

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 June 30, 2020

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
(State or other jurisdiction of
incorporation or organization)

98-0444035
(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

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of August 1, 2020, there were 14,048 outstanding shares of the registrant's common shares, par value \$0.01 per share.

Aircastle Limited and Subsidiaries
Form 10-Q
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PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2020	December 31, 2019
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 319,032	\$ 140,882
Restricted cash and cash equivalents	5,354	14,561
Accounts receivable	76,255	18,006
Flight equipment held for lease, net of accumulated depreciation of \$1,803,936 and \$1,501,664, respectively	6,866,811	7,375,018
Net investment in leases, net of allowance for credit losses of \$2,972 and \$0, respectively	319,531	419,396
Unconsolidated equity method investments	34,450	32,974
Other assets	257,047	201,209
Total assets	<u>\$ 7,878,480</u>	<u>\$ 8,202,046</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs and discounts	\$ 974,167	\$ 1,129,345
Borrowings from unsecured financings, net of debt issuance costs and discounts	4,137,590	3,932,491
Accounts payable, accrued expenses and other liabilities	158,785	172,114
Lease rentals received in advance	77,444	108,060
Security deposits	91,649	124,954
Maintenance payments	603,232	682,398
Total liabilities	<u>6,042,867</u>	<u>6,149,362</u>
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preference shares, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common shares, \$0.01 par value, 250,000,000 shares authorized, 14,048 shares issued and outstanding at June 30, 2020; and 75,122,129 shares issued and outstanding at December 31, 2019	—	751
Additional paid-in capital	1,485,777	1,446,664
Retained earnings	349,836	605,269
Total shareholders' equity	<u>1,835,613</u>	<u>2,052,684</u>
Total liabilities and shareholders' equity	<u>\$ 7,878,480</u>	<u>\$ 8,202,046</u>

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Lease rental revenue	\$ 172,380	\$ 192,823	\$ 371,300	\$ 374,057
Direct financing and sales-type lease revenue	4,537	8,321	11,303	16,764
Amortization of lease premiums, discounts and incentives	(6,404)	(5,345)	(12,100)	(11,056)
Maintenance revenue	72,168	26,567	118,720	42,968
Total lease revenue	242,681	222,366	489,223	422,733
Gain (loss) on sale of flight equipment	(279)	346	26,770	12,348
Other revenue	13,050	704	21,957	2,262
Total revenues	255,452	223,416	537,950	437,343
Operating expenses:				
Depreciation	88,117	89,578	177,822	174,313
Interest, net	56,226	66,377	117,733	129,840
Selling, general and administrative (including non-cash share-based payment expense of \$0 and \$3,177 for the three months ended, and \$38,727 and \$5,903 for the six months ended June 30, 2020 and 2019, respectively)	13,564	18,317	75,946	36,317
Impairment of flight equipment	280,088	7,404	342,745	7,404
Maintenance and other costs	4,241	5,213	8,997	12,617
Total operating expenses	442,236	186,889	723,243	360,491
Other expense:				
Loss on extinguishment of debt	(65)	—	(4,020)	—
Merger expenses	(220)	—	(32,430)	—
Other	1	(1,910)	(111)	(3,971)
Total other expense	(284)	(1,910)	(36,561)	(3,971)
Income (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investments	(187,068)	34,617	(221,854)	72,881
Income tax provision	4,671	5,992	4,820	9,090
Earnings of unconsolidated equity method investments, net of tax	762	2,487	1,476	2,131
Net income (loss)	\$ (190,977)	\$ 31,112	\$ (225,198)	\$ 65,922
Other comprehensive income (loss), net of tax:				
Net derivative loss reclassified into earnings	—	—	—	184
Other comprehensive income	—	—	—	184
Total comprehensive income (loss)	\$ (190,977)	\$ 31,112	\$ (225,198)	\$ 66,106

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)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ (225,198)	\$ 65,922
Adjustments to reconcile net income (loss) to net cash and restricted cash provided by operating activities:		
Depreciation	177,822	174,313
Amortization of deferred financing costs	6,840	6,958
Amortization of lease premiums, discounts and incentives	12,100	11,056
Deferred income taxes	1,479	7,957
Non-cash share-based payment expense	38,727	5,903
Collections on net investment in leases	11,861	10,971
Security deposits and maintenance payments included in earnings	(129,349)	(24,162)
Gain on sale of flight equipment	(26,770)	(12,348)
Loss on extinguishment of debt	4,020	—
Impairment of flight equipment	342,745	7,404
Provision for credit losses	4,801	—
Other	(1,300)	393
Changes in certain assets and liabilities:		
Accounts receivable	(54,404)	(7,899)
Other assets	(52,990)	3,582
Accounts payable, accrued expenses and other liabilities	(13,981)	(11,619)
Lease rentals received in advance	(33,064)	7,181
Net cash and restricted cash provided by operating activities	<u>63,339</u>	<u>245,612</u>
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(52,419)	(660,723)
Proceeds from sale of flight equipment	155,560	56,924
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	(10,212)	18,054
Unconsolidated equity method investments and associated costs	—	(7,551)
Other	(508)	2,241
Net cash and restricted cash provided by (used in) investing activities	<u>92,421</u>	<u>(591,055)</u>
Cash flows from financing activities:		
Repurchase of shares	(27,906)	(14,288)
Parent contribution at Merger	25,536	—
Proceeds from secured and unsecured debt financings	650,000	1,841,848
Repayments of secured and unsecured debt financings	(608,189)	(1,105,353)
Debt extinguishment costs	(2,750)	—
Deferred financing costs	—	(12,165)
Security deposits and maintenance payments received	49,824	92,514
Security deposits and maintenance payments returned	(49,307)	(64,788)
Dividends paid	(24,025)	(45,054)
Net cash and restricted cash provided by financing activities	<u>13,183</u>	<u>692,714</u>
Net increase in cash and restricted cash:	<u>168,943</u>	<u>347,271</u>
Cash and restricted cash at beginning of period	<u>155,443</u>	<u>167,853</u>
Cash and restricted cash at end of period	<u>\$ 324,386</u>	<u>\$ 515,124</u>

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)

	Six Months Ended June 30,	
	2020	2019
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	\$ 319,032	\$ 500,373
Restricted cash and cash equivalents	5,354	14,751
Unrestricted and restricted cash and cash equivalents	<u>\$ 324,386</u>	<u>\$ 515,124</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 116,546	\$ 121,523
Cash paid for income taxes	\$ 144	\$ 115
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets assumed in asset acquisitions	\$ 37,742	\$ 35,889
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets settled in sale of flight equipment	\$ 16,480	\$ 10,938
Transfers from flight equipment held for lease to Net investment in leases and Other assets	\$ 28,916	\$ 59,185

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		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2019	75,122,129	\$ 751	\$ 1,446,664	\$ 605,269	\$ —	\$ 2,052,684
Issuance of common shares to directors and employees	28,568	1	(1)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(73,903)	(1)	(2,369)	—	—	(2,370)
Amortization of share-based payments	—	—	38,727	—	—	38,727
Reclassification of prior year director stock award liability	—	—	2,005	—	—	2,005
Dividends declared	—	—	—	(24,025)	—	(24,025)
Net loss	—	—	—	(34,221)	—	(34,221)
Adoption of accounting standard	—	—	—	(6,210)	—	(6,210)
Payment of unvested shares at Merger	(101,809)	(1)	(25,535)	—	—	(25,536)
Parent contribution at Merger	—	—	25,536	—	—	25,536
Share cancellation and re-issuance at Merger	(74,960,937)	(750)	750	—	—	—
Balance, March 31, 2020	14,048	\$ —	\$ 1,485,777	\$ 540,813	\$ —	\$ 2,026,590
Net loss	—	—	—	(190,977)	—	(190,977)
Balance, June 30, 2020	14,048	\$ —	\$ 1,485,777	\$ 349,836	\$ —	\$ 1,835,613

	Common Shares		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2018	75,454,511	\$ 754	\$ 1,468,779	\$ 539,332	\$ (184)	\$ 2,008,681
Issuance of common shares to directors and employees	276,923	3	(3)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(653,796)	(6)	(11,418)	—	—	(11,424)
Amortization of share-based payments	—	—	2,410	—	—	2,410
Reclassification of prior year director stock award liability	—	—	796	—	—	796
Dividends declared	—	—	—	(22,518)	—	(22,518)
Net income	—	—	—	34,810	—	34,810
Net derivative loss reclassified into earnings	—	—	—	—	184	184
Balance, March 31, 2019	75,077,638	\$ 751	\$ 1,460,564	\$ 551,624	\$ —	\$ 2,012,939
Issuance of common shares to directors and employees	35,000	—	—	—	—	—
Repurchase of common shares from stockholders, directors and employees	(129,524)	(1)	(2,863)	—	—	(2,864)
Amortization of share-based payments	—	—	2,833	—	—	2,833
Dividends declared	—	—	—	(22,536)	—	(22,536)
Net income	—	—	—	31,112	—	31,112
Balance, June 30, 2019	74,983,114	\$ 750	\$ 1,460,534	\$ 560,200	\$ —	\$ 2,021,484

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

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2020

Note 1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

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 is acquiring, leasing, managing and selling commercial jet aircraft.

On March 27, 2020, the Company successfully completed its merger (the “Merger”) and is now controlled by affiliates of Marubeni Corporation and Mizuho Leasing Company, Limited (“Mizuho Leasing”).

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our Chief Executive Officer is the chief operating decision maker.

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 December 31, 2019.

Effective January 1, 2020, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 326, *Financial Instruments - Credit Losses* (“ASC 326”). The standard applies to entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The standard affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and other financial assets not excluded from the scope that have the contractual right to receive cash. Net investment in leases comprised the Company’s financial asset principally affected by the standard. Operating lease receivables are not within the scope of ASC 326.

