Aircastle LTD
Form 10-K
February 26, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2013
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-32959
AIRCASTLE LIMITED
(Exact name of Registrant as Specified in its Charter)

Bermuda	98-0444035
(State or other Jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (203) 504-1020

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the Registrant's Common Shares based upon the closing price on the New York Stock Exchange on June 28, 2013 (the last business day of registrant's most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately $1,064.4 million. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 14, 2014, there were 80,767,562 outstanding shares of the registrant's common shares, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Documents of Which Portions Are Incorporated by Reference	Parts of Form 10-K into Which Portion Of Documents Are Incorporated
Proxy Statement for Aircastle Limited 2014 Annual General Meeting of Shareholders	Part III (Items 10, 11, 12, 13 and 14)

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SAFE HARBOR STATEMENT UNDER THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain items in this Annual Report on Form 10-K (this “report”), and other information we provide from time to time, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but 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, Adjusted EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as “anticipates,” “expects,” “intends,” “plans,” “project “believes,” “may,” “will,” “would,” “could,” “should,” “seeks,” “estimates” and variations on these words and similar expressi intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs 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 forward-looking statements contained in this report. Factors that could have a material adverse effect on our operations and future prospects or that could cause actual results to differ materially from Aircastle expectations include, but are not limited to, capital markets disruption or volatility which could adversely affect our continued ability to obtain additional capital to finance new investments or our working capital needs; government fiscal or tax policies, general economic and business conditions or other factors affecting demand for aircraft or aircraft values and lease rates; our continued ability to obtain favorable tax treatment in Bermuda, Ireland and other jurisdictions; our ability to pay dividends; high or volatile fuel prices, lack of access to capital, reduced load factors and/or reduced yields, operational disruptions caused by political unrest and other factors affecting the creditworthiness of our airline customers and their ability to continue to perform their obligations under our leases and other risks detailed from time to time in Aircastle's filings with the Securities and Exchange Commission (“SEC”), including as described in Item 1A. “Risk Factors” and elsewhere in this report. 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 release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

WEBSITE AND ACCESS TO COMPANY’S REPORTS

The Company’s Internet website can be found at www.aircastle.com. Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under “Investors — SEC Filings” as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

Statements and information concerning our status as a Passive Foreign Investment Company (“PFIC”) for U.S. taxpayers are also available free of charge through our website under “Investors — SEC Filings”.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are available free of charge through our website under “Investors — Corporate Governance”. In addition, our Code of Ethics for the Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, is available in print, free of charge, to any shareholder upon request to Investor Relations, Aircastle Limited, c/o Aircastle Advisor LLC, 300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902.

The information on the Company’s website is not part of, or incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

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PART I.

ITEM 1. BUSINESS

Unless the context suggests otherwise, references in this report to “Aircastle,” the “Company,” “we,” “us,” or “our” refer to Aircastle Limited and its subsidiaries. References in this report to “AL” refer only to Aircastle Limited. References in this report to “Aircastle Bermuda” refer to Aircastle Holding Corporation Limited and its subsidiaries. Throughout this report, when we refer to our aircraft, we include aircraft that we have transferred into grantor trusts or similar entities for purposes of financing such assets through securitizations and term financings. These grantor trusts or similar entities are consolidated for purposes of our financial statements. All amounts in this report are expressed in U.S. dollars and the financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”).

We acquire, lease, and sell commercial jet aircraft with large, global operator bases and long useful lives. As of December 31, 2013, our aircraft portfolio consisted of 162 aircraft leased to 64 lessees located in 37 countries. Our aircraft fleet is managed by an experienced team based in the United States, Ireland and Singapore. Typically, our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. As of December 31, 2013, the net book value of our flight equipment and finance lease aircraft was $5.19 billion compared to $4.78 billion at the end of 2012. Our revenues and net income for the year ended December 31, 2013 were $708.6 million and $29.8 million respectively, and for the fourth quarter 2013 were $192.0 million and $48.4 million, respectively.

Commercial air travel and air freight activity have been long-term growth sectors, broadly correlated with world economic activity and expanding at a rate of one to two times the rate of global GDP growth. The expansion of air travel has driven a rise in the world aircraft fleet. There are currently more than 17,000 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at an average annual rate, net of retirements, of approximately 3.6% through 2032. In addition, aircraft leasing companies own an increasing share of the world’s commercial jet aircraft, and now account for more than one-third of this fleet. Notwithstanding the sector’s long-term growth, the aviation markets have been, and are expected to remain, subject to economic cyclicality. The industry is also susceptible to external shocks, such as regional conflicts, terrorist events and to disruptions caused by severe weather events and other natural phenomena. Mitigating these risks is the portability of the assets, allowing aircraft to be redeployed in locations where demand is higher.

