

PLEASE REFER TO PAGES S-17 to S-23 OF THE REGISTRATION STATEMENT ON FORM 424B5 AS FILED WITH THE SEC ON OCTOBER 4, 2007 (REG. NO. 333-146326) FOR INFORMATION ON PASSIVE FOREIGN INVESTMENT COMPANY STATUS AND RELATED TAX CONSEQUENCES

Aircastle Limited (“AYR”) is, and expects that it will continue to be, a Passive Foreign Investment Company (a “PFIC”) for U.S. Federal income tax purposes as defined in Section 1297(a) of the Internal Revenue Code, and as such is providing the following information to its shareholders to help address some general questions that have been raised. Please note that the responses below are intended for broad discussion purposes only, and are not intended to constitute tax advice or recommendation to take any particular tax position. INVESTORS SHOULD CONSULT THEIR TAX ADVISORS FOR MORE SPECIFIC INFORMATION AND ADVICE.

**What is a PFIC?**

A non-U.S. corporation is classified as a PFIC if: (1) 75% or more of its gross income for a taxable year is passive income (the “passive income” test) or (2) at least 50% of its assets produce or are held for the production of passive income (the “passive asset” test).

**What is passive income?**

In general, passive income includes items such as dividends, interest, rents (other than rents derived in an active business), as well as gain from the sale of property that produces those types of income. AYR expects to be a PFIC under this test as it does not believe it is actively engaged in an “active” rental business for purposes of this test.

**What is an asset that produces passive income?**

An asset produces passive income or is held for the production of passive income if such asset has generated passive income or is reasonably expected to generate passive income in the reasonably foreseeable future. AYR expects to be a PFIC under this test as well, as it believes that more than 50% of its assets constitute passive assets for purposes of this test.

**When will AYR be sure that it is a PFIC?**

AYR was a PFIC in years 2005 through 2018. Based on the year-end audit for 2019, AYR believes that it was a PFIC in 2019. In addition, AYR also expects to confirm that certain of its subsidiaries have been PFICs in 2019. After the determination is finalized, an Annual Information Statement which is required to enable you to make a QEF election (see the below discussion concerning the QEF election) will be made available, on or about March 31, 2020.

## **Does AYR's PFIC status affect non-U.S. taxpayers?**

This discussion of PFIC status is intended to provide information to holders of AYR shares that are U.S. taxpayers and generally it does not affect non-U.S. taxpayers. However, special rules may apply to non-U.S. holders who are PFICs or controlled foreign corporations for U.S. Federal income tax purposes. Such non-U.S. holders should consult their tax advisors to determine the U.S. Federal, state, local and other tax consequences that may be relevant to them.

## **How are U.S. holders in a PFIC taxed?**

### **Absent a QEF Election:**

**Generally:** Dividends received by a U.S. holder would generally be subject to tax in the year received and would not be eligible to be treated as "qualified dividend income". In addition, unless a U.S. holder makes a "QEF election" as defined in Section 1295 of the Internal Revenue Code, a U.S. holder will be subject to special rules with respect to (1) any "excess distributions" and (2) any gain realized on the sale or other disposition of the shares.

**Excess Distributions:** "Excess distributions" are distributions received by a U.S. holder in a PFIC in a taxable year that are greater than 125% of the average annual distributions received by such U.S. holder in the three preceding taxable years, or, if shorter, such U.S. holder's holding period for its shares. Once it is determined that there is an "excess distribution," the excess distribution amount is allocated pro rata to each day the U.S. holder owned the shares. The amount allocated to the current year is included as ordinary income in the U.S. holder's gross income for the current year and would not be eligible to be treated as "qualified dividend income." Any amounts allocated to prior years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year ("deferred tax amount").

**Gain on Sale or other disposition:** Generally, if a U.S. holder disposes of shares of a PFIC, any gain recognized is treated as an "excess distribution," and subject to the rules set forth above.

**Termination of PFIC Status:** If a foreign corporation is classified as a PFIC for any year during which a U.S. holder holds shares, the foreign corporation generally will continue to be treated as a PFIC in the case of such U.S. holder for all succeeding years during which such U.S. holder holds shares regardless of whether the foreign corporation ceases to be classified as a PFIC for other U.S. holders.

### **If a QEF Election is made:**

**Generally:** By making a QEF election, a U.S. holder will not be subject to the special rules discussed above in “Absent a QEF Election / Generally.” Instead, such U.S. holder will include its pro rata share of the PFIC’s ordinary earnings and net capital gains for the taxable year in income, regardless of whether any amounts are distributed to such U.S. holder in such taxable year.