Upon the Company’s adoption of ASC 326, our net investment in leases was recorded in the consolidated financial statements net of an allowance for credit losses. This allowance for credit losses reflects the Company’s estimate of lessee default probabilities and loss given default percentages. The estimate of expected credit losses considers relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of reported amounts. Our allowance also considers the potential loss due to non-credit risk related to unguaranteed residual values. We adopted the standard using the “modified retrospective” approach with a January 1, 2020 adjustment to the opening balance of retained earnings. The adoption of the standard did not have a material impact on our consolidated financial statements or related disclosures.

Effective January 1, 2020, the Company adopted, the FASB Accounting Standard Update (“ASU”) No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The standard modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The adoption of the standard did not have a material impact on our consolidated financial statements or related disclosures.

Effective January 1, 2020, the Company adopted the FASB ASU No. 2018-15, *Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use-software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The adoption of the standard did not have a material impact on our consolidated financial

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2020

statements or related disclosures.

Effective January 1, 2020, the Company adopted the FASB ASU No. 2018-17, *Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The standard changes how all entities evaluate decision-making fees under the variable interest entity guidance. The standard is applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The adoption of the standard did not have a material impact on our consolidated financial statements or related disclosures.

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 June 30, 2020, through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all its subsidiaries. Aircastle consolidates two Variable Interest Entities ("VIEs") of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We consolidate VIEs in which we have determined that we are the primary beneficiary. We use judgment when deciding: (a) whether an entity is subject to consolidation as a VIE; (b) who the variable interest holders are; (c) the potential expected losses and residual returns of the variable interest holders; and (d) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider: (1) the entity's purpose and design; (2) which variable interest holder has the power to direct the activities that most significantly impact the entity's economic performance; and (3) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When certain events occur, we reconsider whether we are the primary beneficiary of VIEs. We do not reconsider whether we are a primary beneficiary solely because of operating losses incurred by an entity.

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. Operating lease rentals that adjust based on a London Interbank Offered Rate ("LIBOR") index are recognized on a straight-line basis over the lease term using the prevailing rate at lease commencement. Changes to rate-based lease rentals are recognized in the statements of income (loss) in the period of change.

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 in our consolidated balance sheet.

If we determine that the collectability of rental payments is no longer probable (including any deferral thereof), we 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.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2020

The COVID-19 virus has had an unprecedented negative impact on the global economy, and in particular on the aviation sector. There has been a dramatic slowdown in air traffic, with many markets in near complete shutdown. According to the International Air Transport Association (“IATA”), as of mid-June 2020, air travel is down to approximately 30% of normal levels and a full recovery to pre-pandemic levels is not expected for several years. Substantially all the world’s airlines are experiencing financial difficulties and liquidity challenges. While we believe the long-term demand for air travel will return to historical trends over time, the near-term impacts of the COVID-19 virus’ economic shock are material; the extent and duration of which cannot currently be determined.

Airlines have been seeking to preserve liquidity through a combination of requesting government support, raising debt and equity, delaying or canceling new aircraft orders, furloughing employees, as well as requesting deferrals from lessors. We have agreed to defer near-term lease payments with certain of our airline customers, which they are obliged to repay over time. As of August 1, 2020, we have agreed to defer approximately \$99,000 in near-term lease payments, including \$61,209 that appear in our Consolidated Balance Sheet as components of Accounts receivable, Net investment in leases, or Other assets as of June 30, 2020. This represents approximately 12% of Lease rental and Direct financing and sales-type lease revenues for the twelve months ended June 30, 2020. Deferrals have been agreed to with 40 airlines, representing 50% of our customer base, and for an average deferral of four months of lease rentals. In a limited number of situations, we have agreed to broader restructurings of contractual terms, for example obtaining better security packages, term extensions, or other valuable considerations in exchange for short-term economic concessions.

If air traffic remains depressed over an extended period and if our customers are unable to obtain sufficient funds from private, governmental or other sources, we may need to grant additional deferrals to our customers or extend the periods of repayment for deferrals we have already made. We may ultimately not be able to collect all the amounts we have deferred.

As of August 1, 2020, six of our customers entered judicial insolvency proceedings. We lease 21 aircraft to these customers, which comprise 12% of our net book value of flight equipment (including Flight equipment held for lease and Net investment in leases, or “net book value”) and 11% of our Lease rental revenue as of and for the twelve months ended June 30, 2020. One of these is LATAM, our second largest customer, which represents 7% of our net book value of flight equipment and 7% of our Lease rental revenue as of and for the twelve months ended June 30, 2020. As of August 1, 2020, only one aircraft lease has been rejected in the various proceedings, but that number may increase as the judicial processes advance. Based on historic experience, the judicial process can take anywhere from twelve months up to eighteen months to be resolved. We are actively engaged in the various judicial procedures to protect our economic interests. As a result of these proceedings, the recognition of lease rental revenue for certain customers may be done on a cash basis of accounting rather than the accrual method depending on the customers lease security arrangements.

Impairment of Flight Equipment

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis annually during the second quarter. In addition, a recoverability assessment is 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 aircraft model’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, transition costs, estimated down time, estimated residual or scrap values for an aircraft, economic conditions and other factors. 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 – Fair Value Measurements.

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.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2020

We are closely monitoring the impact of the COVID-19 virus on our customers, air traffic, lease rental rates, and aircraft valuations, and will perform additional customer and aircraft specific reviews should changes in facts and circumstances arise that may impact the recoverability of our aircraft. We will focus on our customers that have entered judicial insolvency proceedings and any additional customers that may become subject to similar-type proceedings, aircraft with near-term lease expirations, and certain aircraft variants that are more susceptible to the impact of COVID-19 and value deteriorations.

Net Investment in Leases

If a lease meets specific criteria at lease commencement or at the effective date of a lease modification, we recognize the lease as a direct financing or sales-type lease. The net investment in direct financing and sales-type leases consists of the lease receivable, estimated unguaranteed residual value of the lease flight equipment at lease-end and, for direct financing leases, deferred selling profit. For sales-type leases, we recognize the difference between the net book value of the aircraft and the net investment in the lease as a gain or loss on sale of flight equipment. Selling profit on a direct financing lease is deferred and amortized over the lease term, and a selling loss is recognized at lease commencement. Interest income on our net investment in leases is recognized as Direct financing and sales-type leases revenue over the lease term in a manner that produces a constant rate of return on the net investment in the lease.

The net investment in leases is recorded in the consolidated financial statements net of an allowance for credit losses. The allowance for credit losses is recorded upon the initial recognition of the net investment in the lease based on the Company's estimate of expected credit losses over the lease term. The allowance reflects the Company's estimate of lessee default probabilities and loss given default percentages. When determining the credit loss allowance, we consider relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the net investment in the lease. The allowance also considers potential losses due to non-credit risk related to unguaranteed residual values. A provision for credit losses is recorded as a component of Selling, general, and administrative expenses in our Consolidated Statements of Income (Loss) to adjust the allowance for changes to management's estimate of expected credit losses.

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The standard applies to entities that have contracts, such as debt agreements, lease agreements or derivative instruments, which reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. Entities can elect not to apply certain modification accounting requirements for contract modifications that replace a reference rate affected by reference rate reform. If elected, such contracts are accounted for as a continuation of the existing contract and no reassessments or re-measurements are required. The standard is effective for all entities from March 12, 2020 through December 31, 2022 and does not apply to contract modifications made after December 31, 2022. We have not adopted ASC 848 for this interim period and are currently evaluating the election available to us under the standard and the impact it may have on our financial statements.

In April 2020, the FASB Staff issued a question-and-answer document (the "Q&A") regarding accounting for lease concessions related to the effects of the COVID-19 pandemic. The Q&A provides that entities may elect to apply or not apply the lease modification guidance in ASC 842, "Leases", for lease concessions provided by lessors as a result of the COVID-19 pandemic. The Company has elected not to apply the lease modification guidance in ASC 842 for such lease concessions – see "Lease Revenue Recognition" above.

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 use of unobservable inputs. These inputs are prioritized as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

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- Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- The income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.
- The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following tables set forth our financial assets as of June 30, 2020 and December 31, 2019 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 June 30, 2020 Using Fair Value Hierarchy				
	Fair Value as of June 30, 2020	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	\$ 319,032	\$ 319,032	\$ —	\$ —	Market
Restricted cash and cash equivalents	5,354	5,354	—	—	Market
Derivative assets	2	—	2	—	Market
Total	\$ 324,388	\$ 324,386	\$ 2	\$ —	

	Fair Value Measurements at December 31, 2019 Using Fair Value Hierarchy				
	Fair Value as of December 31, 2019	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	\$ 140,882	\$ 140,882	\$ —	\$ —	Market
Restricted cash and cash equivalents	14,561	14,561	—	—	Market
Derivative assets	115	—	115	—	Market
Total	\$ 155,558	\$ 155,443	\$ 115	\$ —	

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, 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. Our interest rate derivative included in Level 2 consists of a United States dollar-denominated interest rate cap, and its fair value is based on the market comparisons for similar instruments. We also considered the credit rating and risk of the counterparty providing the interest rate cap based on quantitative and qualitative factors.

For the three and six months ended June 30, 2020 and the year ended December 31, 2019, 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 that the carrying amounts of assets may

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not be recoverable. Assets subject to these measurements include our investment in unconsolidated joint ventures and aircraft. 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 also reviewed for impairment whenever events or circumstances indicate the fair value is less than its carrying value and the decline is other-than-temporary.

Aircraft Valuation

During the six months ended June 30, 2020, the Company recorded impairment charges related to twenty aircraft due to scheduled lease expirations, early lease terminations, lessee defaults and/or protective filings, or as a result of our annual recoverability assessment conducted during the second quarter of 2020. These twenty aircraft were comprised of eleven narrow-body and nine wide-body aircraft. The Company recorded impairment charges totaling \$342,745 and recognized \$136,236 of maintenance reserves, security deposits and lease rentals received in advance into revenue during the six months ended June 30, 2020 – refer to the sections below for additional details.

