue for these two aircraft.

Maintenance and other costs were $8.1 million and $7.5 million for the three months ended May 31, 2022 and 2021, respectively, which related to aircraft that have transitioned or will transition to new lessees as a result of lease terminations or scheduled lease expirations. The Company has incurred higher maintenance costs compared to historical levels resulting from extended transition periods driven by supply chain issues and manpower shortages.

Income tax provision (benefit)

Our *income tax provision* for the three months ended May 31, 2022 was $3.3 million as compared to a benefit of $8.3 million for the three months ended May 31, 2021. The increase in our income tax provision of $11.6 million was primarily attributable to changes in the mix of pre-tax book income/(loss) in Bermuda, Ireland and the United States. Further, the three-month period ended May 31, 2021 included a significant decrease in Bermuda income.

Aircraft Valuation

Annual Recoverability Assessment

We plan to perform our annual recoverability assessment of all our aircraft during the third quarter of 2022.

We continue to closely monitor the impact of recent crises, such as the Russian invasion of Ukraine and the COVID-19 pandemic, on our customers, air traffic, lease rental rates, and aircraft valuations, and have and will continue to perform additional customer and aircraft specific reviews should changes in facts and circumstances arise that may impact the recoverability of our aircraft. We have and will focus on aircraft with near-term lease expirations, customers that have entered judicial insolvency proceedings and any additional customers that may become subject to similar-type proceedings, and certain other customers or aircraft variants that are more susceptible to the impact of the above crises and value deterioration.

The recoverability assessment is a comparison of the carrying value of each aircraft to its estimated undiscounted future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors, such as the location of the aircraft and accessibility to records and technical documentation.

If our estimates or assumptions change, including those related to our customers that have entered judicial insolvency proceedings, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in our recoverability assessments are appropriate, actual results could differ from those estimates.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 – "Summary of Significant Accounting Policies – Organization and Basis of Presentation" in the Notes to Unaudited Consolidated Financial Statements above.

RECENT UNADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 – "Summary of Significant Accounting Policies – Recent Accounting Pronouncements" in the Notes to Unaudited Consolidated Financial Statements above.

LIQUIDITY AND CAPITAL RESOURCES

Our business is very capital intensive, requiring significant investments in order to expand our fleet and to maintain and improve our existing portfolio. Our operations have historically generated a significant amount of cash, primarily from lease rentals and maintenance collections. We have also met our liquidity and capital resource needs by utilizing several sources over time, including:

- various forms of borrowing secured by our aircraft, including bank term facilities, limited recourse securitization financings, and ECA-backed financings for new aircraft acquisitions;
- unsecured indebtedness, including our current unsecured revolving credit facilities, term loan and senior notes;
- asset sales; and
- sales of common and preference shares.

Going forward, we expect to continue to seek liquidity from these sources and other sources, subject to pricing and conditions we consider satisfactory.

During the three months ended May 31, 2022, we met our liquidity and capital resource needs with $110.3 million of cash flows from operations and $58.2 million of cash from the sale of aircraft and other flight equipment.

As of May 31, 2022, the weighted-average maturity of our secured and unsecured debt financings was 2.8 years and we are in compliance with all applicable covenants.

While the industry continues to recover from the impact of COVID-19, according to IATA, as of May 31, 2022, air travel was still down to approximately 64% compared to normal levels. If air traffic remains depressed over an extended period and if our customers are unable to obtain sufficient funds from private, government or other sources, we may need to provide lease concessions to certain customers in the form of deferrals or broader lease restructurings. We may ultimately be unable to collect some or all amounts that we have deferred or may defer in future periods. As of May 31, 2022, we hold $68.8 million in security deposits, $498.4 million in maintenance payments and $111.1 million in letters of credit from our lessees, of which $24.1 million relates to Russian lessees and for which we are pursuing collection.