Air traffic data for 2013 showed a strengthening trend in passenger market growth. Air cargo traffic showed slow and steady improvement with a pick-up in world trade and economic growth during the second half of the year. According to the International Air Transport Association, during 2013 global passenger traffic increased by 5.2% and air cargo traffic, measured in freight ton kilometers, increased by 1.4% as compared to the same period in 2012. Passenger traffic growth was strong for most of 2013 driven by rising economic growth and business confidence. The air cargo market, which is more sensitive than the passenger sector to economic conditions, appears to have stabilized after weak performances in 2012 and 2011. The air cargo results were hampered by overcapacity and a muted response to a global economic rebound.

There are significant regional variations in both passenger and air cargo demand. Emerging market economies such as China, Turkey, and Indonesia, among others, have been experiencing significant increases in air traffic, driven by rising levels of per capita air travel. Air traffic in other regions such as the Middle East, is being driven by a more long-term structural change in global traffic flows, with more long-haul "hub and spoke" traffic flowing through the Persian Gulf. In contrast, more mature markets such as North America and Western Europe are likely to grow more slowly in tandem with their economies. Additionally, airlines operating in areas with political instability have seen more modest growth and their outlook is more uncertain. In aggregate, we believe that passenger and cargo traffic will likely increase over time, and as a result, we expect demand for modern, fuel efficient aircraft will continue to remain strong over the long-term.

Capital availability for aircraft has varied over time, but has improved over the past year as the world's debt and equity markets continued their recovery. Strong US debt capital markets conditions benefited certain borrowers by permitting access to financing at historic lows while higher fees have driven down export credit agency ("ECA") demand. Commercial bank debt continued to play a critical role in the air finance market with traditional aviation lenders, along with a number of new entrants, providing capacity to top tier airlines and lessors. Although financing for used aircraft has improved relative to the prior year as bank lenders and bond investors seek higher returns on investments, absolute levels of capacity remain

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low compared to new aircraft financing opportunities. We believe these market forces should generate attractive new investment and trading opportunities upon which we are well placed to capitalize given our access to the U.S. capital markets.

We intend to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels; however, our ability to pay quarterly dividends will depend upon many factors, including those described in Item 1A. "Risk Factors", and elsewhere in this report. Through the fourth quarter of 2013, the Company has paid dividends in 30 consecutive quarters. The table below is a summary of our quarterly dividend history for the years ended December 31, 2011, 2012 and 2013, respectively. These dividends may not be indicative of the amount of any future dividends.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount (Dollars in Thousands)	Record Date	Payment Date
December 6, 2010	$ 0.100	$ 7,964	December 31, 2010	January 14, 2011
March 8, 2011	$ 0.100	$ 7,857	March 31, 2011	April 15, 2011
June 27, 2011	$ 0.125	$ 9,364	July 7, 2011	July 15, 2011
September 14, 2011	$ 0.125	$ 9,035	September 30, 2011	October 14, 2011
November 7, 2011	$ 0.150	$ 10,839	November 30, 2011	December 15, 2011
February 17, 2012	$ 0.150	$ 10,865	February 29, 2012	March 15, 2012
May 2, 2012	$ 0.150	$ 10,847	May 31, 2012	June 15, 2012
August 1, 2012	$ 0.150	$ 10,464	August 31, 2012	September 14, 2012
November 5, 2012	$ 0.165	$ 11,493	November 30, 2012	December 14, 2012
February 18, 2013	$ 0.165	$ 11,268	March 4, 2013	March 15, 2013
May 1, 2013	$ 0.165	$ 11,297	May 31, 2013	June 14, 2013
August 2, 2013	$ 0.165	$ 13,330	August 30, 2013	September 13, 2013
October 29, 2013	$ 0.200	$ 16,163	November 29, 2013	December 13, 2013

Competitive Strengths

We believe that the following competitive strengths will allow us to capitalize on future growth opportunities in the global aviation industry:

- Flexible, disciplined acquisition approach and broad investment sourcing network. We evaluate the risk and return of any potential acquisition first as a discrete investment and then from a portfolio management perspective. To evaluate potential acquisitions, we employ a rigorous due diligence process focused on (i) cash flow generation with careful consideration of macro trends, industry cyclicality and product life cycles; (ii) aircraft specifications and maintenance condition; (iii) lessee credit worthiness and the local jurisdiction's rules for enforcing a lessor's rights; and (iv) other legal and tax implications. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, financial institutions and other aircraft owners. Since our formation in 2004, we have built our aircraft portfolio through more than 105 transactions with more than 65 counterparties.
- Strong capital raising track record and access to a wide range of financing sources. Aircastle is a publicly listed company and our shares trade on the New York Stock Exchange. Since our inception in late 2004, we have raised approximately $1.7 billion in equity capital from private and public investors as well as approximately $9.7 billion in debt capital for both growth and refinancing purposes. This debt capital has been sourced from a wide variety of providers demonstrating our funding expertise and flexibility in adapting to changing capital markets conditions. In

addition to our capital raising in the export credit agency-backed debt, commercial bank debt and the aircraft securitization markets for secured debt, we believe our access to the unsecured bond market continues to be a competitive differentiator. Additionally, we have expanded our shareholder base to include two long-term oriented international investors, Marubeni Corporation and Ontario Teachers' Pension Plan ("Teachers' ").