Transactional Impairments

In February 2020, the Company initiated a process to accept the redelivery of four wide-body aircraft prior to their scheduled lease expirations due to a lessee default. As a result, the Company recorded impairment charges of \$62,657 and recognized \$38,804 of maintenance revenue, \$8,740 of security deposits, and \$5,863 of lease rentals received in advance into revenue during the first quarter of 2020.

During the second quarter, the Company recorded impairment charges totaling \$77,298 related to eleven aircraft due to the scheduled lease expirations of one narrow-body aircraft and one wide-body aircraft, as well as the early terminations of nine narrow-body aircraft. The Company recognized \$69,995 of maintenance revenue and \$12,834 of security deposits into revenue related to these eleven aircraft during the second quarter of 2020.

During the second quarter, six of our customers filed for bankruptcy protection. As a result, the Company reviewed the related aircraft for recoverability and recorded impairment charges of \$159,750 during the second quarter of 2020 related to three wide-body aircraft.

Annual Recoverability Assessment

We completed our annual recoverability assessment of our aircraft in the second quarter of 2020. In addition to the transactional impairments discussed above, we recorded impairment charges totaling \$43,040 related to one narrow-body and one wide-body aircraft as a result of our annual recoverability assessment. Although we have completed our annual recoverability assessment, we will continue to monitor the developments of the COVID-19 virus throughout the remainder of the year. We will closely monitor the impact of the virus on our customers, air traffic, lease rental rates, and aircraft valuations, and will perform additional customer and aircraft specific reviews should changes in facts and circumstances arise that may impact the recoverability of our aircraft. We will focus on our customers that have entered judicial insolvency proceedings and any additional customers that may become subject to similar-type proceedings, aircraft with near-term lease expirations, and certain aircraft variants that are more susceptible to the impact of COVID-19 and value deteriorations.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected 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.

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If our estimates or assumptions change, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in the annual recoverability assessment are appropriate, actual results could differ from those estimates.

Financial Instruments

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, amounts borrowed under financings and interest rate derivatives. The fair value of cash, 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 June 30, 2020 and December 31, 2019 were as follows:

	June 30, 2020		December 31, 2019	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	\$ 650,000	\$ 636,118	\$ 150,000	\$ 150,000
Unsecured Term Loan	215,000	208,985	215,000	215,000
ECA Financings	45,443	47,660	147,644	150,805
Bank Financings	937,605	935,547	993,593	1,010,482
Senior Notes	3,300,000	3,193,612	3,600,000	3,787,268

All our financial instruments are classified as Level 2 with the exception of our Senior Notes, which are classified as Level 1.

Note 3. Lease Rental Revenues and Flight Equipment Held for Lease

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at June 30, 2020 were as follows:

Year Ending December 31,	Amount ⁽¹⁾
Remainder of 2020	\$ 391,123
2021	665,509
2022	582,359
2023	502,207
2024	390,977
Thereafter	460,916
Total	\$ 2,993,091

(1) Reflects impact of lessee lease rental deferrals.

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Geographic concentration of lease rental revenue earned from flight equipment held for lease was as follows:

Region	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Asia and Pacific	44%	44%	43%	43%
Europe	29%	28%	27%	28%
Middle East and Africa	5%	10%	7%	11%
North America	10%	8%	11%	8%
South America	12%	10%	12%	10%
Total	100%	100%	100%	100%

The classification of regions in the table above and in the tables and discussion below is determined based on the principal location of the lessee of each aircraft.

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 June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	4	29%	3	21%	4	27%	3	21%

The following table sets forth revenue attributable to individual countries representing at least 10% of Total revenue (including maintenance and other revenue) based on each lessee's principal place of business for the periods indicated:

Country	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
India ⁽¹⁾	\$ —	—%	\$ 42,312	19%	\$ —	—%	\$ 61,638	14%
Mexico ⁽²⁾	67,922	27%	—	—%	74,954	14%	—	—%
South Africa ⁽³⁾	—	—%	—	—%	57,920	11%	—	—%

(1) For both the three and six months ended June 30, 2019, total revenue attributable to India included \$17,554 of maintenance revenue recognized into revenue. For the three and six months ended June 30, 2020, total revenue attributable to India was less than 10%.

(2) For the three and six months ended June 30, 2020, total revenue attributable to Mexico included \$54,436 of maintenance revenue and \$12,834 of security deposits recognized into revenue. For the three and six months ended June 30, 2019, total revenue attributable to Mexico was less than 10%.

(3) For the three and six months ended June 30, 2020, total revenue attributable to South Africa included \$263 and \$39,067 of maintenance revenue, respectively, \$8,740 of lease rentals received in advance and \$5,863 of security deposits recognized into revenue. For the three and six months ended June 30, 2019, total revenue attributable to South Africa was less than 10%.

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Geographic concentration of net book value of flight equipment (including flight equipment held for lease and net investment in leases, or “net book value”) was as follows:

<u>Region</u>	<u>June 30, 2020</u>		<u>December 31, 2019</u>	
	<u>Number of Aircraft</u>	<u>Net Book Value %</u>	<u>Number of Aircraft</u>	<u>Net Book Value %</u>
Asia and Pacific	89	39%	94	38%
Europe	98	27%	99	26%
Middle East and Africa	11	4%	16	7%
North America	28	10%	40	13%
South America	26	13%	26	15%
Off-lease	22 ⁽¹⁾	7%	3 ⁽²⁾	1%
Total	274	100%	278	100%

(1) Consisted of one Airbus A320-200 and one Airbus A330-200 aircraft, each of which are scheduled to be delivered during the third quarter of 2020 to lessees in North America and Europe, respectively, and one Airbus A319-100, eleven Airbus A320-200, five Airbus A330-200 and three Boeing 737-800 aircraft, which we are marketing for lease or sale.

(2) Consisted of one Airbus A320-200 aircraft, which was delivered on lease to a customer in Europe during the first quarter of 2020, one Airbus A330-200 aircraft, which is scheduled to be delivered to a customer in Europe during the third quarter of 2020, and one Boeing 737-800 aircraft, which was sold during the first quarter of 2020.

The following table sets forth net book value of flight equipment (includes net book value of flight equipment held for lease and net investment in leases) attributable to individual countries representing at least 10% of net book value of flight equipment based on each lessee’s principal place of business as of:

<u>Country</u>	<u>June 30, 2020</u>			<u>December 31, 2019</u>		
	<u>Net Book Value</u>	<u>Net Book Value %</u>	<u>Number of Lessees</u>	<u>Net Book Value</u>	<u>Net Book Value %</u>	<u>Number of Lessees</u>
India	\$ 901,093	13%	4	\$ 924,190	12%	4

At June 30, 2020 and December 31, 2019, the amounts of lease incentive liabilities recorded in maintenance payments on our Consolidated Balance Sheets were \$11,184 and \$9,176, respectively.

Note 4. Net Investment in Leases

At June 30, 2020 and December 31, 2019, our net investment in leases consisted of 24 and 29 aircraft, respectively. The components of our net investment in leases at June 30, 2020, and December 31, 2019, were as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Lease receivable	\$ 122,460	\$ 164,816
Unguaranteed residual value of flight equipment	200,043	254,580
Net investment leases	322,503	419,396
Allowance for credit losses	(2,972)	—
Net investment in leases, net of allowance	\$ 319,531	\$ 419,396

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The activity in the allowance for credit losses related to our net investment in leases for the six months ended June 30, 2020 is as follows:

	Amount
Balance at December 31, 2019	\$ —
Adoption of accounting standard	6,270
Provision for credit losses	3,595
Balance at March 31, 2020	9,865
Provision for credit losses	1,206
Write-offs	(8,099)
Balance at June 30, 2020	<u>\$ 2,972</u>

During the six months ended June 30, 2020, we wrote off \$8,099 of lease rentals against the allowance for credit losses due to the early lease termination of seven Airbus A320-200 aircraft which had been classified as Net investment in leases. At June 30, 2020, future lease payments on net investment in leases are as follows:

Year Ending December 31,	Amount
Remainder of 2020	\$ 20,936
2021	34,793
2022	23,960
2023	23,234
2024	8,950
Thereafter	32,406
Total lease payments to be received	144,279
Present value of lease payments - lease receivable	(122,460)
Difference between undiscounted lease payments and lease receivable	<u>\$ 21,819</u>

Note 5. Unconsolidated Equity Method Investments

We have a joint venture with Mizuho Leasing which has nine aircraft with a net book value of \$321,067 at June 30, 2020.

	Amount
Investment in joint ventures at December 31, 2019	\$ 32,974
Earnings from joint venture, net of tax	1,476
Investment in joint venture at June 30, 2020	<u>\$ 34,450</u>

In April 2020, we sold two engines to Magellan, an affiliate of Marubeni, for \$5,355. This transaction was approved by our Audit Committee as an arm's length transaction under our related party policy.

Note 6. Variable Interest Entities

Aircastle consolidates two VIEs (the "Air Knight VIEs") of which it is the primary beneficiary. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling two aircraft as discussed below.

During February 2020, we repaid the export credit agency (the "ECA Financings") for four of the six aircraft owned by the Air Knight VIEs, which included principal and accrued interest amounts outstanding of \$95,128 and incurred early extinguishment costs of \$4,020. In June 2020, the leases of the four aircraft subject to the ECA Financings were formally

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terminated and the aircraft were released as security under such financings. The only assets that the Air Knight VIEs have on their books are net investments in leases that are eliminated in the consolidated financial statements. The related aircraft, with a net book value as of June 30, 2020 of \$124,432, were included in our flight equipment held for lease. The consolidated debt outstanding, net of debt issuance costs, of the Air Knight VIEs as of June 30, 2020 is \$44,860.