We believe we have sufficient liquidity to meet our contractual obligations over the next twelve months and as of July 1, 2022, total liquidity of $1.9 billion includes $1.2 billion of undrawn credit facilities, $0.2 billion of unrestricted cash, $0.1 billion of contracted asset sales and $0.4 billion of projected adjusted operating cash flows through July 1, 2023. In addition, we believe payments received from lessees and other funds generated from operations, unsecured bond offerings, borrowings secured by our aircraft, borrowings under our revolving credit facilities and other borrowings and proceeds from future aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity and capital resource needs include payments due under our aircraft purchase obligations, required principal and interest payments under our long-term debt facilities, expected capital expenditures, lessee maintenance payment reimbursements and lease incentive payments.

Cash Flows

	Three Months Ended May 31,	
	2022	2021
	(Dollars in thousands)	
Net cash flow provided by operating activities	$ 110,293	$ 69,990
Net cash flow (used in) provided by investing activities	(14,207)	4,549
Net cash flow used in financing activities	(25,088)	(9,534)

Operating Activities:

Cash flow provided by operating activities was $110.3 million and $70.0 million for the three months ended May 31, 2022 and 2021, respectively. The increase of $40.3 million was primarily attributable to:

- $25.4 million of payments received on maintenance and general security letters of credit for our former Russian lessees;
- an $11.1 million increase in lease rental revenue as the three months ended May 31, 2022 included a lower number of customers for which lease rental revenue was recognized using a cash basis of accounting rather than an accrual method; and
- a $9.3 million decrease in accounts receivable and other assets, primarily due to an increase in customer collections, including the repayment of existing lease deferrals, as well as a reduction in requests for new deferrals as compared to the three months ended May 31, 2021.

These inflows were offset by a decrease in cash of $9.2 million resulting from the termination of our Russian leases.

Investing Activities:

Cash flow used in investing activities was $14.2 million for the three months ended May 31, 2022 as compared to cash flow provided by investing activities of $4.5 million for the three months ended May 31, 2021, respectively. The three months ended May 31, 2022 included $8.7 million of net amounts paid for aircraft purchase deposits and progress payments as compared to net amounts returned of $12.0 million for the three months ended May 31, 2021, resulting in a net cash decrease of $20.7 million.

Financing Activities:

Cash flow used in financing activities was $25.1 million and $9.5 million for the three months ended May 31, 2022 and 2021, respectively. The net cash decrease of $15.6 million was primarily attributable to a $12.7 million increase in repayments of secured and unsecured debt financings and $10.5 million in dividends paid for the Company’s Preference Shares.

Debt Obligations

For complete information on our debt obligations, refer to Note 8 – “Secured and Unsecured Debt Financings” in the Notes to Unaudited Consolidated Financial Statements.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on debt financings, aircraft acquisitions and rent payments related to our office leases. Total contractual obligations decreased to $5.9 billion at May 31, 2022 from $6.0 billion at February 28, 2022, due to lower outstanding debt and the related interest thereon resulting from principal repayments, partially offset by higher aircraft purchase commitments.

Capital Expenditures

From time to time, we make capital expenditures to maintain or improve our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the three months ended May 31, 2022 and 2021, we incurred a total of $27.2 million and $6.5 million, respectively, of capital expenditures (including lease incentives) related to the improvement of aircraft.

As of May 31, 2022, the weighted average age by net book value of our aircraft was approximately 10.4 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Our lease agreements call for the lessee to be primarily responsible for maintaining the aircraft. Maintenance reserves are generally paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft, such as in the event of a lessee default or a lessee fails to meet its maintenance obligations under the lease agreement.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of several factors, such as in the event of a lessee default. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. See Item 1A. “Risk Factors - Risks Related to Our Business - Risks related to our leases - If lessees are unable to fund their maintenance obligations on our aircraft, we may incur increased costs at the conclusion of the applicable lease” in our Annual Report on Form 10-K for the year ended February 28, 2022.