- Our capital structure is long-dated and provides investment flexibility. Our aircraft are currently financed under secured and unsecured debt financings with the earliest unsecured bond maturity date being in 2017, thereby limiting our near-term financial markets exposure on our owned aircraft portfolio. As such, we are free to deploy our capital base flexibly to take advantage of what we anticipate will be a more attractive investment environment. We also believe that our access to the unsecured bond market and our recently increased unsecured revolving

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line of credit, which are to some degree enabled by our large unencumbered asset base, allow us to pursue a flexible and opportunistic investment strategy.

- Experienced management team with significant expertise. Our management team has significant experience in the acquisition, leasing, financing, technical management, restructuring/repossession and sale of aviation assets. Additionally, most of our executive management team have worked together for more than five years. Our experience enables us to access a wide array of placement opportunities throughout the world and also pursue efficiently a broad range of potential investments and sales opportunities in the global aviation industry. With extensive industry contacts and relationships worldwide, we believe our management team is highly qualified to manage and grow our aircraft portfolio and to address our long-term capital needs.
- Significant experience in successfully selling aircraft throughout their life cycle. Since our formation, we have sold 60 aircraft with a gross purchase price in excess of $1.5 billion. These sales have generated total gains of approximately $110 million and have involved a wide range of aircraft types and buyers. In addition to sales of newer aircraft, we've also sold 37 aircraft 15 or more years old at the time of sale, with many of these being sold on an end-of-life, part-out disposition basis, where the airframe and engines (and other key components) are sold to different buyers. We believe this sales experience with older aircraft is an essential portfolio management skill.
- Diversified portfolio of modern aircraft. We have a portfolio of modern aircraft that is diversified with respect to lessees, geographic markets, end markets (i.e., passenger and freight), lease maturities and aircraft types. As of December 31, 2013, our aircraft portfolio consisted of 162 aircraft comprising a variety of passenger and freighter aircraft types that were leased to 64 lessees located in 37 countries. Our lease expirations are well dispersed, with a weighted average remaining lease term of 5.0 years for aircraft we owned at December 31, 2013. Over the next two years, only approximately 15% of our fleet by net book value has scheduled lease expirations, after taking into account lease commitments, providing the company with a long-dated base of contracted revenues. We believe our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.
- Global and scalable business platform. We operate through offices in the United States, Ireland and Singapore, using a modern asset management system designed specifically for aircraft operating lessors and capable of handling a significantly larger aircraft portfolio. We believe that our facilities, systems and personnel currently in place are capable of supporting an increase in our revenue base and asset base without a proportional increase in overhead costs.

Business Strategy

The overall financing environment has improved in recent years and aircraft owners generally have benefited from the low interest rate environment. Particularly strong conditions in the debt capital markets have provided select borrowers including Aircastle with access to attractively priced, flexible financing that gives them a competitive advantage over airlines and lessors that lack similar access. Moreover, traditional asset-based financing for aircraft from commercial banks remains limited, particularly for older aircraft.

We plan to grow our business and profits over the long-term by continuing to employ the following elements of our fundamental business strategy:

- Pursuing a disciplined, "value oriented" investment strategy. In our view, the relative values of different aircraft investments change over time. As a consequence, we maintain a "value oriented" investment strategy to seek out the best risk-adjusted return opportunities across the commercial jet market. To this end, we carefully evaluate investments across different aircraft models, ages, lessees and acquisition sources and re-evaluate these choices periodically as market conditions and relative investment values change. In this respect, we believe the financing flexibility offered through unsecured debt enables our value oriented strategy and provides us with a competitive advantage for many investment opportunities. We believe this approach is somewhat unique among the larger aircraft leasing companies.
- Investing in additional commercial jet aircraft and other aviation assets when attractively priced opportunities and cost effective financing are available. We believe the large and growing aircraft market, together with ongoing fleet replacements, will provide significant acquisition opportunities. We regularly evaluate potential aircraft acquisitions

and expect to continue our investment program through additional purchases when attractively priced opportunities and cost effective financing are available.