Note 7. Secured and Unsecured Debt Financings

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

Debt Obligation	At June 30, 2020				At December 31, 2019
	Outstanding Borrowings	Number of Aircraft	Interest Rate	Final Stated Maturity	Outstanding Borrowings
Secured Debt Financings:					
ECA Financings ⁽¹⁾	\$ 45,443	2	3.49% to 3.96%	12/03/21 to 11/30/24	\$ 147,644
Bank Financings ⁽²⁾	937,605	34	2.18% to 4.55%	06/17/23 to 01/19/26	993,593
Less: Debt issuance costs and discounts	(8,881)	—			(11,892)
Total secured debt financings, net of debt issuance costs and discounts	974,167	36			1,129,345
Unsecured Debt Financings:					
Senior Notes due 2020 ⁽³⁾	—		7.625%	04/15/20	300,000
Senior Notes due 2021	500,000		5.125%	03/15/21	500,000
Senior Notes due 2022	500,000		5.50%	02/15/22	500,000
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 2026	650,000		4.250%	06/15/26	650,000
Unsecured Term Loans	215,000		1.78%	03/07/22 to 03/07/24	215,000
Revolving Credit Facilities	650,000		1.56% to 1.57%	12/27/21 to 06/27/22	150,000
Less: Debt issuance costs and discounts	(27,410)				(32,509)
Total unsecured debt financings, net of debt issuance costs and discounts	4,137,590				3,932,491
Total secured and unsecured debt financings, net of debt issuance costs and discounts	\$ 5,111,757				\$ 5,061,836

(1) The borrowings under these financings at June 30, 2020 have a weighted-average rate of interest of 3.60%. During February 2020, the Company repaid the ECA Financings for four aircraft owned by the Air Knight VIEs, which were released as security for such financings during the second quarter of 2020 – see Note 6.

(2) The borrowings under these financings at June 30, 2020 have a weighted-average fixed rate of interest of 3.21%.

(3) Repaid on April 15, 2020.

At June 30, 2020, we had \$650,000 outstanding under our revolving credit facilities and had \$450,000 available for borrowing.

As of June 30, 2020, we were in compliance with all applicable covenants in our financings.

Note 8. Shareholders' Equity and Share-Based Payment

On March 27, 2020, (the “Merger Date”), the total authorized share capital of the Company was \$3,000, comprised of 250,000,000 common shares of \$0.01 each and 50,000,000 preference shares of \$0.01 each, and the issued share capital of the Company was comprised of 14,048 common shares of \$0.01 each.

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In December 2019, the Company accelerated the vesting of certain restricted common share awards and the vesting and payment of certain Performance Share Units (“PSUs”) held by the Company’s executive officers, initially granted under the Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan. Share-based compensation expense of \$2,683 related to restricted common shares and \$12,466 related to PSUs represents the cost of this accelerated vesting from January 1, 2020 through the Merger Date.

As per the Agreement and Plan of Merger, dated as of November 5, 2019, (the “Merger Agreement”), on the Merger Date, the Company paid \$4,063 and \$21,473 representing the payment for 126,971 unvested restricted common shares and 671,030 unvested PSUs, respectively. Concurrently, the Company received \$25,536 from the MM Air Limited, which was recorded as an additional paid-in-capital as of the Merger Date. The Company also repurchased 73,903 shares totaling \$2,370 from our employees and directors to settle tax obligations related to share vesting.

Included in share-based compensation expense for the six months ended June 30, 2020 is \$4,197 and \$19,381 related to remaining outstanding restricted common shares and remaining outstanding PSUs, respectively, that were accelerated and paid out (in the case of PSUs, at the maximum level of performance) in accordance with the Merger Agreement.

Note 9. 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 an 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 and six months ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
U.S. operations	\$ 5,915	\$ 1,959	\$ 10,820	\$ 3,875
Non-U.S. operations	(192,983)	32,658	(232,674)	69,006
Income (loss) from continuing operations before income taxes and earnings (loss) of unconsolidated equity method investments	\$ (187,068)	\$ 34,617	\$ (221,854)	\$ 72,881

Our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are primarily non-U.S. corporations. These subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and the U.S. 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 consolidated income tax expense for the three and six months ended June 30, 2020 and 2019 was determined based upon estimates of the Company’s consolidated effective income tax rates for the years ending December 31, 2020 and 2019, respectively.

The Company’s effective tax rates (“ETRs”) for the three and six months ended June 30, 2020 and 2019 were (2.5)% and (2.2)%, and 17.3% and 12.5%, respectively. The three and six months ended June 30, 2020, included discrete items totaling \$3,973 and \$950 in tax benefits, respectively. The second quarter of 2019 included a discrete item of \$2,845 related to a fair value adjustment on an intercompany asset transfer. Excluding these discrete tax items, the ETR would have been (4.6)% and (2.6)% for the three and six months ended June 30, 2020, respectively, and for the three and six months ended June 30, 2019, 9.1% and 8.6%, respectively. Movements in the ETR are generally caused by changes in the proportion of

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the Company's pre-tax earnings in taxable and non-tax jurisdictions. During the six months ended June 30, 2020, we incurred net impairment charges of \$206,744 in low tax jurisdictions and a significant decrease in Bermuda income primarily related to Merger expenses of \$32,385. During the six months ended June 30, 2019, we reported a significant decrease in Bermuda income primarily related to Avianca Brazil and an increase in Irish income related to Jet Airways.

Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income (loss) from continuing operations consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Notional U.S. federal income tax expense (benefit) at the statutory rate	\$ (39,284)	\$ 7,270	\$ (46,589)	\$ 15,305
U.S. state and local income tax, net	390	181	1,979	390
Non-U.S. operations:				
Bermuda	46,088	(2,910)	48,594	(8,048)
Ireland	1,017	2,093	(171)	2,602
Singapore	59	(2)	85	(4)
Other low tax jurisdictions	412	(872)	2,066	(1,724)
Non-deductible expenses in the U.S.	140	232	3,420	569
Other	(4,151)	—	(4,564)	—
Income tax provision	\$ 4,671	\$ 5,992	\$ 4,820	\$ 9,090

The Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law on March 27, 2020. The CARES Act, among other things, includes provisions relating to net operating loss carrybacks, alternative minimum tax credit refunds, modification to the net interest expense deduction limitation and technical correction to the tax depreciation methods for qualified improvement property. While we continue to evaluate the potential application of the CARES Act provisions, the CARES Act did not materially impact the Company's effective tax rate for the six months ended June 30, 2020.

Note 10. Interest, Net

The following table shows the components of interest, net:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest on borrowings and other liabilities	\$ 53,136	\$ 63,639	\$ 111,562	\$ 123,918
Amortization of deferred losses related to interest rate derivatives	—	—	—	184
Amortization of deferred financing fees and debt discount	3,259	3,594	6,840	6,958
Interest expense	56,395	67,233	118,402	131,060
Less: Interest income	(169)	(856)	(669)	(1,220)
Interest, net	\$ 56,226	\$ 66,377	\$ 117,733	\$ 129,840

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2020

Note 11. Commitments and Contingencies

Rent expense, primarily for the corporate offices and sales and marketing offices, was \$398 and \$796 for the three and six months ended June 30, 2020, and \$414 and \$770 for the three and six months ended June 30, 2019, respectively.

As of June 30, 2020, 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
Remainder of 2020	\$ 924
2021	1,892
2022	1,806
2023	1,696
2024	1,727
Thereafter	6,113
Total	\$ 14,158

At June 30, 2020, we had commitments to acquire 27 aircraft for \$1,022,422, including 25 Embraer E-Jet E2 aircraft.

Commitments, including \$109,855 of remaining progress payments, contractual price escalations and other adjustments for these aircraft, at June 30, 2020, net of amounts already paid, are as follows:

<u>Year Ending December 31,</u>	<u>Amount⁽¹⁾</u>
Remainder of 2020	\$ 104,611
2021	352,453
2022	336,473
2023	155,037
2024	73,848
Total	\$ 1,022,422

(1) We are in the process of deferring some of our E Jet E-2 deliveries scheduled to be delivered over the next twelve months to a later date which would reduce our commitments due within one year by approximately \$111,302.

As of August 1, 2020, we had commitments to acquire 25 aircraft for \$983,922.

Note 12. Other Assets

The following table describes the principal components of other assets on our Consolidated Balance Sheets as of:

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Deferred income tax asset	\$ 3,159	\$ 1,007
Lease incentives and lease premiums, net of amortization of \$67,500 and \$71,851, respectively	95,976	112,923
Flight equipment held for sale	326	333
Aircraft purchase deposits and Embraer E-2 progress payments	43,286	33,754
Right-of-use asset ⁽¹⁾	8,783	9,329
Deferred rent receivable	41,847	5,255
Other assets	63,670	38,608
Total other assets	\$ 257,047	\$ 201,209

(1) Net of lease incentives and tenant allowances.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2020

Note 13. Accounts Payable, Accrued Expenses and Other Liabilities

The following table describes the principal components of accounts payable, accrued expenses and other liabilities recorded on our Consolidated Balance Sheets as of:

	June 30, 2020	December 31, 2019
Accounts payable, accrued expenses and other liabilities	\$ 36,409	\$ 47,228
Deferred income tax liability	68,340	64,674
Accrued interest payable	39,947	44,694
Lease liability	12,017	12,800
Lease discounts, net of amortization of \$45,184 and \$44,696, respectively	2,072	2,718
	<u>\$ 158,785</u>	<u>\$ 172,114</u>

Note 14. Subsequent Event

On July 30, 2020, the Company successfully executed a \$150,000 revolving credit facility at LIBOR plus 2% with Mizuho Bank Ltd, a related party. The agreement has a one-year term with an one-year extension option.

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 December 31, 2019, and in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020. 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 2019 Annual Report on Form 10-K and in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020. 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. As of June 30, 2020, we owned and managed on behalf of our joint ventures 283 aircraft leased to 80 lessees located in 44 countries. 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. In many cases we are, however, obligated to pay a specified portion of maintenance or modification costs. As of June 30, 2020, the net book value (including flight equipment held for lease and net investment in leases, or “net book value”) was \$7.19 billion compared to \$7.79 billion at December 31, 2019. Our revenues and net loss for the three and six months ended June 30, 2020 were \$255.5 million and \$191.0 million and \$538.0 million and \$225.2 million, respectively.

