

**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

or

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

For the transition period from January 1, 2020 to February 29, 2020

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:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
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 October 30, 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
Introductory Note

On September 30, 2020, the Board of Directors for Aircastle Limited (“Aircastle” or “the Company”) unanimously agreed to change the Company’s fiscal year end to the twelve-month period ended the last day in February. This change better aligns the Company’s financial reporting period with the financial reporting cycle of its shareholders, Marubeni Corporation and Mizuho Leasing Company, Limited.

As such, this Transition Report on Form 10-Q represents the unaudited financial statements for the two months ended February 29, 2020. In the future, the Company will file quarterly results for the periods ended May 31st, August 31st and November 30th. In January of 2021, the Company expects to file its Form 10-Q with the Securities Exchange Commission for the five and nine month periods ended November 30, 2020.

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)**

	February 29, 2020 (Unaudited)	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 166,083	\$ 140,882
Restricted cash and cash equivalents	5,354	14,561
Accounts receivable	27,269	18,006
Flight equipment held for lease, net of accumulated depreciation of \$1,542,938 and \$1,501,664, respectively	7,142,987	7,375,018
Net investment in leases, net of allowance for credit losses of \$6,558 and \$0, respectively	426,252	419,396
Unconsolidated equity method investments	33,470	32,974
Other assets	206,617	201,209
Total assets	\$ 8,008,032	\$ 8,202,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs and discounts	\$ 1,012,518	\$ 1,129,345
Borrowings from unsecured financings, net of debt issuance costs and discounts	3,884,235	3,932,491
Accounts payable, accrued expenses and other liabilities	207,114	172,114
Lease rentals received in advance	107,944	108,060
Security deposits	109,663	124,954
Maintenance payments	650,369	682,398
Total liabilities	5,971,843	6,149,362
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, 75,076,794 shares issued and outstanding at February 29, 2020; and 75,122,129 shares issued and outstanding at December 31, 2019	751	751
Additional paid-in capital	1,456,977	1,446,664
Retained earnings	578,461	605,269
Total shareholders' equity	2,036,189	2,052,684
Total liabilities and shareholders' equity	\$ 8,008,032	\$ 8,202,046

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

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

	Two Months Ended February 29/28,	
	2020	2019
Revenues:		
Lease rental revenue	\$ 131,119	\$ 121,919
Direct financing and sales-type lease revenue	4,447	5,660
Amortization of lease premiums, discounts and incentives	(3,669)	(3,632)
Maintenance revenue	41,214	1,877
Total lease revenue	173,111	125,824
Gain on sale of flight equipment	15,354	4,173
Other revenue	9,183	384
Total revenues	197,648	130,381
Operating expenses:		
Depreciation	59,853	56,064
Interest, net	41,038	42,163
Selling, general and administrative (including non-cash share-based payment expense of \$10,678 and \$1,602 for the two months ended February 29, 2020 and February 28, 2019, respectively)	23,189	11,646
Impairment of flight equipment	62,657	—
Maintenance and other costs	1,703	3,480
Total operating expenses	188,440	113,353
Other expense:		
Loss on extinguishment of debt	(3,955)	—
Other	(415)	(375)
Total other expense	(4,370)	(375)
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	4,838	16,653
Income tax provision	1,675	752
Earnings of unconsolidated equity method investments, net of tax	496	1,611
Net income	\$ 3,659	\$ 17,512
Earnings per common share - Basic:		
Net income per share	\$ 0.05	\$ 0.23
Earnings per common share - Diluted		
Net income per share	\$ 0.05	\$ 0.23
Dividends declared per share	\$ 0.32	\$ 0.30
Other comprehensive income, net of tax:		
Net derivative loss reclassified into earnings	—	184
Other comprehensive income	—	184
Total comprehensive income	\$ 3,659	\$ 17,696

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)

	Two Months Ended February 29/28,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 3,659	\$ 17,512
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:		
Depreciation	59,853	56,064
Amortization of deferred financing costs	2,446	2,252
Amortization of lease premiums, discounts and incentives	3,669	3,632
Deferred income taxes	1,453	—
Non-cash share-based payment expense	10,678	1,602
Cash flow hedges reclassified into earnings	—	184
Collections on net investment in leases	5,658	4,235
Security deposits and maintenance payments included in earnings	(47,293)	365
Gain on sale of flight equipment	(15,354)	(4,173)
Loss on extinguishment of debt	3,955	—
Impairment of flight equipment	62,657	—
Other	(114)	(1,780)
Changes in certain assets and liabilities:		
Accounts receivable	(6,377)	(2,891)
Other assets	5,786	(10,300)
Accounts payable, accrued expenses and other liabilities	10,205	16,656
Lease rentals received in advance	143	238
Net cash and restricted cash provided by operating activities	<u>101,024</u>	<u>83,596</u>
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(23,035)	(66,616)
Proceeds from sale of flight equipment	103,679	1,707
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	(4,614)	17,198
Unconsolidated equity method investments and associated costs	—	(3,450)
Other	(56)	691
Net cash and restricted cash provided by (used in) investing activities	<u>75,974</u>	<u>(50,470)</u>
Cash flows from financing activities:		
Repurchase of shares	(2,370)	(11,424)
Proceeds from secured and unsecured debt financings	100,000	—
Repayments of secured and unsecured debt financings	(268,799)	(60,716)
Debt extinguishment costs	(2,685)	—
Deferred financing costs	—	(368)
Security deposits and maintenance payments received	29,806	30,106
Security deposits and maintenance payments returned	(16,956)	(25,286)
Dividends paid	—	8
Net cash and restricted cash used in financing activities	<u>(161,004)</u>	<u>(67,680)</u>
Net increase (decrease) in cash and restricted cash:	<u>15,994</u>	<u>(34,554)</u>
Cash and restricted cash at beginning of period	155,443	167,853
Cash and restricted cash at end of period	<u>\$ 171,437</u>	<u>\$ 133,299</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)