Off-Balance Sheet Arrangements

We entered into a joint venture arrangement in order to help expand our base of new business opportunities. This joint venture does not qualify for consolidated accounting treatment. The assets and liabilities of this entity are not included in our consolidated balance sheets and we record our net investment under the equity method of accounting. See Note 7 – “Unconsolidated Equity Method Investments” in the Notes to Unaudited Consolidated Financial Statements.

We hold a 25% equity interest in our joint venture with Mizuho Leasing and as of May 31, 2022, the net book value of its nine aircraft was $295.1 million.

Foreign Currency Risk and Foreign Operations

At May 31, 2022, all our leases are payable to us in U.S. dollars. However, we incur Euro and Singapore dollar-denominated expenses in connection with our subsidiaries in Ireland and Singapore. For the three months ended May 31, 2022, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately $5.1 million in U.S. dollar equivalents and represented 25.6% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, our international operations and our exposure to foreign currency risk will likely increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases, we may enter into hedging transactions in the future to mitigate this risk. For the three months ended May 31, 2022 and 2021, we incurred insignificant net gains and losses on foreign currency transactions.

Inflation

Inflation affects our lease rentals, asset values and costs, including operating expenses and maintenance and other costs. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

Management’s Use of EBITDA and Adjusted EBITDA

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-U.S. GAAP measure is helpful in identifying trends in our performance.

This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals, as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the Board of Directors to review the consolidated financial performance of our business.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income (loss) to EBITDA and Adjusted EBITDA for the three months ended May 31, 2022 and 2021:

	Three Months Ended May 31,	
	2022	2021
Net income (loss)	$ 7,682	$ (9,753)
Depreciation	81,318	82,391
Amortization of lease premiums, discounts and incentives	5,388	5,325
Interest, net	50,294	58,037
Income tax provision (benefit)	3,329	(8,292)
EBITDA	148,011	127,708
Adjustments:		
Impairment of flight equipment	4,428	20,583
Loss on extinguishment of debt	463	24
Adjusted EBITDA	$ 152,902	$ 148,315

Limitations of EBITDA and Adjusted EBITDA

An investor or potential investor may find EBITDA and Adjusted EBITDA important measures in evaluating our performance, results of operations and financial position. We use these non-U.S. GAAP measures to supplement our U.S. GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA and Adjusted EBITDA have limitations as analytical tools and should not be viewed in isolation or as substitutes for U.S. GAAP measures of earnings (loss). Material limitations in making the adjustments to our earnings (loss) to calculate EBITDA and Adjusted EBITDA, and using these non-U.S. GAAP measures as compared to U.S. GAAP net income (loss), income (loss) from continuing operations and cash flows provided by or used in operations, include:

- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures;
- the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;
- elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy; and
- adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes which may not be comparable to similarly titled measures used by other companies.

EBITDA and Adjusted EBITDA are not alternatives to net income (loss), income (loss) from operations or cash flows provided by or used in operations as calculated and presented in accordance with U.S. GAAP. You should not rely on these non-U.S. GAAP measures as a substitute for any such U.S. GAAP financial measure. We strongly urge you to review the reconciliations to U.S. GAAP net income (loss), along with our consolidated financial statements included elsewhere in this report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA and Adjusted EBITDA are not measures of financial performance under U.S. GAAP and are susceptible to varying calculations, EBITDA and Adjusted EBITDA as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our floating rate debt obligations. Rent payments under our aircraft lease agreements typically do not vary during the term of the lease according to changes in interest rates. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, to the extent our borrowing costs are not fixed, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities. If LIBOR is no longer available or in certain other circumstances as described in the borrowing agreements, the applicable borrowing agreements provide a mechanism for determining an alternative rate of interest. There is no assurance that any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, LIBOR.