On March 27, 2020, the Company successfully completed its merger (the “Merger”) and is now controlled by affiliates of Marubeni Corporation and Mizuho Leasing Company, Limited (“Mizuho Leasing”). The Merger is not expected to result in any change of the Company’s business strategy, and we believe the Company will benefit by having stable investors with a long-term investment horizon. We also may benefit by being affiliated with Mizuho Leasing, part of the Mizuho Financial Group, one of the largest Japanese financial institutions.

Historically, growth in commercial air traffic has been correlated with world economic activity. In recent years commercial air traffic growth expanded at a rate 1.5 to 2 times that of global GDP growth. The expansion of air travel has driven the growth in the world aircraft fleet; there are approximately 22,000 commercial mainline passenger and freighter aircraft in the world fleet today. Aircraft leasing companies own approximately 45% of the world’s commercial jet aircraft. Under normal circumstances, we would expect the global fleet to continue expanding at a three to four percent average annual rate.

The COVID-19 crisis has had an unprecedented negative impact on the global economy, and in particular on the aviation sector. There has been a dramatic slowdown in air traffic, with many markets in near complete shutdown. While there have been some limited improvements in certain markets recently, according to IATA, as of mid-June 2020, air travel is down to approximately 30% of normal levels and a full recovery to pre-pandemic levels is not expected for several years. IATA estimates this situation will cost the airline industry over \$350 billion of lost revenue, a number which may be revised upwards. Substantially all of the world’s airlines are experiencing financial difficulties and liquidity challenges, including certain of our customers, and this could adversely affect our lessees’ ability to fulfill their lease payment obligations to us. While we believe long-term demand for air travel will return to historical trends over time, the near-term impacts of the COVID-19 economic shock are material; the extent and duration of those impacts cannot currently be determined.

Airlines have been seeking to preserve liquidity by obtaining support from their respective governments, raising debt and equity, delaying or canceling new aircraft orders, furloughing employees, and requesting concessions from lessors. Some have sought judicial protection. We have agreed to defer lease payments with numerous airline customers, which they are obligated to repay over time. As of August 1, 2020, we have agreed to defer approximately \$99.0 million in near-term lease payments, including \$61.2 million that appear in our Consolidated Balance Sheet as components of Accounts receivable, Net investment in leases, or Other assets as of June 30, 2020. This represents approximately 12% of Lease rental and Direct financing and sales-type lease revenues for the twelve months ended June 30, 2020. Deferrals have been agreed to with 40 airlines, representing 50% of our customers, for an average deferral of four months of lease rentals. In a limited number of situations, we have agreed to broader restructurings of contractual terms, for example obtaining better security packages, term extensions, or other valuable considerations in exchange for short-term economic concessions.

If air traffic continues to remain depressed over an extended period and if our customers are unable to obtain sufficient funds from private, governmental or other sources, we may need to grant additional deferrals to our customers or extend the period of repayment for deferrals we have already made. We may ultimately not be able to collect all the amounts we have deferred.

As of August 1, 2020, six of our customers entered judicial insolvency proceedings. We lease 21 aircraft to these customers, which comprise 12% of our net book value of flight equipment (including Flight equipment held for lease and Net investment in leases, or “net book value”) and 11% of our Lease rental revenue as of and for the twelve months ended June 30, 2020. One of these customers is LATAM, our second largest customer, which represents 7% of our net book value of flight equipment and 7% of our Lease rental revenue as of and for the twelve months ended June 30, 2020. As of August 1,

2020, only one aircraft lease has been rejected in the various proceedings, but that number may increase as the judicial processes advance. Based on historic experience, the judicial process can take up to twelve to eighteen months to be resolved. We are actively engaged in these judicial proceedings to protect our economic interests. However, the outcome of these proceedings is uncertain and could result in these customers grounding our aircraft, negotiating reductions in aircraft lease rentals, rejecting their leases or taking other actions that could adversely impact us or the value of our aircraft. As a result of these proceedings, the recognition of lease rental revenue for certain customers may be done on a cash basis of accounting rather than the accrual method depending on the customers lease security arrangements.

We believe we have sufficient liquidity to meet our contractual obligations over the next twelve months and as of August 1, 2020, have \$971 million of liquidity from cash on hand, working capital and/or available credit lines. As of August 1, 2020, we have commitments to acquire 25 aircraft for \$983.9 million. We are in the process of deferring some of our E Jet E-2 deliveries scheduled to be delivered over the next twelve months to a later date which would reduce our commitments due within one year by approximately \$111.3 million.

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 the COVID-19 crisis. Our portfolio of mainly 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 and low fuel prices.

We also believe our platform and personnel position us to effectively manage through the COVID-19 crisis and will enable us to take advantage of new investment opportunities when they arise. Our Company employs a team of experienced senior professionals with extensive industry and financial experience. Our leadership team members have an average of more than 30 years of relevant industry experience, including managing through prior downturns in the aviation industry, like the 2008 global financial crisis and the September 11, 2001 terror attacks.

Our business approach will remain differentiated from those of other large leasing companies. We have intentionally limited large, long-term capital commitments and are less reliant on orders for new aircraft from aircraft manufacturers as a source of new investments than many of our competitors. While our current posture is defensive given the macro situation, over the long-term we plan to grow our business and profits while maintaining a conservative, flexible capital structure.

Revenues

Our revenues are comprised primarily of operating lease rentals on flight equipment held for lease, revenue from maintenance payments related to lease expirations, lease termination payments, interest recognized from direct financing and sales-type leases and gains on the sale of flight equipment.

Typically, our aircraft are subject to net leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs arising during the term of the lease. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on several factors, including the creditworthiness of our lessees and the occurrence of restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

As a result of the COVID-19 pandemic, the Company has provided lease concessions to certain customers, primarily 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 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 in our consolidated balance sheet. In a limited number of situations, we have agreed to broader restructurings of contractual terms, for example obtaining better security packages, term extensions, or other valuable considerations in exchange for short-term economic concessions.

If we determine that the collectability of rental payments is no longer probable (including any deferral thereof), we 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.

Under a lease, the lessee is responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon their completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we typically do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon several factors, including the timing of lease expirations, including scheduled and unscheduled expirations, the timing of maintenance events and the utilization of the aircraft by the lessee.

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments in our consolidated balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

2020 Lease Expirations and Lease Placements

At June 30, 2020, the Company had 22 off-lease aircraft and sixteen aircraft with scheduled lease expirations in 2020. As of August 1, 2020, of these 38 aircraft, we have 28 aircraft, which account for 8% of our net book value at June 30, 2020, still to be placed or sold.

2021-2024 Lease Expirations and Lease Placements

Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2021-2024, representing the percentage of our net book value of flight equipment (including flight equipment held for lease and net investment in leases) at June 30, 2020, specified below:

- 2021: 16 aircraft, representing 5%;
- 2022: 33 aircraft, representing 10%;
- 2023: 37 aircraft, representing 11%; and
- 2024: 56 aircraft, representing 21%.

Operating Expenses

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, SG&A expenses, aircraft impairment charges and maintenance and other costs. Because our operating lease terms generally require the lessee to pay for operating, maintenance and insurance costs, our portion of maintenance and other costs relating to aircraft reflected in our statement of income primarily relates to expenses for early lease terminations.

Income Tax Provision

We obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland and the United States.

Our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are primarily non-U.S. corporations. These subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and the U.S. are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our non-U.S. 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 Coronavirus Aid, Relief and Economic Security (“CARES”) Act was signed into law on March 27, 2020. The CARES Act, among other things, includes provisions relating to net operating loss carrybacks, alternative minimum tax credit refunds, modification to the net interest expense deduction limitation and technical correction to the tax depreciation methods for qualified improvement property. While we continue to evaluate the potential application of the CARES Act provisions, the CARES Act did not materially impact the Company’s effective tax rate for the three months ended June 30, 2020.

Acquisitions and Sales

During the first six months of 2020, we acquired four aircraft for \$82.3 million. As of August 1, 2020, we have not acquired any additional aircraft. At June 30, 2020, we had commitments to acquire 27 additional aircraft for \$1.02 billion, including the acquisition of 25 new E-Jet E2 aircraft from Embraer. Of this amount, approximately \$104.6 million represents commitments for the remainder of 2020. As of August 1, 2020, we have commitments to acquire 25 aircraft for \$983.9 million.

We are in the process of deferring some of our E Jet E-2 deliveries scheduled to be delivered over the next twelve months to a later date which would reduce our commitments due within one year by approximately \$111.3 million.

During the first six months of 2020, we sold eight aircraft for net proceeds of \$155.6 million, and recognized net gains on sales of \$26.8 million. As of August 1, 2020, we have not sold any additional aircraft.

The following table sets forth certain information with respect to the aircraft owned by us as of June 30, 2020:

AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

	As of June 30, 2020 ⁽¹⁾	As of June 30, 2019 ⁽¹⁾
Owned Aircraft		
Net Book Value of Flight Equipment	\$ 7,186	\$ 7,842
Net Book Value of Unencumbered Flight Equipment	\$ 5,687	\$ 5,957
Number of Aircraft	274	268
Number of Unencumbered Aircraft	238	226
Number of Lessees	80	89
Number of Countries	44	47
Weighted Average Age (years) ⁽²⁾	10.3	9.5
Weighted Average Remaining Lease Term (years) ⁽²⁾	4.3	4.6
Weighted Average Fleet Utilization during the three months ended June 30, 2020 and 2019 ⁽³⁾	95.1%	94.0%
Weighted Average Fleet Utilization during the six months ended June 30, 2020 and 2019 ⁽³⁾	97.0%	93.9%
Portfolio Yield for the three months ended June 30, 2020 and 2019 ⁽⁴⁾	9.7%	10.7%
Portfolio Yield for the six months ended June 30, 2020 and 2019 ⁽⁴⁾	10.5%	10.6%
Managed Aircraft on behalf of Joint Venture		
Net Book Value of Flight Equipment	\$ 321	\$ 678
Number of Aircraft	9	15

(1) Calculated using net book value at period end.

(2) Weighted by net book value.