- Maintaining efficient access to capital from a wide range of sources. We believe the aircraft investment market is subject to forces related to the business cycle and , out strategy is to increase our purchase activity when prices

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are low and to emphasize asset sales when competition for assets is high. In order to implement this approach, we believe maintaining access to a wide variety of financing sources over the business cycle is very important. To that end, our strategy is to maintain corporate credit ratings from major ratings agencies, manage to strong credit metrics, own a large pool of unencumbered assets and increase our asset base so as to maintain good access to capital during a variety of business conditions.

- Selling assets when attractive opportunities arise and for portfolio management purposes. We pursue asset sales as opportunities arise over the course of the business cycle with the aim of realizing profits and reinvesting proceeds where more accretive investments are available. We also use asset sales for portfolio management purposes such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types and also to exit from an investment when a sale or part-out would provide the greatest expected cash flow for us.
- Leveraging our efficient operating platform and strong operating track record. We believe our team's capabilities in the global aircraft leasing market place us in a favorable position to source and manage new income-generating activities. We intend to continue to focus our efforts in areas where we believe we have competitive advantages, including new direct investments as well as ventures with strategic business partners.
- Intending to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels. However our ability to pay quarterly dividends will depend upon many factors, including those as described in Item 1A. “Risk Factors”, and elsewhere in this report. On October 29, 2013, our board of directors declared a regular quarterly dividend of $0.20 per common share, or an aggregate of $16.2 million for the three months ended December 31, 2013, which was paid on December 13, 2013 to holders of record on November 29, 2013. These dividends may not be indicative of the amount of any future dividends.

We also believe our team’s capabilities in the global aircraft leasing market place us in a favorable position to explore new income-generating activities as capital becomes available for such activities. We intend to continue to focus our efforts on investment opportunities in areas where we believe we have competitive advantages and on transactions that offer attractive risk/return profiles after taking into consideration available financing options. In any case, there can be no assurance that we will be able to access capital on a cost-effective basis, and a failure to do so could have a material adverse effect on our business, financial condition or results of operations.

Acquisitions and Sales

We originate acquisitions and sales through well-established relationships with airlines, other aircraft lessors, financial institutions and brokers, as well as other sources. We believe that sourcing such transactions both globally and through multiple channels provides for a broad and relatively consistent set of opportunities.

Our objective is to develop and maintain a diverse and stable operating lease portfolio; however, we review our operating lease portfolio periodically to sell aircraft opportunistically, to manage our portfolio diversification and to exit from aircraft investments when we believe that selling will achieve the maximum expected cash flow rather than reinvesting in and re-leasing the aircraft. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Acquisitions and Sales.”

We have an experienced acquisitions and sales team based in Stamford, Connecticut; Dublin, Ireland and Singapore that maintains strong relationships with a wide variety of market participants throughout the world. We believe that our seasoned personnel and extensive industry contacts facilitate our access to acquisition and sales opportunities and that our strong operating track record facilitates our access to debt and equity capital markets.

Potential investments and sales are evaluated by teams comprised of marketing, technical, credit, financial and legal professionals. These teams consider a variety of aspects before we commit to purchase or sell an aircraft, including price, specification/configuration, age, condition and maintenance history, operating efficiency, lease terms, financial condition and liquidity of the lessee, jurisdiction, industry trends and future redeployment potential and values, among other factors. We believe that utilizing a cross-functional team of experts to consider the investment parameters noted above will help us assess more completely the overall risk and return profile of potential acquisitions and will help us move forward expeditiously on letters of intent and acquisition documentation. Our letters of intent are typically non-binding prior to internal approval, and upon internal approval are binding subject to the fulfillment of customary closing conditions.

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Finance

We intend to fund new investments through cash on hand, cash flows from operations and through medium - to longer-term financings on a secured or unsecured basis. 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, 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Secured Debt Financings” and ”Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Unsecured Debt Financings.”

Segments

We operate in a single segment.

Aircraft Leases

Typically, we lease our aircraft on an operating lease basis. Under an operating lease, we retain the benefit, and bear the risk, of re-leasing and of the residual value of the aircraft upon expiration or early termination of the lease. Operating leasing can be an attractive alternative to ownership for airlines because leasing increases fleet flexibility, requires a lower capital commitment for the airline, and significantly reduces aircraft residual value risk for the airline. Under our leases, the lessees agree to lease the aircraft for a fixed term, although certain of our operating leases allow the lessee the option to extend the lease for an additional term or, in rare cases, terminate the lease prior to its expiration. As a percentage of lease rental revenue for the year ended December 31, 2013, our three largest customers, Martinair (including its affiliates, KLM, Transavia and Transavia France), South African Airways Pty. Ltd. and US Airways, Inc., accounted for 8%, 6% and 5%, respectively.