Sensitivity Analysis

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. Although we believe a sensitivity analysis provides the most meaningful analysis permitted by the rules and regulations of the SEC, it is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential interest expense impacts on our financial instruments. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

As of May 31, 2022, a hypothetical 100-basis point increase/decrease in interest rates on our variable rate borrowings would result in an interest expense increase/decrease of $3.3 million and $2.9 million, respectively, over the next twelve months.

ITEM 4. CONTROLS AND PROCEDURES

Management’s Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures” is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company’s management, including the CEO and CFO, of the effectiveness of the Company’s disclosure controls and procedures as of May 31, 2022. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective as of May 31, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), that occurred during the quarter ended May 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material legal or adverse regulatory proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes to the disclosure related to the risk factors described in our Annual Report on Form 10-K for the year ended February 28, 2022, as filed with the SEC.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Environmental, Social and Governance ("ESG")

We believe that our commitment to identifying and implementing positive environmental and social related business practices strengthens our Company, and better serves our customers, our communities and the broader environment within which we conduct our business.

Our Commitment to Environmental Sustainability

Many nations have set ambitious targets towards the ultimate the goal of curbing the adverse effects of climate change. These targets are most often created by way of political or economic unions and can be accompanied by legally binding international treaties. Global aviation has been identified as an essential player in the advancement of these environmental goals, and our Company's long-term strategic plan takes these rapidly developing initiatives into consideration when we evaluate the technology behind the aircraft we target for investment.

The Company believes the operations of our customers could be affected by the potential impacts of both climate change and sustainability targets and initiatives aimed at curbing its effect. For example, the European Union (the "E.U.") adopted a proposal that sets an intermediate target to reduce its greenhouse gas emissions by 55% by the year 2030. In July of 2021, the E.U. also drafted a proposal that would impose a minimum tax on energy products supplied as aircraft fuel for flights within the E.U. In October 2021, IATA announced its Fly Net Zero commitment to achieve net zero carbon by 2050. This commitment was echoed by the U.S. Aviation Climate Action Plan, released November 2021. In February 2022, a collective of airlines, airports, and aviation manufacturers operating in the E.U., U.K., and EFTA unveiled the flagship sustainability measure, Destination 2050. For these ambitious measures to reach implementation, a wide political and administrative consensus would likely need to be achieved. The Company is committed to monitoring such developments over the long term.

Due to the inherent complexities of jet aircraft, decarbonizing aviation requires more radical new technology as compared to other modes of transportation. Sustainable aviation fuels ("SAFs") are the most readily available means for airline operators to reduce their carbon emissions while using existing technology. Several of the Company's customers are current users of SAFs, and the Company encourages such efforts. To reach the large-scale SAF usage blend necessary to achieve Net Zero 2050 initiatives, substantial future investments will be needed into global feedstock sources and SAF production and distribution. Since 2018, Marubeni has been a strategic investment partner in SAF development.

In March of 2022, the SEC proposed a series of climate related disclosure requirements with an effective date for certain filers beginning fiscal year 2023. As a voluntary, non-accelerated filer, the Company does not fall under such requirements, however, much of the proposed disclosures can be found in either our Annual Report on Form 10-K, Item 1A., Risk Factors, or will be included in future stand-alone ESG reporting.

In April of 2022, the E.U. proposed the Corporate Sustainability Reporting Directive ("CSRD") for companies based in the E.U. The CSRD lists new detailed reporting areas regarding sustainability matters in accordance with European Sustainability Reporting Standards ("ESRS") for reporting years starting on or after January 1, 2023. Although the timeline for implementation has not been finalized, the Company believes these reporting requirements, as proposed, could be included in the future financial disclosures of one or more of our E.U.-based subsidiaries.

Our People

As of May 31, 2022, we had 109 employees. None of our employees are covered by a collective bargaining agreement, and we believe that we maintain excellent employee relations.