(3) Aircraft on-lease days as a percent of total days in period weighted by net book value. The decrease from our historical utilization rate for the three and six months ended June 30, 2020 and 2019, was primarily due to early lease terminations.

(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 lease rentals.

PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of June 30, 2020		Owned Aircraft as of June 30, 2019	
	Number of Aircraft	% of Net Book Value ⁽¹⁾	Number of Aircraft	% of Net Book Value ⁽¹⁾
Aircraft Type				
Passenger:				
Narrow-body	246	78%	238	74%
Wide-body	24	18%	26	22%
Total Passenger	270	96%	264	96%
Freighter	4	4%	4	4%
Total	274	100%	268	100%
Manufacturer				
Airbus	186	64%	167	60%
Boeing	83	34%	96	38%
Embraer	5	2%	5	2%
Total	274	100%	268	100%
Regional Diversification				
Asia and Pacific	89	39%	91	38%
Europe	98	27%	95	27%
Middle East and Africa	11	4%	17	8%
North America	28	10%	37	11%
South America	26	13%	23	13%
Off-lease	22 ⁽²⁾	7%	5 ⁽³⁾	3%
Total	274	100%	268	100%

(1) Calculated using net book value at period end.

(2) Consisted of one Airbus A320-200 and one Airbus A330-200 aircraft, each of which are scheduled to be delivered during the third quarter of 2020 to lessees in North America and Europe, respectively, and one Airbus A319-100, eleven Airbus A320-200 and five Airbus A330-200 and three Boeing 737-800 aircraft, which we are marketing for lease or sale.

(3) Consisted of three Airbus A320-200 aircraft and one Airbus A330-200 aircraft, which were delivered on lease to two customers in South America during the third quarter of 2019, and one Airbus A330-200 aircraft, which is scheduled to be delivered on lease to a customer in Europe in the third quarter of 2020.

Our top ten customers with respect to aircraft we owned as of June 30, 2020, representing 109 aircraft and 41.7% of our net book value of flight equipment (includes Flight equipment held for lease and Net investment in leases), are as follows:

Customer	Percent of Net Book Value	Country	Number of Aircraft
IndiGo	8.8%	India	16
LATAM ⁽¹⁾	7.3%	Chile	13
easyJet	5.2%	United Kingdom	30
Air Canada	3.8%	Canada	6
Iberia	3.8%	Spain	15
Aerolineas Argentinas	2.9%	Argentina	5
American Airlines	2.7%	United States	7
AirBridgeCargo ⁽²⁾	2.5%	Russia	2
Jeju Air	2.4%	South Korea	7
SpiceJet	2.3%	India	8
Total top ten customers	41.7%		109
All other customers	58.3%		165
Total all customers	100.0%		274

(1) LATAM filed for Chapter 11 in May 2020.

(2) Guaranteed by Volga-Dnepr Airlines. We have one additional aircraft on lease with an affiliate.

Finance

We operate in a capital-intensive industry and have a demonstrated track record of raising substantial amounts of capital over the last fifteen years. Since our inception in late 2004, we have raised \$1.69 billion in equity capital from private and public investors. We also raised \$17.55 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.

RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2020 to the three months ended June 30, 2019:

	Three Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 172,380	\$ 192,823
Direct financing and sales-type lease revenue	4,537	8,321
Amortization of lease premiums, discounts and incentives	(6,404)	(5,345)
Maintenance revenue	72,168	26,567
Total lease revenue	242,681	222,366
Gain (loss) on sale of flight equipment	(279)	346
Other revenue	13,050	704
Total revenues	255,452	223,416
Operating expenses:		
Depreciation	88,117	89,578
Interest, net	56,226	66,377
Selling, general and administrative	13,564	18,317
Impairment of flight equipment	280,088	7,404
Maintenance and other costs	4,241	5,213
Total operating expenses	442,236	186,889
Other expense:		
Loss on extinguishment of debt	(65)	—
Merger expenses	(220)	—
Other	1	(1,910)
Total other expense	(284)	(1,910)
Income (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investments	(187,068)	34,617
Income tax provision	4,671	5,992
Earnings of unconsolidated equity method investments, net of tax	762	2,487
Net income (loss)	\$ (190,977)	\$ 31,112

Revenues

Total revenues increased by \$32.0 million for the three months ended June 30, 2020, as compared to the three months ended June 30, 2019.

Lease rental revenue. The decrease in lease rental revenue of \$20.4 million for the three months ended June 30, 2020, as compared to the same period in 2019, was primarily the result of:

- a \$15.6 million decrease due to the sale of 22 aircraft since April 1, 2019; and
- a \$21.9 million decrease due to early lease terminations and the recognition of lease rental revenue for certain customers using a cash basis of accounting rather than an accrual method – see Note 1 regarding our lease revenue recognition policy.

This decrease was partially offset by a \$19.7 million increase in revenue, reflecting the impact of 39 aircraft purchased since April 1, 2019.

Direct financing and sales-type lease revenue. For the three months ended June 30, 2020, \$4.5 million of interest income from direct financing and sales-type leases was recognized, as compared to \$8.3 million recorded for the same period in 2019, primarily attributable to the early lease terminations of seven aircraft during the second quarter of 2020. Additionally, we sold two aircraft subject to direct financing and sales-type leases during the fourth quarter of 2019.

Amortization of lease premiums, discounts and lease incentives consisted of the following:

	Three Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Amortization of lease premiums	\$ (5,070)	\$ (4,261)
Amortization of lease discounts	270	1,407
Amortization of lease incentives	(1,604)	(2,491)
Amortization of lease premiums, discounts and incentives	<u>\$ (6,404)</u>	<u>\$ (5,345)</u>

Maintenance revenue. For the three months ended June 30, 2020, we recorded \$72.2 million of maintenance revenue, of which \$38.8 million related to the early lease terminations of eleven narrow-body aircraft and \$31.7 million related to the scheduled lease expirations of one narrow-body aircraft and one wide-body aircraft – see “Summary of Recoverability Assessment and Other Impairments” below. For the same period in 2019, we recorded \$26.6 million maintenance revenue, primarily due to the transition of ten narrow-body and one wide-body aircraft, including \$17.6 million related to the early lease terminations with one lessee in Asia.

Other revenue increased by \$12.3 million to \$13.1 million for the three months ended June 30, 2020, as compared to \$0.7 million for the same period in 2019, primarily due to \$12.8 million of security deposits recognized into revenue related to the early lease terminations of eleven narrow-body aircraft.

Operating expenses

Total operating expenses increased by \$255.3 million for the three months ended June 30, 2020, as compared to the three months ended June 30, 2019.

Depreciation expense decreased by \$1.5 million for the three months ended June 30, 2020 as compared to the same period in 2019, primarily due a decrease of \$9.6 million resulting from 22 aircraft sold since April 1, 2019 and lower depreciation on aircraft subject to impairment charges recorded during 2020. This is partially offset by higher depreciation of \$7.2 million due to 39 aircraft acquired since April 1, 2019.

Interest, net consisted of the following:

	Three Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Interest on borrowings and other liabilities	\$ 53,136	\$ 63,639
Amortization of deferred losses related to interest rate derivatives	—	—
Amortization of deferred financing fees and debt discount	3,259	3,594
Interest expense	56,395	67,233
Less: Interest income	(169)	(856)
Interest, net	<u>\$ 56,226</u>	<u>\$ 66,377</u>

Interest, net decreased by \$10.2 million as compared to the three months ended June 30, 2019, primarily as a result of lower weighted average interest rates, partially offset by higher weighted average debt outstanding.

Selling, general and administrative expenses for the three months ended June 30, 2020 decreased \$4.8 million as compared to the same period in 2019, primarily attributable to lower share-based compensation expense of \$3.2 million and lower personnel and travel costs of \$2.1 million, partially offset by a provision for credit losses of \$1.2 million related to the change in our allowance for credit losses since the adoption of ASC 326 on January 1, 2020.

Impairment of aircraft. We recorded impairment charges of \$280.1 million related to sixteen aircraft during the three months ended June 30, 2020 compared to impairment charges of \$7.4 million related to seven aircraft during the three months ended June 30, 2019. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of impairment charges related to certain aircraft.

Maintenance and other costs were \$4.2 million for the three months ended June 30, 2020, a decrease of \$1.0 million compared to the same period in 2019. The three months ended June 30, 2019, included higher maintenance costs for eighteen unscheduled transitions due to early lease terminations related to two lessees.

Other expense

Total other expense decreased by \$1.6 million for the three months ended June 30, 2020, as compared to the three months ended June 30, 2019. The decrease was primarily attributable to favorable mark-to-market adjustments on our interest rate caps of \$1.9 million.

Income tax provision

Our *provision for income taxes* for the three months ended June 30, 2020 and 2019 was \$4.7 million and \$6.0 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The decrease in our income tax provision of \$1.3 million for the three months ended June 30, 2020, as compared to the same period in 2019, was primarily attributable to changes in operating income subject to tax in Ireland, the United States and other jurisdictions. The three months ended June 30, 2020, included net impairment charges of \$197.6 million in a low-tax jurisdiction. The three months ended June 30, 2020, also included discrete items totaling \$4.0 million in tax benefits. The second quarter of 2019 included a discrete item of \$2.8 million related to a fair value adjustment on an intercompany asset transfer.

RESULTS OF OPERATIONS

Comparison of the six months ended June 30, 2020 to the six months ended June 30, 2019:

	Six Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 371,300	\$ 374,057
Direct financing and sales-type lease revenue	11,303	16,764
Amortization of lease premiums, discounts and incentives	(12,100)	(11,056)
Maintenance revenue	118,720	42,968
Total lease revenue	489,223	422,733
Gain on sale of flight equipment	26,770	12,348
Other revenue	21,957	2,262
Total revenues	537,950	437,343
Operating expenses:		
Depreciation	177,822	174,313
Interest, net	117,733	129,840
Selling, general and administrative	75,946	36,317
Impairment of flight equipment	342,745	7,404
Maintenance and other costs	8,997	12,617
Total operating expenses	723,243	360,491
Other expense:		
Loss on extinguishment of debt	(4,020)	—
Merger expenses	(32,430)	—
Other	(111)	(3,971)
Total other expense	(36,561)	(3,971)
Income (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investments	(221,854)	72,881
Income tax provision	4,820	9,090
Earnings of unconsolidated equity method investments, net of tax	1,476	2,131
Net income (loss)	\$ (225,198)	\$ 65,922

Revenues

Total revenues increased by \$100.6 million for the six months ended June 30, 2020, as compared to the six months ended June 30, 2019.