The scheduled maturities of our aircraft leases by aircraft type grouping currently are as follows, taking into account lease placement and renewal commitments as of December 31, 2013:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Off-Lease[2]	Total
A319/A320/A321	6	8	11	5	2	—	—	2	—	—	—	—	—	34
A330-200/300	—	—	3	11	1	2	1	4	—	—	2	2	—	26
737-300QC/400	5	4	1	1	—	—	—	—	—	—	—	—	—	11
737-700/800	10 [1]	8	9	4	8	1	4	—	—	—	—	—	—	44
747-400 Freighters	2	—	1	5	3	—	—	—	2	—	—	—	2	15
757-200	1	1	1	5	1	—	—	—	—	—	—	—	—	9
767-200ER/300ER	1	—	1	1	2	2	2	1	—	—	—	—	—	10
777-200ER/300ER	—	—	—	1	1	—	—	1	—	—	1	1	—	5
E195	—	—	—	—	—	—	—	—	—	1	4	—	—	5
Other Aircraft Types	—	2	—	—	1	—	—	—	—	—	—	—	—	3
Total	25 [1]	23	27	33	19	5	7	8	2	1	7	3	2	162

(1) Includes three Boeing 737-800 aircraft with scheduled lease expirations in 2013 that remain on lease during the transition process to a new customer which we expect to occur in the first quarter of 2014.

(2) Includes two Boeing 747-400 converted freighter aircraft, one of which is subject to a commitment to lease and the other is being marketed.

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2013 Lease Expirations and Lease Placements

We started 2013 with 19 aircraft having scheduled lease expirations in 2013 and we have leased, extended or sold all of these aircraft. During 2013 we also terminated nine leases prior to scheduled expiration, and we leased or sold seven of these aircraft. We repossessed the remaining two aircraft in the fourth quarter of 2013. One is subject to a commitment to lease and we are marketing the other aircraft.

2014 Lease Expirations and Lease Placements

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTOKINETIX, INC.
(Registrant)

Date: April 15, 2005 By: /s/ Dr. John Todd

Dr. John Todd
Chairman of the Board of Directors, CEO and CFO
(Principal Accounting Officer)

In accordance with the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/Dr. John Todd Dr. John Todd	Chief Executive Officer, President and Chairman Of The Board (Principal Executive and Financial Officer)	4/ 15, 2005
/s/Dr. Jean-Marie Dupuy Dr. Jean Marie Dupuy	Director	4/ 15, 2005

PROTOKINETIX, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
ProtoKinetix, Inc.

We have audited the accompanying balance sheet of Protokinetix, Incorporated (a development stage company) as of December 31, 2004, and the related statements of operations, stockholders' deficit, and cash flows for the years ended December 31, 2004 and 2003, and for the period from December 23, 1999 (date of inception) through December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Protokinetix, Incorporated (a development stage company) as of December 31, 2004, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003, and for the period from December 23, 1999 (date of inception) through December 31, 2004, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has not generated revenues or positive cash flows from operations and has an accumulated deficit of $6,682,834 at December 31, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plan regarding those matters is also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Peterson Sullivan PLLC

March 10, 2005
Seattle, Washington

PROTOKINETIX, INCORPORATED
(A Development Stage Company)

BALANCE SHEET

December 31, 2004

	ASSETS	
Current Asset		
Cash		$ 283,556
Computer Equipment, net		1,430
Intangible Assets		3,379,756
		$ 3,664,742
	LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities		
Due to outside management consultants		$ 393,850
Accounts payable		20,888
Accrued interest		23,100
	Total current liabilities	437,838
Convertible Note Payable		315,000
	Total liabilities	752,838
Stockholders' Equity		
Common stock, $.0000053 par value; 100,000,000 common shares authorized; 28,793,206 shares issued and outstanding		154
Common stock issuable; 6,950,000 shares		37
Additional paid-in capital		9,924,547
Stock subscriptions receivable		(330,000)
Deficit accumulated during the development stage		(6,682,834)
		2,911,904
		$3,664,742

See Notes to Financial Statements

PROTOKINETIX, INCORPORATED
(A Development Stage Company)

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2004 and 2003, and for the
Period from December 23, 1999 (Date of Inception) to December 31, 2004

	2004	2003	Cumulative During the Development Stage
Revenues	$ -	$ -	$ -
Expenses			
Professional fees	1,573,933	519,574	2,093,507
Consulting fees	3,460,613	661,390	4,122,003
Research and development	209,532	-	209,532
General and administrative	121,096	70,130	191,226
Interest	23,100		23,100
	5,388,274	1,251,094	6,639,368
Loss from continuing operations	(5,388,274)	(1,251,094)	(6,639,368)
Discontinued Operations			
Loss from operations of the discontinued segment	-	(11,651)	(43,466)
Net loss	$(5,388,274)	$(1,262,745)	$(6,682,834)
Net Loss per Common Share (basic and fully diluted)			
Continuing operations	$ (0.18)	$ (0.07)	
Discontinued operations	(0.00)	(0.00)	
Net loss per common share	$ (0.18)	$ (0.07)	
Weighted average number of common shares outstanding	29,941,359	17,153,955	