	Two Months Ended February 29/28,	
	2020	2019
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	\$ 166,083	\$ 116,955
Restricted cash and cash equivalents	5,354	16,344
Unrestricted and restricted cash and cash equivalents	<u>\$ 171,437</u>	<u>\$ 133,299</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 21,487	\$ 19,316
Cash (received) paid for income taxes	\$ (15)	\$ (1,585)
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets assumed in asset acquisitions	\$ 7,873	\$ 3,749
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets settled in sale of flight equipment	\$ 16,693	\$ 656
Transfers from flight equipment held for lease to Net investment in leases and Other assets	<u>\$ 31,821</u>	<u>\$ 42,709</u>

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)

Two Months Ended February 29, 2020						
	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	—	—	10,678	—	—	10,678
Reclassification of prior year director stock award liability	—	—	2,005	—	—	2,005
Dividends declared	—	—	—	(24,025)	—	(24,025)
Net income	—	—	—	3,659	—	3,659
Adoption of accounting standard	—	—	—	(6,442)	—	(6,442)
Balance, February 29, 2020	<u>75,076,794</u>	<u>\$ 751</u>	<u>\$ 1,456,977</u>	<u>\$ 578,461</u>	<u>\$ —</u>	<u>\$ 2,036,189</u>

Two Months Ended February 28, 2019						
	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	255,880	3	(3)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(644,045)	(6)	(11,418)	—	—	(11,424)
Amortization of share-based payments	—	—	1,425	—	—	1,425
Dividends declared	—	—	—	(22,511)	—	(22,511)
Net income	—	—	—	17,512	—	17,512
Net derivative loss reclassified into earnings	—	—	—	—	184	184
Balance, February 28, 2019	<u>75,066,346</u>	<u>\$ 751</u>	<u>\$ 1,458,783</u>	<u>\$ 534,333</u>	<u>\$ —</u>	<u>\$ 1,993,867</u>

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)
February 29, 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”) with MM Air Merger Sub Limited, a Bermuda exempted company (“Merger Sub”), pursuant to the Agreement and Plan of Merger, dated as of November 5, 2019 (the “Merger Agreement”), by and among the Company, MM Air Limited, a Bermuda exempted company (“Parent”), and Merger Sub. As a result of the Merger, Aircastle’s shareholders (other than Marubeni Corporation and its affiliates) received cash consideration of \$32.00 per common share and the Company 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 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 affects 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.

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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 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 February 29, 2020, through the date on which the consolidated financial statements included in this Transition Report on Form 10-Q were issued.

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all its subsidiaries. Aircastle consolidates four 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 in the period of change. Revenue is not recognized when collection is not probable. When collectability is not probable, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

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

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
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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. We continue to recognize lease rental revenue for such receivables to the extent collectability is probable.

The COVID-19 virus has had an unprecedented negative impact on the global economy, and in particular on the aviation sector. Since March 2020, there has been a dramatic slowdown in air traffic, with many markets in near complete shutdown. According to IATA, air travel is down to approximately 20% of normal levels and a recovery to pre-pandemic levels is not expected for several years. Substantially all of 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 October 30, 2020, we have agreed to defer approximately \$101,000 in near-term lease payments with 40 airlines, including \$9,594 that appear in our Consolidated Balance Sheet as components of Accounts receivable or Other assets. 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 extend further deferrals to some of our other customers or to extend the deferrals we have already made. We may ultimately not be able to collect all the amounts we have deferred.

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.

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 deterioration.

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

Aircastle Limited and Subsidiaries
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(Dollars in thousands, except per share amounts)
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consists of the lease receivable, estimated unguaranteed residual value of the leased 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 the Consolidated Statement of Income 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 remeasurements 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.
- 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).

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The following tables set forth our financial assets as of February 29, 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 February 29, 2020 Using Fair Value Hierarchy				Valuation Technique
	Fair Value as of February 29, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Cash and cash equivalents	\$ 166,083	\$ 166,083	\$ —	\$ —	Market
Restricted cash and cash equivalents	5,354	5,354	—	—	Market
Derivative assets	19	—	19	—	Market
Total	<u>\$ 171,456</u>	<u>\$ 171,437</u>	<u>\$ 19</u>	<u>\$ —</u>	

	Fair Value Measurements at December 31, 2019 Using Fair Value Hierarchy				Valuation Technique
	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)	
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	<u>\$ 155,558</u>	<u>\$ 155,443</u>	<u>\$ 115</u>	<u>\$ —</u>	

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 two months ended February 29, 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 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.

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Aircraft Valuation

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 \$38,305 of maintenance revenue and \$9,062 of security deposits into revenue during the first two months of 2020.