Lease rental revenue. The decrease in lease rental revenue of \$2.8 million for the six months ended June 30, 2020, as compared to the same period in 2019, was primarily the result of:

- a \$30.1 million decrease due to the sale of 23 aircraft since January 1, 2019; and
- a \$21.3 million decrease due to early lease terminations and the recognition of lease rental revenue for certain customers using a cash basis of accounting rather than an accrual method – see Note 1 regarding our lease revenue recognition policy.

This decrease was partially offset by a \$48.9 million increase in revenue, reflecting the impact of 52 aircraft purchased since January 1, 2019.

Direct financing and sales-type lease revenue. For the six months ended June 30, 2020, \$11.3 million of interest income from direct financing and sales-type leases was recognized, as compared to \$16.8 million recorded for the same period in

2019, primarily attributable to the sale of two aircraft subject to direct financing and sales-type leases during the fourth quarter of 2019 and early lease terminations of seven aircraft during the second quarter of 2020.

Amortization of lease premiums, discounts and lease incentives consisted of the following:

	Six Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Amortization of lease premiums	\$ (8,599)	\$ (8,298)
Amortization of lease discounts	646	2,833
Amortization of lease incentives	(4,147)	(5,591)
Amortization of lease premiums, discounts and incentives	\$ (12,100)	\$ (11,056)

Maintenance revenue. For the six months ended June 30, 2020, we recorded \$118.7 million of maintenance revenue, primarily comprised of \$79.3 million related to the early lease terminations of eleven narrow-body aircraft and four wide-body aircraft, as well as \$39.2 million related to the scheduled lease expirations of four narrow-body aircraft and one wide-body aircraft - see “Summary of Recoverability Assessment and Other Impairments” below. For the same period in 2019, we recorded \$43.0 million maintenance revenue, primarily due to the transition of 21 narrow-body aircraft and three wide-body aircraft, including cash maintenance revenue received for ten narrow-body aircraft from one lessee South America and \$17.6 million related to the early lease terminations with one lessee in Asia.

Gain on sale of flight equipment increased by \$14.4 million to \$26.8 million for the six months ended June 30, 2020, as compared to gains of \$12.3 million for the same period in 2019. During the six months ended of 2020, we sold eight aircraft, including the receipt of insurance proceeds for one aircraft, as compared to the sale of four aircraft during the six months ended of 2019. We also recognized gains totaling \$3.7 million resulting from the transition of two aircraft from operating to net investment in direct financing and sales-type leases during the six months ended June 30, 2019.

Other revenue increased by \$19.7 million to \$22.0 million for the six months ended June 30, 2020, as compared to \$2.3 million for the same period in 2019, primarily due to \$21.6 million of security deposits recognized into revenue related to the early lease terminations of four wide-body aircraft and eleven narrow-body aircraft. This was partially offset by lower service fees of \$1.6 million related to the liquidation of our joint venture with an affiliate of the Ontario Teachers’ Pension Plan.

Operating expenses

Total operating expenses increased by \$362.8 million for the six months ended June 30, 2020, as compared to the six months ended June 30, 2019.

Depreciation expense increased by \$3.5 million for the six months ended June 30, 2020 as compared to the same period in 2019. The increase is primarily the result of higher depreciation of \$18.5 million due to 52 aircraft acquired since January 1, 2019, partially offset by a decrease of \$16.1 million resulting from 24 aircraft sold since January 1, 2019 and lower depreciation related to aircraft subject to aircraft impairments recorded during 2020.

Interest, net consisted of the following:

	Six Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Interest on borrowings and other liabilities	\$ 111,562	\$ 123,918
Amortization of deferred losses related to interest rate derivatives	—	184
Amortization of deferred financing fees and debt discount	6,840	6,958
Interest expense	118,402	131,060
Less: Interest income	(669)	(1,220)
Interest, net	\$ 117,733	\$ 129,840

Interest, net decreased by \$12.1 million as compared to the six months ended June 30, 2019, primarily as a result of lower weighted average interest rates, partially offset by higher weighted average debt outstanding.

Selling, general and administrative expenses for the six months ended June 30, 2020 increased \$39.6 million as compared to the same period in 2019, primarily attributable to net share-based compensation expense of \$38.7 million recognized as a result of the Merger and a provision for credit losses of \$4.8 million related to the change in our allowance for credit losses since the adoption of ASC 326 on January 1, 2020.

Impairment of aircraft. We recorded impairment charges of \$342.7 million during the six months ended June 30, 2020 related to 20 aircraft. During the six months ended June 30, 2019, the Company recorded impairment charges of \$7.4 million related to seven aircraft. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of impairment charges related to certain aircraft.

Maintenance and other costs were \$9.0 million for the six months ended June 30, 2020, a decrease of \$3.6 million compared to the same period in 2019. The six months ended June 30, 2019 included higher costs for scheduled transitions and higher than projected lessor contributions towards the cost of maintenance events for aircraft acquired with attached leases.

Other expense

Total other expense increased by \$32.6 million to \$36.6 million for the six months ended June 30, 2020, as compared to \$4.0 million for the six months ended June 30, 2019. The increase was attributable to \$32.4 million of legal and banking expenses related to the Merger and a \$4.0 million loss on extinguishment of debt due to the early repayment of secured debt for five aircraft, partially offset by favorable mark-to-market adjustments on our interest rate caps of \$3.9 million.

Income tax provision

Our *provision for income taxes* for the six months ended June 30, 2020 and 2019 was \$4.8 million and \$9.1 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The decrease in our income tax provision of \$4.3 million for the six months ended June 30, 2020, as compared to the same period in 2019, was primarily attributable to changes in operating income subject to tax in Ireland, the United States and other jurisdictions. The six months ended June 30, 2020, included discrete items totaling \$1.0 million in tax benefits. The six months ended June 30, 2019 included a discrete item of \$2.8 million related to a fair value adjustment on an intercompany asset transfer. During the six months ended June 30, 2020, we incurred net impairment charges of \$206.7 million and a significant decrease in Bermuda income primarily related to Merger expenses of \$32.4 million.

Summary of Recoverability Assessment and Other Impairments

During the six months ended June 30, 2020, the Company recorded impairment charges related to twenty aircraft due to scheduled lease expirations, early lease terminations, lessee defaults and/or protective filings, or as a result of our annual recoverability assessment conducted during the second quarter of 2020. These twenty aircraft were comprised of eleven narrow-body and nine wide-body aircraft. The Company recorded impairment charges totaling \$342.7 million and recognized

\$136.2 million of maintenance reserves, security deposits and lease rentals received in advance into revenue during the six months ended June 30, 2020. Please refer to the sections below for additional details.

Transactional Impairments

In February 2020, the Company initiated a process to accept the redelivery of four wide-body aircraft prior to their scheduled lease expirations due to a lessee default. As a result, the Company recorded impairment charges of \$62.7 million and recognized \$38.8 million of maintenance revenue, \$8.7 million of security deposits, and \$5.9 million of lease rentals received in advance into revenue during the first quarter of 2020.

During the second quarter, the Company recorded impairment charges totaling \$77.3 million related to eleven aircraft due to the scheduled lease expirations of one narrow-body aircraft and one wide-body aircraft, as well as the early terminations of nine narrow-body aircraft. The Company recognized \$70.0 million of maintenance revenue and \$12.8 million of security deposits into revenue related to these eleven aircraft during the second quarter of 2020.

During the second quarter, six of our customers filed for bankruptcy protection. As a result, the Company reviewed the related aircraft for recoverability and recorded impairment charges of \$159.8 million during the second quarter of 2020 related to three wide-body aircraft which we lease to the airline.

Annual Recoverability Assessment

We completed our annual recoverability assessment of our aircraft in the second quarter of 2020. In addition to the transactional impairments discussed above, we recorded impairment charges totaling \$43.0 million related to one narrow-body and one wide-body aircraft as a result of our annual recoverability assessment. Although we have completed our annual recoverability assessment, we will continue to monitor the developments of the COVID-19 virus throughout the remainder of the year. We will closely monitor the impact of the virus on our customers, air traffic, lease rental rates, and aircraft valuations, and will perform additional customer and aircraft specific reviews should changes in facts and circumstances arise that may impact the recoverability of our aircraft. We will focus on our customers that have entered judicial insolvency proceedings and any additional customers that may become subject to similar-type proceedings, aircraft with near-term lease expirations, and certain aircraft variants that are more susceptible to the impact of COVID-19 and value deteriorations.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected 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.

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 the annual recoverability assessment 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 generate 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
- contributions from our shareholders.

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 first six months of 2020, we met our liquidity and capital resource needs with \$63.3 million of cash flow from operations, \$650.0 million from our revolving credit facilities and \$155.6 million of cash from aircraft sales.

As of June 30, 2020, the weighted-average maturity of our secured and unsecured debt financings was 3.1 years and we were in compliance with all applicable covenants. Depending upon our actual results for the remainder of our fiscal year, we may fail our EBITDA to Cash Interest covenant ratio for our ACS 2016 secured financing at the end of the fourth quarter. We are in discussions with the ACS 2016 banks to modify the definition of our EBITDA to Cash Interest ratio to Adjusted EBITDA to Cash Interest, to be consistent with our other debt covenants. If we fail to modify the EBITDA to Cash Interest covenant ratio and our EBITDA for the full year declines, we may be required to repay the outstanding loan balance, which was \$235.8 million as of June 30, 2020. We have sufficient liquidity to repay the outstanding loan plus interest.