In addition, we believe that our commitment to our employees is critical to our continued success, leading to high employee satisfaction and low employee turnover. To facilitate talent attraction and retention, we strive to have a diverse, inclusive and safe workplace, with opportunities for our employees to grow and develop in their careers, supported by strong compensation, benefits and health and wellness programs, and by programs that build connections between our employees and their communities. Each year, we review employee career development and succession planning internally and with our Compensation Committee.

Our Culture & Governance

Our Company was formed in 2004 on the values of integrity, common decency and respect for others. These values continue to this day and shared by our employees. In addition, these values are embodied in our Code of Business Conduct and Ethics, which has been adopted by the Board of Directors of the Company to serve as a statement of principles to guide our decision-making and reinforce our commitment to these values in all aspects of our business.

The Company also maintains independent third-party whistle-blower platforms for anonymous reporting of fraud or ethics violations. Our best-in-class cyber security initiatives protect us through malware detection, cloud penetration testing, threat hunting and incident responsiveness.

We believe that our commitment to our Company, our employees and the communities in which we operate has led to high employee satisfaction and low employee turnover, as discussed above, and our commitment to our customers and business partners has resulted in high customer satisfaction, as evidenced by long-time relationships with our customers and new/repeat transactions with our business partners.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of November 5, 2019, by and among Aircastle Limited, MM Air Limited and MM Air Merger Sub Limited (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on November 7, 2019). **
3.1	Amended and Restated Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on March 27, 2020).
3.2	Amended and Restated Bye-laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on March 27, 2020).
3.3	Certificate of Designations, dated June 8, 2021 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 8, 2021).
4.1	Specimen Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
4.2	Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 6, 2013).
4.3	Fourth Supplemental Indenture, dated as of March 24, 2016, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 24, 2016).
4.4	Fifth Supplemental Indenture, dated as of March 20, 2017, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 20, 2017).
4.5	Sixth Supplemental Indenture, dated as of September 25, 2018, between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 25, 2018).
4.6	Seventh Supplemental Indenture, dated as of June 13, 2019, between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 13, 2019).
4.7	Indenture, dated as of August 11, 2020, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 11, 2020).
4.8	Indenture, dated as of January 26, 2021, by and between Aircastle and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 26, 2021).
4.9	Deposit Agreement, dated June 8, 2021, among Aircastle Limited, Computer share Inc. and Computershare Trust Company, N.A., acting jointly as depositary, and the holders from time to time of depositary receipts issued thereunder (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 8, 2021).
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of May 31, 2022 and February 28, 2022; (ii) Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the three months ended May 31, 2022 and 2021; (iii) Consolidated Statements of Cash Flows for the three months ended May 31, 2022 and 2021; (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended May 31, 2022 and 2021; and (v) Notes to Unaudited Consolidated Financial Statements.*

Exhibit No.	Description of Exhibit
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

* Filed herewith.

** Certain schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company undertakes to furnish supplemental copies of any of the omitted schedules to the SEC upon request.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 13, 2022

AIRCASTLE LIMITED
(Registrant)

By:	/s/ Dane Silverman
	Dane Silverman
	Chief Accounting Officer and Authorized Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Inglese, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aircastle Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 13, 2022

/s/ Michael Inglese

Michael Inglese
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Aaron Dahlke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aircastle Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 13, 2022

/s/ Aaron Dahlke

Aaron Dahlke
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Aircastle Limited (the “Company”) for the three months ended May 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Inglese, as Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by section 906 has been provided to Aircastle Limited and will be retained by Aircastle Limited and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Michael Inglese

Name:	Michael Inglese
Title:	Chief Executive Officer
Date:	July 13, 2022

Exhibit 32.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Aircastle Limited (the “Company”) for the three months ended May 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Aaron Dahlke, as Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by section 906 has been provided to Aircastle Limited and will be retained by Aircastle Limited and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Aaron Dahlke

Name:	Aaron Dahlke
Title:	Chief Financial Officer
Date:	July 13, 2022