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 February 29, 2020 and December 31, 2019 were as follows:

	February 29, 2020		December 31, 2019	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	\$ 100,000	\$ 100,000	\$ 150,000	\$ 150,000
Unsecured Term Loan	215,000	215,000	215,000	215,000
ECA Financings	50,745	52,593	147,644	150,805
Bank Financings	971,693	1,002,620	993,593	1,010,482
Senior Notes	3,600,000	3,807,956	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 February 29, 2020 were as follows:

<u>Year Ending February 29/28,</u>	<u>Amount</u>
Remainder of 2020	\$ 626,752
2021	691,344
2022	603,410
2023	524,674
2024	417,348
Thereafter	563,288
Total	\$ 3,426,816

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

Region	Two Months Ended February 29/28,	
	2020	2019
Asia and Pacific	43 %	42 %
Europe	26 %	27 %
Middle East and Africa	7 %	11 %
North America	11 %	8 %
South America	13 %	12 %
Total	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:

	Two Months Ended February 29/28,			
	2020		2019	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	3	21%	4	26%

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

Country	Two Months Ended February 29/28,			
	2020		2019	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Indonesia ⁽¹⁾	\$ 25,373	13 %	\$ —	— %
South Africa ⁽²⁾	50,781	26 %	—	— %

(1) For the two months ended February 29, 2020, total revenue attributable to Indonesia included \$14,987 of gain on sale of flight equipment. For the two months ended February 28, 2019, total revenue attributable to Indonesia was less than 10%.

(2) For the two months ended February 29, 2020, total revenue attributable to South Africa included \$38,305 of maintenance revenue and \$9,062 of security deposits recognized into revenue. For the two months ended February 28, 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”) as of the dates indicated below was as follows:

Region	February 29, 2020		December 31, 2019	
	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Asia and Pacific	90	38 %	94	38 %
Europe	99	27 %	99	26 %
Middle East and Africa	15	6 %	16	7 %
North America	40	13 %	40	13 %
South America	26	15 %	26	15 %
Off-lease	2 ⁽¹⁾	1 %	3 ⁽²⁾	1 %
Total	272	100 %	278	100 %

(1) Consisted of one Airbus A330-200 aircraft, which was delivered to a customer in Europe in August 2020, and one 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 in February 2020, one Airbus A330-200 aircraft, was delivered to a customer in Europe in August 2020, and one Boeing 737-800 aircraft, which was sold in February 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:

Country	February 29, 2020			December 31, 2019		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
India	\$ 917,793	12%	4	\$ 924,190	12%	4

At February 29, 2020 and December 31, 2019, the amounts of lease incentive liabilities recorded in maintenance payments on our Consolidated Balance Sheets were \$10,076 and \$9,176, respectively.

Note 4. Net Investment in Leases

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

	February 29, 2020	December 31, 2019
Lease receivable	\$ 166,060	\$ 164,816
Unguaranteed residual value of flight equipment	266,750	254,580
Net investment leases	432,810	419,396
Allowance for credit losses	(6,558)	—
Net investment in leases, net of allowance	\$ 426,252	\$ 419,396

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The activity in the allowance for credit losses related to our net investment in leases for the two months ended February 29, 2020 is as follows:

	Amount
Balance at December 31, 2019	\$ —
Adoption of accounting standard	6,270
Provision for credit losses	288
Balance at February 29, 2020	<u>\$ 6,558</u>

At February 29, 2020, future lease payments on net investment in leases are as follows:

Year Ending February 29/28,	Amount
Remainder of 2020	\$ 51,302
2021	45,936
2022	33,270
2023	28,523
2024	10,232
Thereafter	21,989
Total lease payments to be received	191,252
Present value of lease payments - lease receivable	(166,060)
Difference between undiscounted lease payments and lease receivable	<u>\$ 25,192</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 \$325,585 at February 29, 2020.

	Amount
Investment in joint ventures at December 31, 2019	\$ 32,974
Earnings from joint venture, net of tax	496
Investment in joint venture at February 29, 2020	<u>\$ 33,470</u>

Note 6. Variable Interest Entities

Aircastle consolidates four 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 the six aircraft discussed below.

ECA Financings

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the “Air Knight VIEs”), entered into six different twelve-year term loans supported by guarantees from Compagnie Française d'Assurance pour le Commerce Extérieur (“COFACE”), which has subsequently been renamed “BPI France”, the French government sponsored export credit agency (“ECA”). We refer to these BPI France-supported financings as “ECA Financings.”

Aircastle is the primary beneficiary of the Air Knight VIEs, as we have the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through our net investment in leases. The activity that most significantly impacts the economic

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performance is the leasing of aircraft of which our wholly owned subsidiary is the servicer and is responsible for managing the relevant aircraft. There is a cross collateralization guarantee between the Air Knight VIEs. In addition, Aircastle guarantees the debt of the Air Knight VIEs.

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 February 29, 2020 of \$310,950, were included in our flight equipment held for lease. During February 2020, for four of the six aircraft owned by the Air Knight VIEs, we repaid the principal and accrued interest amounts outstanding under our ECA financings of \$95,128 and incurred early extinguishment costs of \$3,955. The consolidated debt outstanding, net of debt issuance costs, of the Air Knight VIEs as of February 29, 2020 is \$49,989.

