

AI² Market Report

Asset Insight Index Market Report

Jet & Turboprop Aircraft – April 2015

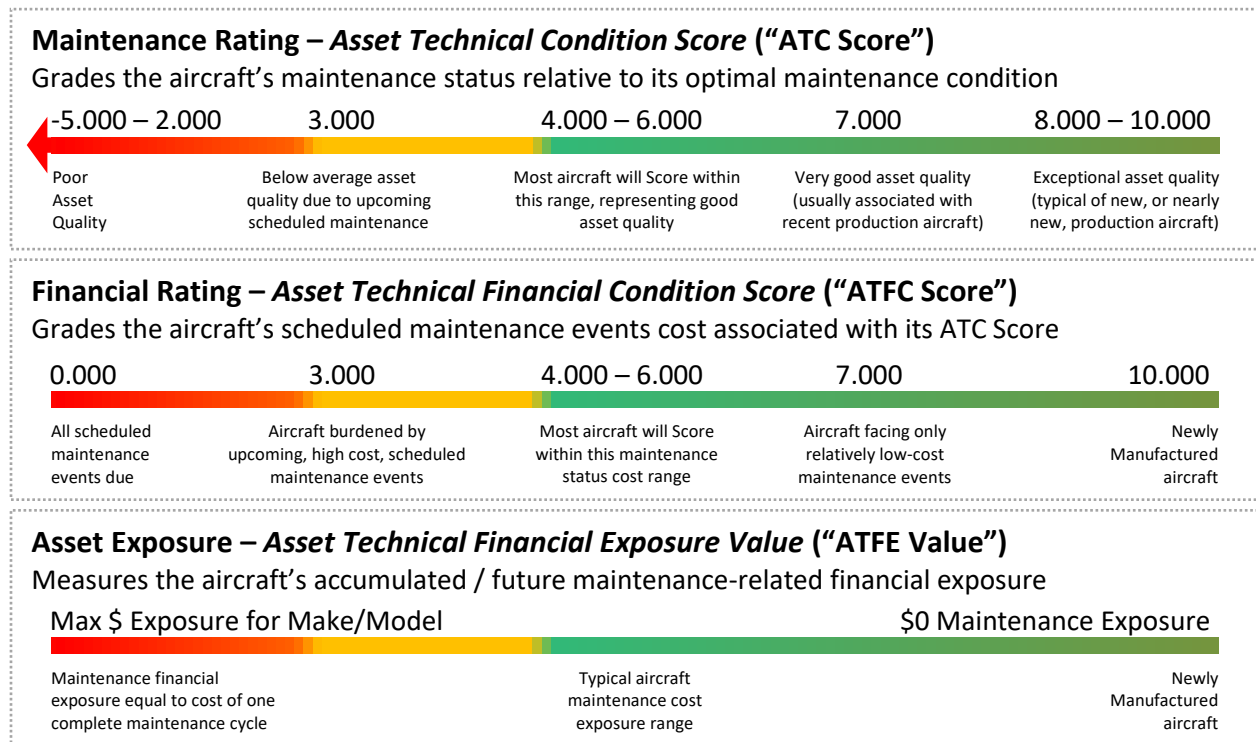


Welcome to the April 2015 issue of the Asset Insight Index Market Report (“AI² Market Report”), a quarterly publication from Asset Insight. The “AI² Market Report” utilizes Asset Insight’s proprietary Asset Grading System Process™ (AGSP) to analyze the average maintenance condition of jet and turboprop aircraft listed for sale as of March 31st, 2015 (Source: AMSTAT www.amstatcorp.com).

The AGSP is based on patented algorithms analyzing current age, flight hours and cycles on an aircraft’s systems and Major Sectors – airframe, engine(s), propeller(s), APU, paint, and passenger interior – as well as the typical cost to repair or replace parts with no defined life. The Process provides a standardized scale that enables buyers, sellers, financiers and other interested parties to:

- Objectively analyze and grade an aircraft’s maintenance condition relative to the manufacturer’s approved maintenance program.
- Compare any aircraft’s maintenance condition to another aircraft listed for sale to justify an asking or offering price for a listed aircraft.