**Impact of QEF election:** A U.S. holder who has made a QEF election includes its pro rata share of a PFIC’s ordinary earnings and net capital gains in income in each taxable year. No portion of such inclusions of ordinary earnings would be eligible to be treated as "qualified dividend income." The U.S. holder’s adjusted tax basis in its shares will be increased to reflect any taxed but undistributed earnings and profits. Any distribution of earnings and profits that previously have been taxed would not be taxed again, when such U.S. holder receives such distribution, but it would result in a corresponding reduction in the adjusted tax basis of such U.S. holder's shares.

**PFIC losses:** A U.S. holder would not be entitled to a deduction for its pro rata share of any losses incurred by the PFIC for such year.

**When would a QEF election be made:** The QEF election may be made for the first year in which you hold AYR shares. The QEF election is effective for the U.S. holder’s election year and all subsequent taxable years of AYR that are included wholly or partly in the U.S. holder’s holding period of AYR shares. If AYR loses its PFIC status in a future year and then subsequently re-gains its PFIC status, the U.S. holder’s original QEF election continues to apply.

### **How do I make a QEF election?**

The QEF election is made by completing and attaching Form 8621 to your U.S. Federal income tax return filed by the due date of the return, including extensions. You must make a separate QEF election for AYR and each of its PFIC subsidiaries. On or before March 31, 2020, AYR expects to provide a PFIC Annual Information Statement for AYR and each of its PFIC subsidiaries for use in the completion of Form 8621. You can obtain Form 8621 on the IRS website at <http://www.irs.gov/pub/irs-pdf/f8621.pdf>. You will use such form each year to report your share of each PFIC's ordinary earnings and net capital gains.

### **If I don’t make a QEF election for 2019, may I make one in future years?**

Yes, but complicated rules apply to U.S. holders that do not have a QEF election in effect with respect to PFIC shares throughout the period that they own such shares, in order to account for the transition between the general rules and the QEF rules. Basically, those rules treat the PFIC shares as sold on the first day of the year for which the QEF election is effective, apply the general PFIC deferral rules to that deemed sale, and apply the QEF

regime to the PFIC shares thereafter. A U.S. Holder should consult its tax advisor with respect to the U.S. Federal, state, local and other tax consequences of making such a QEF election.

**If I previously made a QEF election with respect to AYR and each of its PFIC subsidiaries, do I need to make a new one in 2019?**

No. The QEF election previously made with respect to shares of AYR and its PFIC subsidiaries is effective and continues to apply with respect to such shares for subsequent taxable years of AYR. A new QEF election would only be made for any newly acquired or formed PFIC subsidiaries of AYR in 2019. However, Form 8621 still generally must be filed each year with your U.S. federal income tax return.

**What if the U.S. holder makes a mark to market election?**

The mark to market election (“MTM election”) is a third alternative to the general rules and the QEF rules mentioned above; however, because the MTM election is not expected to be available with respect to the subsidiaries of AYR, such an election would be ineffectual with respect to an investment in AYR.

**Illustration of making and not making a QEF election :**

Shareholder A and Shareholder B each buy 100 shares of AYR at \$30 per share on January 1, 2016. Each of Shareholder A and Shareholder B receives \$175.00 in dividends in 2016, \$225.00 in dividends in 2017, \$250.00 in dividends in 2018, and then each sells all 100 of its shares on January 1, 2019, for \$50 per share. The pro rata share of AYR's ordinary earnings and net capital gains for a holder of 100 shares of AYR is \$100.00 in 2016, \$150.00 in 2017 and \$200.00 in 2018. Assume AYR is a PFIC, and remains a PFIC during all relevant periods.

**With a QEF Election**

Shareholder A makes a QEF election and is taxed on its pro rata share of AYR's ordinary earnings and net capital gains. Shareholder A's tax basis in the 100 shares of AYR would potentially be increased by its share of any taxed but undistributed earnings and profits; however, in this example, each year Shareholder A received distributions in excess of its pro rata share of ordinary earnings and net capital gains. Accordingly, Shareholder A's tax basis in its shares does not increase. To the extent the distributions in each year are in excess of AYR's current and accumulated earnings and profits, such distributions will reduce Shareholder A's tax basis in its shares. At the time of sale, Shareholder A's tax basis in its shares is \$28 per share, and upon sale at \$50 per share it will recognize a gain of \$2,200 which is eligible for capital gain tax rates.

**Without a QEF Election**

Shareholder B does not make a QEF election and therefore is not taxed on its pro rata share of AYR's ordinary earnings and net capital gains in each year. Shareholder B receives an "excess distribution" in 2017 and will be required to pay an additional amount

of tax equal to the "deferred tax amount" as described above under the subheading "Excess Distributions". Because the dividend in 2018 does not exceed 125% of the average dividend from 2016 and 2017, the dividend of \$250 in 2018 is not an "excess distribution"; however, upon sale Shareholder B recognized a gain in the amount of \$2,000 subject to the special PFIC rules. Approximately \$1,730 of such gain is treated as an "excess distribution" and is subject to an additional tax equal to the "deferred tax amount" as described above under the subheading "Excess Distributions".