Note 7. Secured and Unsecured Debt Financings

The outstanding amounts of our secured and unsecured debt financings as of the dates indicated below are as follows:

Debt Obligation	At February 29, 2020			Final Stated Maturity	At December 31, 2019
	Outstanding Borrowings	Number of Aircraft	Interest Rate		Outstanding Borrowings
Secured Debt Financings:					
ECA Financings ⁽¹⁾	\$ 50,745	2	3.49% to 3.96%	12/03/21 to 11/30/24	\$ 147,644
Bank Financings ⁽²⁾	971,693	34	3.13% to 4.55%	06/17/23 to 01/19/26	993,593
Less: Debt issuance costs and discounts	(9,920)	—			(11,892)
Total secured debt financings, net of debt issuance costs and discounts	<u>1,012,518</u>	<u>36</u>			<u>1,129,345</u>
Unsecured Debt Financings:					
Senior Notes due 2020	300,000		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		3.36%	03/07/22 to 03/07/24	215,000
Revolving Credit Facilities	100,000		3.11%	12/27/21 to 6/27/22	150,000
Less: Debt issuance costs and discounts	(30,765)				(32,509)
Total unsecured debt financings, net of debt issuance costs and discounts	<u>3,884,235</u>				<u>3,932,491</u>
Total secured and unsecured debt financings, net of debt issuance costs and discounts	<u>\$ 4,896,753</u>				<u>\$ 5,061,836</u>

(1) The borrowings under these financings at February 29, 2020 have a weighted-average rate of interest of 3.62%. During February 2020, the Company repaid the principal amounts outstanding for four aircraft, which were not released as security for the loans as of February 29, 2020, due to the physical location of the aircraft - see Note 6.

(2) The borrowings under these financings at February 29, 2020 have a weighted-average fixed rate of interest of 3.78%.

At February 29, 2020, we had \$100,000 outstanding under our revolving credit facilities and had \$1,000,000 available for borrowing.

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As of February 29, 2020, we were in compliance with all applicable covenants in our financings.

Note 8. Shareholders' Equity and Share-Based Payment

During the two months ended February 29, 2020, the Company incurred share-based compensation expense of \$2,044 and \$8,634 related to remaining outstanding restricted common shares and remaining outstanding Performance Share Units ("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. No new share-based awards were granted under the Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan during the two months ended February 29, 2020.

The Company also repurchased 73,903 shares totaling \$2,369 from our employees and directors to settle tax obligations related to share vesting.

As of February 29, 2020, there was \$4,835 and \$23,214 of unrecognized compensation cost related to restricted common share-based payments and PSUs respectively, which was ultimately recognized upon completion of the Merger on March 27, 2020.

Note 9. Earnings per Share

We include all common shares granted under our incentive compensation plan which remain unvested ("restricted common shares") and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid ("participating securities"), in the number of shares outstanding in our basic earnings per share calculations using the two-class method. All our restricted common shares are currently participating securities. Our PSUs are contingently issuable shares which are included in our diluted earnings per share calculations which do not include voting or dividend rights.

Under the two-class method, earnings per common share is computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted-average shares outstanding during the period.

	Two Months Ended February 29/28,	
	2020	2019
Weighted-average shares:		
Common shares outstanding	74,989,482	74,732,378
Restricted common shares	126,971	389,284
Total weighted-average shares	75,116,453	75,121,662
Percentage of weighted-average shares:		
Common shares outstanding	99.83 %	99.48 %
Restricted common shares	0.17 %	0.52 %
Total percentage of weighted-average shares	100.00 %	100.00 %

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The calculations of both basic and diluted earnings per share are as follows:

	Two Months Ended February 29/28,	
	2020	2019
Earnings per share – Basic:		
Net income	\$ 3,659	\$ 17,512
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽¹⁾	(6)	(91)
Earnings available to common shareholders – Basic	<u>\$ 3,653</u>	<u>\$ 17,421</u>
Weighted-average common shares outstanding – Basic	<u>74,989,482</u>	<u>74,732,378</u>
Earnings per common share – Basic	<u>\$ 0.05</u>	<u>\$ 0.23</u>
Earnings per share – Diluted:		
Net income	\$ 3,659	\$ 17,512
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽¹⁾	(6)	(91)
Earnings available to common shareholders – Diluted	<u>\$ 3,653</u>	<u>\$ 17,421</u>
Weighted-average common shares outstanding – Basic	74,989,482	74,732,378
Effect of dilutive shares ⁽²⁾	499,967	489,424
Weighted-average common shares outstanding – Diluted	<u>75,489,449</u>	<u>75,221,802</u>
Earnings per common share – Diluted	<u>\$ 0.05</u>	<u>\$ 0.23</u>

(1) For the two months ended February 29, 2020 and February 28, 2019, distributed and undistributed earnings to restricted shares were 0.17% and 0.52%, respectively, of net income. The amount of restricted share forfeitures for both periods presented are immaterial to the allocation of distributed and undistributed earnings.

(2) For both periods presented, dilutive shares represented contingently issuable shares.

Note 10. 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 from continuing operations before income taxes and earnings of our unconsolidated equity method investments for the two months ended February 29, 2020 and February 28, 2019 were as follows:

	Two Months Ended February 29/28,	
	2020	2019
U.S. operations	\$ 3,084	\$ 1,229
Non-U.S. operations	1,754	15,424
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	<u>\$ 4,838</u>	<u>\$ 16,653</u>

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.

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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.

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

	Two Months Ended February 29/28,	
	2020	2019
Notional U.S. federal income tax expense at the statutory rate	\$ 1,016	\$ 3,497
U.S. state and local income tax, net	390	229
Non-U.S. operations:		
Bermuda	(1,845)	(4,020)
Ireland	(1,147)	2,382
Singapore	(6)	(5)
Other low tax jurisdictions	2,533	(739)
Non-deductible expenses in the U.S.	734	555
Other	—	(1,147)
Income tax provision	<u>\$ 1,675</u>	<u>\$ 752</u>

Note 11. Interest, Net

The following table shows the components of interest, net:

	Two Months Ended February 29/28,	
	2020	2019
Interest on borrowings and other liabilities	\$ 38,915	\$ 39,840
Amortization of deferred losses related to interest rate derivatives	—	184
Amortization of deferred financing fees and debt discount	2,446	2,252
Interest expense	41,361	42,276
Less: Interest income	(323)	(113)
Interest, net	<u>\$ 41,038</u>	<u>\$ 42,163</u>

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Note 12. Commitments and Contingencies

Rent expense, primarily for the corporate offices and sales and marketing offices, was \$278 and \$245 for the two months ended February 29, 2020 and February 28, 2019, respectively.