See Notes to Financial Statements

PROTOKINETIX, INCORPORATED
(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2004 and 2003, and for the
Period from December 23, 1999 (Date of Inception) to December 31, 2004

	Common Stock Shares	Common Stock Amount	Common Stock Issuable Shares	Common Stock Issuable Amount	Additional Paid-in Capital	Stock Subscriptions Receivable	Deficit Accumulated During the Development Stage	Total
Issuance of common stock, December 1999	9,375,000	$ 50	-	$ -	$ 4,950	$ -	$ -	$ 5,000
Net loss for period							(35)	(35)
Balance, December 31, 2000	9,375,000	50	-	-	4,950		(35)	4,965
Issuance of common stock, April 2001	5,718,750	30			15,220			15,250
Net loss for year							(16,902)	(16,902)
Balance, December 31, 2001	15,093,750	80	-	-	20,170		(16,937)	3,313
Net loss for year							(14,878)	(14,878)
Balance, December 31, 2002	15,093,750	80	-	-	20,170		(31,815)	(11,565)
Issuance of common stock for services:								
July 2003	2,125,000	11			424,989			425,000
August 2003	300,000	2			14,998			15,000
September 2003	1,000,000	5			49,995			50,000
October 2003	1,550,000	8			619,992			620,000
Issuance of common stock for licensing rights	14,000,000	74			2,099,926			2,100,000
Common stock issuable for			2,000,000	11	299,989			300,000

licensing rights								
Shares cancelled on September 30, 2003	(9,325,000)	(49)			49			-
Net loss for year							(1,262,745)	(1,262,745)
Balance, December 31, 2003	24,743,750	131	2,000,000	11	3,530,108	-	(1,294,560)	2,235,690
Issuance of common stock for services:								
March 2004	1,652,300	9			991,371			991,380
May 2004	500,000	3			514,997			515,000
July 2004	159,756	1			119,694			119,695
August 2004	100,000	1			70,999			71,000
October 2004	732,400	4			479,996			480,000
November 2004	650,000	4			454,996			455,000
December 2004	255,000	1			164,425			164,426
Common stock issuable for AFGP license			1,000,000	5	709,995			710,000
Common stock issuable for Recaf License			400,000	2	223,998			224,000
Warrants granted (for 3,450,000 shares) for services,								
October 2004					1,716,253			1,716,253
Options granted for services, October 2004					212,734			212,734
Stock subscriptions receivable			1,800,000	10	329,990	(330,000)		-
Warrants exercised:								-
August 2004			50,000		15,000			15,000
October 2004			600,000	3	134,997			135,000
December 2004			1,000,000	5	224,995			225,000
Options exercised, December			100,000	1	29,999			30,000

2004								
Net loss for period						-	(5,388,274)	(5,388,274)
Balance, December 31, 2004	28,793,206	$ 154	6,950,000	$ 37	$9,924,547	$ (330,000)	$ (6,682,834)	$2,911,904

See Notes to Financial Statements

PROTOKINETIX, INCORPORATED
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004 and 2003, and for the
Period from December 23, 1999 (Date of Inception) to December 31, 2004

	2004	2003	Cumulative During the Development Stage
Cash Flows from Operating Activities			
Net loss for period	$ (5,388,274)	$ (1,262,745)	$ (6,682,834)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation expense	253		253
Issuance of common stock for services and expenses	2,796,501	1,110,000	3,906,501
Warrants issued for consulting services	1,716,253		1,716,253
Stock options issued for consulting services	212,734		212,734
Changes in operating assets and liabilities			
Increase in amounts due to outside management consultants	270,984	122,866	393,850
Decrease in accounts payable	(20,660)	34,559	20,888
Increase in interest payable	23,100		23,100
Net cash flows (used in) provided by operating activities	(389,109)	4,680	(409,255)
Cash Flows from Investing Activities			
Acquisition of intangible assets	(45,756)		(45,756)
Purchase of computer equipment	(1,683)		(1,683)
Net cash flows used in investing activities	(47,439)		(47,439)
Cash Flows from Financing Activities			
Warrants exercised	375,000		375,000
Stock options exercised	30,000		30,000
Issuance of common stock for cash			20,250
Loan proceeds	315,000		315,000
Payment of shareholders' loans		(5,155)	
Net cash flows provided by (used in) financing activities	720,000	(5,155)	740,250
Net change in cash	283,452	(475)	283,556
Cash, beginning of period	104	579	
Cash, end of period	$ 283,556	$ 104	$ 283,556
Cash paid for interest	$ -	$ -	$ -
Cash paid for income taxes	$ -	$ -	$ -
Supplementary Information - Non-cash Transactions:			
Common stock issuable for acquisition of intangible assets	$ 934,000	$ -	$ 934,000