We have agreed to defer some near-term lease payments with certain of our airline customers. As of August 1, 2020, we have agreed to defer approximately \$99.0 million in near-term lease payments with 40 airlines, which these airline customers have agreed to repay over time. 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 extend further deferrals to some of our other customers or to extend the deferrals we have already made. We may ultimately be unable to collect all the amounts we have deferred.

We believe we have sufficient liquidity to meet our contractual obligations over the next twelve months and as of August 1, 2020, have \$971 million of liquidity from cash on hand, working capital and/or available credit lines. In addition, we believe payments received from lessees and other funds generated from operations, unsecured bond offerings, secured borrowings for 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 over the next twelve months.

Cash Flows

	Six Months Ended June 30,	
	2020	2019
	(Dollars in thousands)	
Net cash flow provided by operating activities	\$ 63,339	\$ 245,612
Net cash flow provided by (used in) investing activities	92,421	(591,055)
Net cash flow provided by financing activities	13,183	692,714

Operating Activities:

Cash flow provided by operations was \$63.3 million and \$245.6 million for the six months ended June 30, 2020 and 2019, respectively. The decrease in cash flow provided by operations of \$182.3 million for the six months ended June 30, 2020 was primarily attributable to a decrease in cash from working capital.

The COVID-19 pandemic has severely and negatively impacted air travel and our customers' financial performance as a result of a variety of factors. The impact of COVID-19, together with lease concessions given to certain of our airline customers in the form of lease rental deferrals, has resulted in slower cash collections during the six months ended June 30, 2020. Lease rental receivables, including deferred lease rentals, on our consolidated balance sheet have increased \$85.1 million during the six months ended June 30, 2020. In addition, as compared to the six months ended June 30, 2019, the six months ended June 30, 2020 includes lower lease rental revenues of \$21.3 million due to fifteen early lease terminations and the recognition of revenue for certain customers using a cash basis of accounting rather than an accrual method - see Note 1 regarding our lease revenue recognition policy.

Cash flow provided by operations for the six months ended June 30, 2020 also includes \$36.3 million of cash paid for Merger expenses.

Investing Activities:

Cash flow provided by investing activities was \$92.4 million and cash flow used in investing activities was \$591.1 million for the six months ended June 30, 2020 and 2019, respectively. The increase in cash flow provided by investing activities of \$683.5 million for the six months ended June 30, 2020 versus the same period in 2019 was primarily a result of a \$608.3 million decrease in the acquisition and improvement of flight equipment and a \$98.6 million increase in aircraft proceeds from the sale of flight equipment.

These inflows were offset by a \$28.3 million increase in aircraft purchase deposits and progress payments, net of returned deposits.

Financing Activities:

Cash flow provided by financing activities was \$13.2 million and \$692.7 million for the six months ended June 30, 2020 and 2019, respectively. The decrease in cash flow provided by financing activities of \$679.5 million for the six months ended June 30, 2020 versus the same period in 2019 was primarily a result of a \$694.7 million decrease in proceeds from secured and unsecured financings, net of repayments.

Debt Obligations

For complete information on our debt obligations, please refer to Note 7 - “Secured and Unsecured Debt Financings” in the Notes to Unaudited Consolidated Financial Statements above.

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 \$6.83 billion at June 30, 2020 from \$7.03 billion at December 31, 2019, primarily due to a decrease in principal payments for senior notes and secured financings, as well as purchase obligations, partially offset by an increase in borrowings under our revolving credit facilities.

The following table presents our actual contractual obligations and their payment due dates as of June 30, 2020:

Contractual Obligations	Payments Due by Period as of June 30, 2020				
	Total	1 year or less	2-3 years	4-5 years	More than 5 years
	(Dollars in thousands)				
Principal payments:					
Senior Notes due 2021 - 2026	\$ 3,300,000	\$ 500,000	\$ 1,000,000	\$ 1,150,000	\$ 650,000
DBJ Term Loan	215,000	—	60,000	155,000	—
Revolving Credit Facilities	650,000	—	650,000	—	—
ECA Financings	45,443	14,529	18,930	11,984	—
Bank Financings	937,605	89,537	341,555	470,769	35,744
Total principal payments	5,148,048	604,066	2,070,485	1,787,753	685,744
Interest payments on debt obligations ⁽¹⁾	645,263	200,898	299,226	117,260	27,879
Office leases ⁽²⁾	14,158	1,877	3,588	3,455	5,238
Purchase obligations ⁽³⁾	1,022,423	269,660	602,595	150,168	—
Total	\$ 6,829,892	\$ 1,076,501	\$ 2,975,894	\$ 2,058,636	\$ 718,861

(1) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at June 30, 2020.

(2) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.

(3) At June 30, 2020, we had commitments to acquire 27 aircraft for \$1.02 billion, including 25 new E-Jet E2 aircraft from Embraer S.A. These amounts include estimates for pre-delivery deposits, contractual price escalation and other adjustments. As of August 1, 2020, we have commitments to acquire 25 aircraft for \$983.9 million. We are in the process of deferring some of our E Jet E-2 deliveries scheduled to be delivered over the next twelve months to a later date which would reduce our commitments due within one year by approximately \$111.3 million.

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 six months ended June 30, 2020 and 2019, we incurred a total of \$13.4 million and \$17.6 million, respectively, of capital expenditures (including lease incentives) related to the improvement of aircraft.

As of June 30, 2020, the weighted average age by net book value of our aircraft was approximately 10.3 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. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft, such as lessee default, or a lessee fails to meet its maintenance obligations under the lease agreement. These maintenance reserves are 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.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of several factors, including defaults by the lessees. 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 2019 Annual Report on Form 10-K.

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 5 – “Unconsolidated Equity Method Investments” in the Notes to Unaudited Consolidated Financial Statements above.

We hold a 25% equity interest in our joint venture with Mizuho Leasing and as of June 30, 2020, the net book value of its nine aircraft was \$321.1 million.

Foreign Currency Risk and Foreign Operations

At June 30, 2020, 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 six months ended June 30, 2020, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$11.5 million in U.S. dollar equivalents and represented approximately 15.1% of total selling, general and administrative expenses (or 22.0% when excluding share-based compensation expense, of which a large portion relates to employees domiciled in the U.S.). 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 six months ended June 30, 2020 and 2019, we incurred insignificant net gains and losses on foreign currency transactions.

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 and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Net income (loss)	\$ (190,977)	\$ 31,112	\$ (225,198)	\$ 65,922
Depreciation	88,117	89,578	177,822	174,313
Amortization of lease premiums, discounts and incentives	6,404	5,345	12,100	11,056
Interest, net	56,226	66,377	117,733	129,840
Income tax provision	4,671	5,992	4,820	9,090
EBITDA	(35,559)	198,404	87,277	390,221
Adjustments:				
Impairment of flight equipment	280,088	7,404	342,745	7,404
Equity share of joint venture impairment	—	—	—	2,724
Loss on extinguishment of debt	65	—	4,020	—
Non-cash share-based payment expense	—	3,177	38,727	5,903
Merger related expenses ⁽¹⁾	220	—	34,990	—
(Gain) loss on mark-to-market of interest rate derivative contracts	(1)	1,915	113	3,995
Adjusted EBITDA	\$ 244,813	\$ 210,900	\$ 507,872	\$ 410,247

(1) Included \$32.4 million in Other expense and \$2.6 million in Selling, general and administrative expenses.

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 lease agreements, floating rate debt obligations and interest rate derivatives. 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.

Changes in interest rates may also impact our net book value as our interest rate derivatives are periodically marked-to-market through shareholders' equity. Generally, we are exposed to loss on our fixed pay interest rate derivatives to the extent interest rates decrease below their contractual fixed rate.

The relationship between spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

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 and, in particular, does not address the mark-to-market impact on our interest rate derivatives. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

A hypothetical 100-basis point increase/decrease in interest rates on our leases subject to variable rental rates would increase/decrease the minimum contracted rentals in our portfolio as of June 30, 2020 by \$4.0 million and \$1.5 million, respectively, over the next twelve months. As of June 30, 2020, a hypothetical 100-basis point increase/decrease in interest rates on our variable rate borrowings would result in an interest expense increase/decrease of \$10.0 million and \$3.3 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months. We have an interest rate cap to hedge a portion of our floating rate interest exposure which is set at 2% and has a current notional balance of \$235.0 million and reduces over time to \$215.0 million. The cap matures in September 2021.

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 June 30, 2020. 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 June 30, 2020.

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 June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to COVID-19. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

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 December 31, 2019 and in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, 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

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	<u>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).</u> **
3.1	<u>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).</u>
3.2	<u>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).</u>
4.1	<u>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).</u>
4.2	<u>Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee Citigroup Global Markets, Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC and RBC Capital Markets, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 6, 2013).</u>
4.3	<u>Second Supplemental Indenture, dated as of March 26, 2014, 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 26, 2014).</u>
4.4	<u>Third Supplemental Indenture, dated as of January 15, 2015, 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 January 15, 2015).</u>
4.5	<u>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).</u>
4.6	<u>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).</u>
4.7	<u>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).</u>
4.8	<u>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).</u>
31.1	<u>Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</u> *
31.2	<u>Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</u> *
32.1	<u>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.</u>
32.2	<u>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.</u>
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019; (ii) Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the three and six months ended June 30, 2020 and 2019; (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019; (iv) Consolidated Statements of Changes in Shareholders' Equity for the three and six months ended June 30, 2020 and 2019; and (v) Notes to Unaudited Consolidated Financial Statements.*
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: August 3, 2020

AIRCASTLE LIMITED

(Registrant)

By:

/s/ James C. Connelly

James C. Connelly

Chief Accounting Officer and Authorized Officer

**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: August 3, 2020

/s/ Michael Inglese

Michael Inglese

Chief Executive Officer

**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: August 3, 2020

/s/ Aaron Dahlke

Aaron Dahlke

Chief Financial Officer

**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 June 30, 2020, 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: August 3, 2020

**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 June 30, 2020, 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: August 3, 2020