As of February 29, 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 February 29/28,</u>	<u>Amount</u>
Remainder of 2020	\$ 1,545
2021	1,887
2022	1,801
2023	1,692
2024	1,723
Thereafter	6,106
Total	<u>\$ 14,754</u>

At February 29, 2020, we had commitments to acquire 30 aircraft for \$1,080,599, including 25 Embraer E-Jet E2 aircraft.

Commitments, including \$115,858 of remaining progress payments, contractual price escalations and other adjustments for these aircraft, at February 29, 2020, net of amounts already paid, are as follows:

<u>Year Ending February 29/28,</u>	<u>Amount</u>
Remainder of 2020	\$ 186,689
2021	508,424
2022	192,507
2023	119,131
2024	73,848
Total	<u>\$ 1,080,599</u>

As of October 30, 2020, we had commitments to acquire 27 aircraft for \$1,104,502.

Note 13. Other Assets

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

	<u>February 29, 2020</u>	<u>December 31, 2019</u>
Deferred income tax asset	\$ 636	\$ 1,007
Lease incentives and lease premiums, net of amortization of \$63,010 and \$71,851, respectively	103,161	112,923
Flight equipment held for sale	13,083	333
Aircraft purchase deposits and Embraer E-2 progress payments	39,038	33,754
Right-of-use asset ⁽¹⁾	9,148	9,329
Other assets	41,551	43,863
Total other assets	<u>\$ 206,617</u>	<u>\$ 201,209</u>

(1) Net of lease incentives and tenant allowances.

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Note 14. 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:

	February 29, 2020	December 31, 2019
Accounts payable, accrued expenses and other liabilities	\$ 64,034	\$ 47,228
Deferred income tax liability	65,928	64,674
Accrued interest payable	62,196	44,694
Lease liability	12,510	12,800
Lease discounts, net of amortization of \$44,968 and \$44,696, respectively	2,446	2,718
Total accounts payable, accrued expenses and other liabilities	\$ 207,114	\$ 172,114

Note 15. Subsequent Event

Merger

On March 27, 2020, the Company successfully completed the Merger and is now controlled by affiliates of Marubeni Corporation and Mizuho Leasing. As a result of the Merger, Aircastle's shareholders (other than Marubeni Corporation and its affiliates) received cash consideration of \$32.00 per common share.

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 \$0.14048 comprised of 14,048 common shares of \$0.01 each.

As per 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 Parent which was recorded as an additional paid-in-capital as of the Merger Date.

Financing

On April 15, 2020, the Company repaid \$300,000 aggregate principal amount of 7.625% Senior Notes due 2020 due at their final stated maturity date.

On July 30, 2020, the Company entered into a \$150,000 unsecured revolving credit facility with Mizuho Bank Ltd., a related party. The facility bears interest at a rate of LIBOR plus 2%, or a base rate plus 1%, matures on July 31, 2021 and includes a one-year extension option.

On August 11, 2020 the Company issued \$650,000 aggregate principal amount of Senior Notes due 2025 (the "Senior Notes due 2025") at an issue price of 99.057%. The Senior Notes due 2025 will mature on August 11, 2025 and bear interest at a rate of 5.25% per annum, payable semi-annually on February 11 and August 11 of each year, commencing on February 11, 2021. Interest accrues on the Senior Notes due 2025 from August 11, 2020.

Aircraft Valuation

Subsequent to February 29, 2020 and through September 30, 2020, the Company recorded impairment charges related to eighteen 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 as of June 30, 2020. These eighteen aircraft were comprised of thirteen narrow-body and five wide-body aircraft. The Company recorded impairment charges totaling \$298,847 and recognized \$93,483 of maintenance revenue and \$12,990 of security deposits into revenue related to these aircraft.

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(Dollars in thousands, except per share amounts)
February 29, 2020

Embraer Commitment

Aircastle entered into an amendment to revise the delivery dates for various aircraft, including committed aircraft we are scheduled to deliver to Azul. A subsequent amendment added additional aircraft scheduled to be delivered from Aircastle to KLM Cityhopper, increasing that commitment from eleven to fifteen aircraft. We now have signed lease agreements for eighteen of these aircraft, which we expect to be delivered on lease to KLM and Azul between March 2021 and December 2025.

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” 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 Transition 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 (“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 February 29, 2020, we owned and managed on behalf of our joint ventures 281 aircraft leased to 85 lessees located in 47 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 February 29, 2020, the net book value (including flight equipment held for lease and net investment in leases, or “net book value”) was \$7.57 billion compared to \$7.79 billion at December 31, 2019. Our revenues and net income for the two months ended February 29, 2020 were \$197.6 million and \$3.7 million, respectively.

For an update on our business activities please see Note 15 for subsequent events included herein and our other public filings with the SEC.

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.

Acquisitions and Sales

During the first two months of 2020, we acquired one aircraft for \$25.0 million. As of October 30, 2020, we have acquired three additional aircraft. At February 29, 2020, we had commitments to acquire 30 additional aircraft for \$1.08 billion, including the acquisition of 25 new E-Jet E2 aircraft from Embraer, with the first delivery scheduled for the first quarter of 2021. Of this amount, approximately \$186.7 million represents commitments for the remainder of 2020. As of October 30, 2020, we have commitments to acquire 27 aircraft for \$1.10 billion.