Stock subscriptions received	330,000	-	330,000

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. The Company and Significant Accounting Policies

The Company

Protokinetix, Incorporated (the "Company"), a development stage company, was incorporated under the laws of the State of Nevada on December 23, 1999. The Company was formed for the purpose of developing an internet-based listing site that would provide detailed commercial real estate property listings and related data. In 2003, the Company discontinued its original business plan and entered into the licensing agreement described below. Effective as of the date of the license agreement, the Company became a medical research company (still in the development stage.)

In 2003, the Company entered into an assignment of license agreement (the "Agreement") with BioKinetix, Inc., an Alberta, Canada, corporation. The Agreement provided the Company with an exclusive assignment of all of the rights (the "Rights") that BioKinetix possessed relating to two proprietary technologies that are being developed for the creation and commercialization of "superantibodies," an enhancement of antibody technology that makes ordinary antibodies much more lethal. In consideration, the Company's Board of Directors authorized the Company to issue 16,000,000 shares of its stock to the shareholders of BioKinetix. Also, the Company's existing directors agreed to resign and the Company cancelled 9,325,000 common shares owned by the former president (representing the majority of his shares). New Company directors were installed. In October 2003, 14,000,000 of the committed shares were issued. The remaining 2,000,000 shares are included in common stock issuable at December 31, 2004.

Going Concern

As shown in the financial statements, the Company has not developed a commercially viable product, has not generated any revenues to date and has incurred losses since inception resulting in a net accumulated deficit of $6,682,834 at December 31, 2004. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company will need additional working capital to continue its medical research or to be successful in any future business activities and continue to pay its liabilities. Therefore, continuation of the Company as a going concern is dependent upon obtaining the additional working capital necessary to accomplish its objective. Management is presently engaged in seeking additional working capital.

The accompanying financial statements do not include any adjustments to the recorded assets or liabilities that might be necessary should the Company fail in any of the above objectives and is unable to operate for the coming year.

Cash

Cash consists of funds held in checking accounts.

Computer Equipment

Computer equipment is stated at cost and is depreciated using straight-line methods over the estimated useful lives.

Intangible Assets

The intangible assets consist of license rights to proprietary medical research technologies. The cost of the license rights is stated at cost or the value of the shares issued by the Company to acquire the license rights. The cost is not amortized because the licenses have indefinite lives.

Intangible assets that have indefinite useful lives are not amortized but are tested annually for impairment. At December 31, 2004, management has determined that there is no impairment in the license rights that should be recorded against the carrying amount of the assets.

Due to Outside Management Consultants

The Company's offices are currently provided by outside management consultants and costs are allocated to the Company. The amounts due are unsecured, bear no interest and are due on demand.

Convertible Note Payable

On February 1, 2004, the Company executed a subscription agreement under which the Company issued to a corporation an 8% secured convertible note in exchange for $315,000. The note is due February 1, 2006, and is convertible into shares of the Company's common stock at the lower of $.30 per share or 70% of the average of the three lowest trading prices for the 30 days prior to the conversion date. No beneficial conversion feature was applicable to this convertible note.

Fair Value of Financial Instruments

Financial instruments consist of cash, stock subscriptions receivable, due to outside management consultants, accounts payable, accrued interest and convertible note payable. The fair value of these financial instruments approximates the carrying amounts due to the short-term nature.

Income Taxes

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax laws or rates.

Research and Development Costs

Research and development costs are expensed as incurred.

Earnings per Share

Basic loss per share is computed by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding in the period. The Company's stock split 1:75 on August 24, 2001. In April 2002, the Board of Directors approved a 2.5 for 1 split of the Company's stock. The accompanying financial statements are presented on a post-split basis. The loss per share for the years ended December 31, 2004 and 2003, have been adjusted accordingly. Diluted loss per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive securities. The effect of debt convertible into common shares was not included in the computation of diluted earnings per share for all periods presented because it was anti-dilutive due to the Company's losses. Common stock issuable is considered outstanding as of the original approval date for purposes of earnings per share computations.

Stock-Based Compensation

The Company has a stock-based equity incentive plan, which is described more fully in Note 4. The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for

Stock Issued to Employees", and related interpretations. No stock-based employee compensation cost is reflected in the net loss when options granted under the plan have an exercise price equal to or greater than the market value of the underlining common stock on the date of grant. No options have been granted to employees under the plan therefore no reconciliation is provided of the effects on net loss in applying the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Compensation for stock options and warrants to purchase stock granted to non-employees is measured using the Black-Scholes valuation model at the date of grant multiplied by the number of options or warrants granted. The issuance of common shares for services is recorded at the quoted price of the shares on the date the services are rendered.

Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

New Accounting Standards

Statement of Financial Accounting Standard ("SFAS") No. 151, Inventory Costs, is effective for fiscal years beginning after June 15, 2005. This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The adoption of SFAS 151 is expected to have no impact on the Company's financial statements.

SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions, is effective for fiscal years beginning after June 15, 2005. This statement amends SFAS No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in American Institute of Certified Public Accountants Statement of Position 04-2, Accounting for Real Estate Time-Sharing Transactions. The adoption of SFAS No. 152 is expected to have no impact on the Company's financial statements.

SFAS No. 123(R), Share-Based Payment, replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. This statement requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. The Company is required to apply this statement in the first interim period that begins after December 15, 2005. The adoption of SFAS No. 123(R) is expected to have no impact on the Company's financial statements.

SFAS No. 153, Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29, is effective for fiscal years beginning after June 15, 2005. This statement addresses the measurement of exchange of nonmonetary assets and eliminates the exception from fair-value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS No. 153 is expected to have no impact on the Company's financial statements.

FIN No. 46(R) revised FIN No. 46, "Consolidation of Variable Interest Entities," requiring the consolidation by a business of variable interest entities in which it is the primary beneficiary. The adoption of FIN No. 46 did not have an impact on the Company's financial statements.

The Emerging Issues Task Force ("EITF") reached consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1") which provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. The FASB issued FSP EITF 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Applications to Certain Investments'" which delays the effective date for the measurement and recognition criteria contained in EITF 03-1 until final application guidance is issued. The Company does not expect the adoption of this consensus or FSP to have a material impact on its financial statements.

The EITF reached a consensus on Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share ("EITF 04-8"), which addresses when the dilutive effect of contingently convertible debt instruments should be included in diluted earnings (loss) per share. EITF 04-8 is effective for reporting periods ending after December 15, 2004. The adoption of EITF 04-8 did not have an impact on diluted loss per share.

Note 2. Income Taxes

The Company is liable for taxes in the United States. As of December 31, 2004, the Company did not have any income for tax purposes and therefore, no tax liability or expense has been recorded in these financial statements.

The Company has tax losses of approximately $6,600,000 available to reduce future taxable income. The tax loss expires in years between 2022 and 2024.

The deferred tax asset associated with the tax loss carry forward is approximately $2,274,000. The Company has provided a valuation allowance against the deferred tax asset. The valuation allowance increased by $1,949,000 and $314,200 for 2004 and 2003, respectively.

Note 3. Discontinued Operations

In 2003, the Company signed the licensing agreement described in Note 1. This agreement changed the Company's business plan to that of a medical research company. Accordingly, the operating results related to the internet-based real estate listing segment have been presented as discontinued operations in these financial statements for all periods presented. There were no revenues for the years presented as loss from discontinued operations.

Note 4. Stock-Based Compensation

In 2003, the Company adopted its 2003 and 2004 Stock Incentive Plans. Each plan provides for the issuance of incentive and non-qualified shares of the Company's stock to officers, directors, employees and non-employees. The Board of Directors determines the terms of the shares or options to be granted, including the number of shares or options, the exercise price, and the vesting schedule, if applicable. In 2003 and 2004, the Company issued common shares from both plans to non-employee consultants for services rendered as follows:

Date	Number of Shares	Value per Share
2003:		
July, as restated	2,125,000	$0.05
August	300,000	$0.05
September, as restated	1,000,000	$0.05
October	1,550,000	$0.40
Total 2003	4,975,000	

Date	Number of Shares	Value per Share
2004:		
March	1,652,300	$0.60
May	500,000	$1.03
July	159,756	$0.75
August	100,000	$0.71
October	732,400	$0.65
November	650,000	$0.70
December	255,000	$0.65
Total 2004	4,049,456	

In addition, during 2004, the Company issued stock options to directors, advisors and consultants. A summary of the Company's outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	-	
Granted	400,000	$0.30
Exercised	(100,000)	$0.30
Outstanding at December 31, 2004	300,000	$0.30
Options exercisable at December 31, 2004	300,000	$0.30

The fair value of each option granted is estimated at the date of grant using the Black-Scholes option-pricing model. The assumptions used in calculating the fair value of the options granted were a risk-free interest rate of 4.75%, a one-year expected life (except for the options exercised for which a two-week expected life was used) and a dividend yield of 0.0%.

Note 5. Subsequent Event

In March 2005, 285,832 common shares were issued to convert $85,750 of the long-term convertible note payable.