During the first two months of 2020, we sold six aircraft for net proceeds of \$103.7 million, and recognized net gains on sales of \$15.4 million. As of October 30, 2020, we have sold three additional aircraft.

The following table sets forth certain information with respect to the aircraft owned by us as of February 29, 2020:

AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

	As of February 29, 2020 ⁽¹⁾	As of February 28, 2019 ⁽¹⁾
Owned Aircraft		
Net Book Value of Flight Equipment	\$ 7,569	\$ 7,415
Net Book Value of Unencumbered Flight Equipment	\$ 5,829	\$ 6,075
Number of Aircraft	272	250
Number of Unencumbered Aircraft	232	219
Number of Lessees	85	83
Number of Countries	47	44
Weighted Average Age (years) ⁽²⁾	10.0	9.3
Weighted Average Remaining Lease Term (years) ⁽²⁾	4.7	4.5
Weighted Average Fleet Utilization during the two months ended February 29, 2020 and February 28, 2019 ⁽³⁾	99.1 %	91.8 %
Managed Aircraft on behalf of Joint Venture		
Net Book Value of Flight Equipment	\$ 326	\$ 597
Number of Aircraft	9	13

(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 two months ended February 28, 2019, was due to the early termination of the leases for eleven aircraft from Avianca Brazil.

PORTFOLIO DIVERSIFICATION

Aircraft Type	Owned Aircraft as of February 29, 2020		Owned Aircraft as of February 28, 2019	
	Number of Aircraft	% of Net Book Value ⁽¹⁾	Number of Aircraft	% of Net Book Value ⁽¹⁾
Aircraft Type				
Passenger:				
Narrow-body	244	75 %	220	72 %
Wide-body	24	21 %	26	24 %
Total Passenger	268	96 %	246	96 %
Freighter	4	4 %	4	4 %
Total	272	100 %	250	100 %
Manufacturer				
Airbus	183	63 %	155	60 %
Boeing	84	36 %	90	39 %
Embraer	5	1 %	5	1 %
Total	272	100 %	250	100 %
Regional Diversification				
Asia and Pacific	90	38 %	81	37 %
Europe	99	27 %	88	28 %
Middle East and Africa	15	6 %	17	8 %
North America	40	13 %	35	10 %
South America	26	15 %	16	10 %
Off-lease	2 ⁽²⁾	1 %	13 ⁽³⁾	7 %
Total	272	100 %	250	100 %

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

(2) Consisted of one Airbus A330-200 aircraft, which was delivered to a lessee in Europe in August 2020, and one Boeing 737-800 aircraft, which we are marketing for lease or sale.

(3) Consisted of eleven Airbus A320-200 aircraft, ten of which were delivered on lease to a customer in South America from May - August 2019 and one of which was sold in March 2019, and two Airbus A330-200 aircraft, one of which was delivered on lease to a customer in South America in July 2019 and one of which was delivered to a customer in Europe in August 2020.

Our top ten customers with respect to aircraft we owned as of February 29, 2020, representing 112 aircraft and 42.6% 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
LATAM ⁽¹⁾	9.1%	Chile	13
IndiGo	8.4%	India	16
easyJet	5.0%	United Kingdom	30
Iberia	3.7%	Spain	15
Air Canada	3.6%	Canada	6
Aerolineas Argentinas	2.8%	Argentina	5
Interjet	2.7%	Mexico	11
American Airlines	2.6%	United States	7
AirBridgeCargo ⁽²⁾	2.4%	Russia	2
Jeju Air	2.3%	South Korea	7
Total top ten customers			112
All other customers			160
Total all customers			272

(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 \$16.90 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, unsecured and secured borrowings, 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 two months ended February 29, 2020 to the two months ended February 28, 2019:

	Two Months Ended February 29/28,	
	2020	2019
(Dollars in thousands)		
Revenues:		
Lease rental revenue	\$ 131,119	\$ 121,919
Direct financing and sales-type lease revenue	4,447	5,660
Amortization of lease premiums, discounts and incentives	(3,669)	(3,632)
Maintenance revenue	41,214	1,877
Total lease revenue	173,111	125,824
Gain on sale of flight equipment	15,354	4,173
Other revenue	9,183	384
Total revenues	197,648	130,381
Operating expenses:		
Depreciation	59,853	56,064
Interest, net	41,038	42,163
Selling, general and administrative	23,189	11,646
Impairment of flight equipment	62,657	—
Maintenance and other costs	1,703	3,480
Total operating expenses	188,440	113,353
Other expense:		
Loss on extinguishment of debt	(3,955)	—
Other	(415)	(375)
Total other expense	(4,370)	(375)
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	4,838	16,653
Income tax provision	1,675	752
Earnings of unconsolidated equity method investments, net of tax	496	1,611
Net income	\$ 3,659	\$ 17,512

Revenues

Total revenues increased by \$67.3 million for the two months ended February 29, 2020, as compared to the two months ended February 28, 2019.

Lease rental revenue. The increase in lease rental revenue of \$9.2 million for the two months ended February 29, 2020, as compared to the same period in 2019, was primarily attributable to the impact of 49 aircraft purchased since January 1, 2019, resulting in \$20.2 million of additional revenue. This increase was partially offset by an \$8.8 million decrease due to the sale of 22 aircraft since January 1, 2019.

Direct financing and sales-type lease revenue. For the two months ended February 29, 2020, \$4.4 million of interest income from direct financing and sales-type leases was recognized, as compared to \$5.7 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 2019.

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

	Two Months Ended February 29/28,	
	2020	2019
	(Dollars in thousands)	
Amortization of lease premiums	\$ (2,381)	\$ (2,682)
Amortization of lease discounts	272	951
Amortization of lease incentives	(1,560)	(1,901)
Amortization of lease premiums, discounts and incentives	<u>\$ (3,669)</u>	<u>\$ (3,632)</u>

Maintenance revenue. For the two months ended February 29, 2020, we recorded \$41.2 million of maintenance revenue, primarily comprised of \$38.3 million related to four wide-body aircraft due to a lessee default - see “Summary of Recoverability Assessment and Other Impairments” below. We also recorded maintenance revenue related to the scheduled lease expirations of one narrow-body aircraft during the two months ended February 29, 2020. For the same period in 2019, we recorded \$1.9 million of cash maintenance revenue received for ten narrow-body aircraft.

Gain on sale of flight equipment increased by \$11.2 million to \$15.4 million for the two months ended February 29, 2020, as compared to gains of \$4.2 million for the same period in 2019. We sold six aircraft during the two months ended February 29, 2020, as compared to the sale one aircraft during the two months ended February 28, 2019.

Other revenue increased by \$8.8 million to \$9.2 million for the two months ended February 29, 2020, as compared to \$0.4 million for the same period in 2019, primarily due to \$9.1 million of security deposits recognized into revenue related to four wide-body aircraft due to a lessee default.

Operating expenses

Total operating expenses increased by \$75.1 million for the two months ended February 29, 2020, as compared to the two months ended February 28, 2019.

Depreciation expense increased by \$3.8 million for the two months ended February 29, 2020 as compared to the same period in 2019. The increase is primarily the result of higher depreciation of \$8.0 million due to 49 aircraft acquired since January 1, 2019, partially offset by a decrease of \$4.3 million resulting from 22 aircraft sold since January 1, 2019.

Interest, net consisted of the following:

	Two Months Ended February 29/28,	
	2020	2019
	(Dollars in thousands)	
Interest on borrowings and other liabilities	\$ 38,915	\$ 39,840
Amortization of deferred losses related to interest rate derivatives	—	184
Amortization of deferred financing fees and debt discount	2,446	2,252
Interest expense	41,361	42,276
Less: Interest income	(323)	(113)
Interest, net	<u>\$ 41,038</u>	<u>\$ 42,163</u>

Interest, net decreased by \$1.1 million as compared to the two months ended February 28, 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 two months ended February 29, 2020 increased \$11.5 million as compared to the same period in 2019, primarily attributable to share-based compensation expense of \$10.7 million recognized as a result of the Merger.

Impairment of aircraft. We recorded impairment charges of \$62.7 million during the two months ended February 29, 2020 related to four wide-body aircraft due to a lessee default. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of impairment charges related to certain aircraft. No impairments

were recorded during the two months ended February 28, 2019.

Maintenance and other costs were \$1.7 million for the two months ended February 29, 2020, a decrease of \$1.8 million compared to the same period in 2019. The two months ended February 28, 2019 included higher than projected lessor contributions towards the cost of maintenance events for aircraft acquired with attached leases.

Other expense

Total other expense increased by \$4.0 million for the two months ended February 29, 2020, as compared to the two months ended February 28, 2019, primarily attributable to a \$4.0 million loss on the early repayment of secured debt for five aircraft.

Income tax provision

Our *provision for income taxes* for the two months ended February 29, 2020 and February 28, 2019 was \$1.7 million and \$0.8 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 increase in our income tax provision of \$0.9 million was primarily attributable to changes in operating income subject to tax in Ireland, the United States and other jurisdictions. The two months ended February 29, 2020, included net impairment charges of \$15.3 million in a low-tax jurisdiction.

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 \$38.3 million of maintenance revenue and \$9.1 million of security deposits into revenue during the first two months of 2020.

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 two months of 2020, we met our liquidity and capital resource needs with \$101.0 million of cash flow from operations and \$103.7 million of cash from aircraft sales.

As of February 29, 2020, the weighted-average maturity of our secured and unsecured debt financings was 3.3 years and we were in compliance with all applicable covenants.

As of October 30, 2020, we believe we have sufficient liquidity to meet all of our contractual obligations over the next twelve months and have \$1.69 billion 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

	Two Months Ended February 29/28,	
	2020	2019
	(Dollars in thousands)	
Net cash flow provided by operating activities	\$ 101,024	\$ 83,596
Net cash flow provided by (used in) investing activities	75,974	(50,470)
Net cash flow used in financing activities	(161,004)	(67,680)

Operating Activities:

Cash flow provided by operations was \$101.0 million and \$83.6 million for the two months ended February 29, 2020 and February 28, 2019, respectively. The increase in cash flow provided by operations of \$17.4 million for the two months ended February 29, 2020 versus the same period in 2019 was primarily a result of:

- a \$11.3 million increase in cash from working capital; and
- a \$7.9 million increase in cash from lease rentals, net of direct financing and sales-type leases.

These inflows were offset by a \$20.9 million increase in cash paid for interest.

Investing Activities:

Cash flow provided by investing activities was \$76.0 million and cash flow used in investing activities was \$50.5 million for the two months ended February 29, 2020 and February 28, 2019, respectively. The increase in cash flow provided by investing activities of \$126.4 million was primarily a result of a \$102.0 million increase in aircraft proceeds from the sale of flight equipment and a \$43.6 million decrease in the acquisition and improvement of flight equipment.

These inflows were offset by a \$21.8 million increase in aircraft purchase deposits and progress payments, net of returned deposits.

Financing Activities:

Cash flow used in financing activities was \$161.0 million and \$67.7 million for the two months ended February 29, 2020 and February 28, 2019, respectively. The increase in cash flow used in financing activities of \$93.3 million was primarily a result of a \$208.1 million increase in secured and unsecured debt financing repayments.

These outflows were offset by a \$100.0 million increase in proceeds from secured and unsecured financings and a \$9.1 million decrease in shares repurchased.

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 \$6.80 billion at February 29, 2020 from \$7.03 billion at December 31, 2019, primarily due to an decrease in borrowings under our ECA financings and revolving credit facilities.

The following table presents our actual contractual obligations and their payment due dates as of February 29, 2020:

Contractual Obligations	Payments Due by Period as of February 29, 2020				
	Total	1 year or less	2-3 years	4-5 years	More than 5 years
(Dollars in thousands)					
Principal payments:					
Senior Notes due 2020 - 2026	\$ 3,600,000	\$ 300,000	\$ 1,000,000	\$ 1,650,000	\$ 650,000
DBJ Term Loan	215,000	—	60,000	155,000	—
Revolving Credit Facilities	100,000	—	100,000	—	—
ECA Financings	50,745	14,322	22,492	13,931	—
Bank Financings	971,693	88,952	183,192	551,756	147,793
Total principal payments	4,937,438	403,274	1,365,684	2,370,687	797,793
Interest payments on debt obligations ⁽¹⁾	766,169	227,227	327,421	169,060	42,461
Office leases ⁽²⁾	14,754	1,862	3,652	3,425	5,815
Purchase obligations ⁽³⁾	1,080,599	230,236	694,962	155,401	—
Total	\$ 6,798,960	\$ 862,599	\$ 2,391,719	\$ 2,698,573	\$ 846,069

(1) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at February 29, 2020.

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

(3) At February 29, 2020, we had commitments to acquire 30 aircraft for \$1.08 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 October 30, 2020, we have commitments to acquire 27 aircraft for \$1.10 billion.

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 two months ended February 29, 2020 and February 28, 2019, we incurred a total of \$5.6 million and \$6.3 million, respectively, of capital expenditures (including lease incentives) related to the improvement of aircraft.

As of February 29, 2020, the weighted average age by net book value of our aircraft was approximately 10 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 a number of 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 is 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 February 29, 2020, the net book value of its nine aircraft was \$325.6 million.

Foreign Currency Risk and Foreign Operations

At February 29, 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 two months ended February 29, 2020, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$2.8 million in U.S. dollar equivalents and represented approximately 12% of total selling, general and administrative expenses (or 21% 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 two months ended February 29, 2020 and February 28, 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 to EBITDA and Adjusted EBITDA for the two months ended February 29, 2020 and February 28, 2019:

	Two Months Ended February 29/28,	
	2020	2019
	(Dollars in thousands)	
Net income	\$ 3,659	\$ 17,512
Depreciation	59,853	56,064
Amortization of lease premiums, discounts and incentives	3,669	3,632
Interest, net	41,038	42,163
Income tax provision	1,675	752
EBITDA	<u>109,894</u>	<u>120,123</u>
Adjustments:		
Impairment of flight equipment	62,657	—
Loss on extinguishment of debt	3,955	—
Non-cash share-based payment expense	10,678	1,602
Merger related expenses ⁽¹⁾	321	—
Loss on mark-to-market of interest rate derivative contracts	96	375
Adjusted EBITDA	<u>\$ 187,601</u>	<u>\$ 122,100</u>

(1) Included in Other expense.

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. 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 February 29, 2020 by \$4.0 million and \$2.8 million, respectively, over the next twelve months. As of February 29, 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 \$5.4 million and \$6.4 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 \$245.0 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 February 29, 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 February 29, 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 two months ended February 29, 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 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

Issuer Purchases of Equity Securities

On May 21, 2019, our prior Board of Directors increased the authorization to repurchase the Company's common shares to \$100.0 million from the \$76.0 million that was remaining under the previous authorization. During the first two months of 2020, we purchased our common shares as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽¹⁾</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs⁽¹⁾</u>
	(Dollars in thousands, except per share amounts)			
January 1 through January 31	73,903	\$ 32.07	—	\$ 90,351
February 1 through February 29	—	—	—	90,351
Total	<u>73,903</u>	<u>\$ 32.07</u>	<u>—</u>	<u>\$ 90,351</u>

(1) As a result of the Merger, 100% of our shares are now owned by Parent and Marubeni Aviation Holding Coöperatief U.A. and the share repurchase plan authorized by our prior Board has been canceled.

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>
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 Transition Report on Form 10-Q for the two months ended February 29, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of February 29, 2020 and December 31, 2019; (ii) Consolidated Statements of Income and Comprehensive Income for the two months ended February 29, 2020 and February 28, 2019; (iii) Consolidated Statements of Cash Flows for the two months ended February 29, 2020 and February 28, 2019; (iv) Consolidated Statements of Changes in Shareholders' Equity for the two months ended February 29, 2020 and February 28, 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.

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: November 12, 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 Transition 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: November 12, 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 Transition 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: November 12, 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 Transition Report on Form 10-Q of Aircastle Limited (the “Company”) for the two months ended February 29, 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: November 12, 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 Transition Report on Form 10-Q of Aircastle Limited (the “Company”) for the two months ended February 29, 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: November 12, 2020