The Asset Insight Index, derived from the AGSP, evaluates three aspects of an aircraft’s maintenance. Following is an explanation of each Index component and what the figures represent (see pages 10 - 11):



The AI² Market Report also analyzes the **Asset Exposure to Price Ratio (“ETP Ratio”)**. Representing an aircraft’s “debt ratio,” the ETP Ratio (see page 8) is calculated by dividing the Asset Exposure value by the aircraft’s Ask Price. Accordingly, ***as the ETP Ratio decreases, an aircraft’s “value” increases*** (in relation to its Ask Price). Conversely, aircraft whose ETP Ratio exceeds 40% are burdened, on average, with an excessive level of Asset Exposure in relation to their Ask Price (see page 11).

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Overall Market

Summary: excellent overall asset quality; improved Ask Price; much higher Asset Maintenance Exposure

Asset quality for the 80 fixed-wing models and 1,583 aircraft listed “for sale” researched on March 31st revealed little change in the average Maintenance Rating and an 11.0 AI² basis point improvement in the Financial Rating. Our first semi-annual cost data load took place in January and Asset Exposure was negatively impacted by the latest maintenance cost figures – as reflected by a 34% Asset Exposure increase equaling nearly \$490k.

Of the aircraft models we track (see page 9), 46.6%, versus December’s 38.2%, generated an Asset Exposure vs. Ask Price Ratio (“ETP Ratio”) of 40% or more. We consider an ETP Ratio above the 40% level to be excessive in relation to aircraft Ask Price (see page 8), and while March’s Ratio of 61.4% is an improvement over January’s 64.5%, it undoubtedly represents a troubling figure for many Sellers.

Ask Prices increased by \$70k over the past 90 days, and now average \$6.17 Mil – a 12-month high. However, effect on the overall market was minor, as Small Jets was the only sector whose prices rose as a group.

By way of year-over-year comparison:

- Maintenance and Financial Ratings improved by 6.2 and 21.4 AI² basis point, respectively, since last April.
- While asset quality one year ago was “Very Good,” the current overall rating is “Excellent.”
- The substantively worse Asset Exposure figure (up nearly \$638k – a 50% increase) is primarily due to higher average maintenance costs.

Quality assets are readily available, but increasing maintenance costs are accelerating financial obsolescence for many aircraft. With nearly 47% of the models we track averaging an ETP Ratio in excess of forty percent, **as much as half the “for sale” fleet may be resting with the aircraft’s final owner.** Realistic trading opportunities for these assets lie in the current owner’s use of Hourly Cost Maintenance Program coverage to favorably adjust the asset’s Maintenance Exposure, or locating an entity seeking a “disposable aircraft.”

AI² Index – Monthly Comparison – Overall Market

	Maintenance Rating "ATC Score"	Financial Rating "ATFC Score"	Asset Exposure "ATFE Value"
Optimal	10.000	10.000	
Dec '14	5.436	4.977	\$1,422,989
Mar '15	5.431	5.087	\$1,912,577
Minimal	-5.000	0.000	
Change	↓ 0.005	↑ 0.110	↑ \$489,588

AI² Index – Market Trend – Overall Market



Source for all graphs: AMSTAT (www.amstatcorp.com), Asset Insight research

Large Jets

Summary: excellent quality; lower Ask Price; higher Asset Exposure; high ETP Ratio, but best among all groups

Maintenance Rating for the 30 models and 468 aircraft researched on March 31st decreased steadily throughout the past 90 days, falling 24.9 AI² basis points. The group's Financial Rating saw virtually no change, while Asset Exposure worsened by nearly 17.4%. Seven of the group's models registered a maintenance Exposure to Price Ratio of 40% or more (see page 8), and the group's ETP Ratio worsened to 41.3% from December's 31.7%. Compared to April 2014, Large Jets reflected the following Index changes:

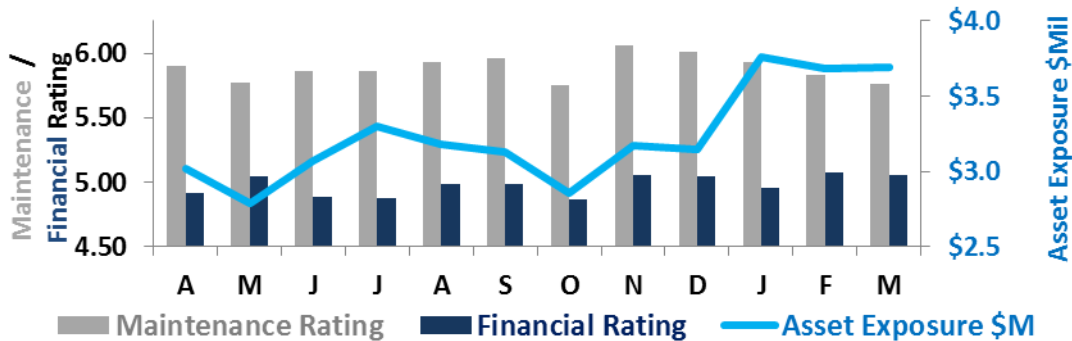
- Maintenance and Financial Ratings decreased by 13.4 and 11.2 AI² basis points, respectively.
- Asset Exposure worsened over \$828k (28.9%), primarily due to major maintenance event cost increases.

Large Jet asset quality dropped from "Outstanding" to "Excellent," but still registered the best asset quality among the four groups. With average Ask Price approximately one million below the group's 12-month average, serious buyers should do more than take notice – they should act.

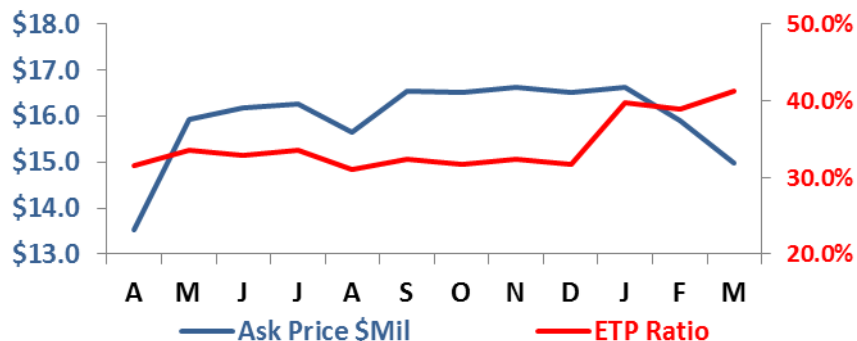
AI² Index – Monthly Comparison – Large Jets

	Maintenance Rating "ATC Score"	Financial Rating "ATFC Score"	Asset Exposure "ATFE Value"
Optimal	10.000	10.000	
Dec '14	6.006	5.047	\$3,147,258
Mar '15	5.757	5.058	\$3,693,385
Minimal	-5.000	0.000	
Change	↓ 0.249	↑ 0.011	↑ \$546,127

AI² Index – Market Trend – Large Jets



Ask Price vs. Asset Exposure to Ask Price Ratio ("ETP Ratio") – Large Jets



Source: AMSTAT (www.amstatcorp.com), Asset Insight research

Medium Jets

Summary: excellent asset quality; above average Ask Price; higher Asset Exposure; worsening ETP Ratio

Asset quality for the 26 tracked models and 467 aircraft researched on March 31st evidenced virtually no Maintenance Rating change, while the Financial Rating improved by 14.6 AI² basis points. As with all other groups, Asset Exposure worsened quite dramatically, due to revised maintenance cost figures, increasing by \$460k. The ETP Ratio for Medium Jets worsened to 64.8%, from December's 45.5%, with 15 of the 26 tracked models (nearly 58%) posting a Ratio of 40% or more (see page 8). Year over year, Medium Jet asset quality compared as follows:

- Maintenance and Financial Ratings improved by 7.1 and 32.3 AI² basis points, respectively.
- Asset Exposure worsened, increasing more than \$550k (nearly 52%).

Medium Jets once again attained an "Excellent" Rating to rank second relative to asset quality. Although the current \$3.72 Mil Ask Price reflects a \$60k reduction over the past 90 days, prices are still above the 12-month average, offering many Sellers the opportunity to capitalize on the group's high asset quality and reasonable price.

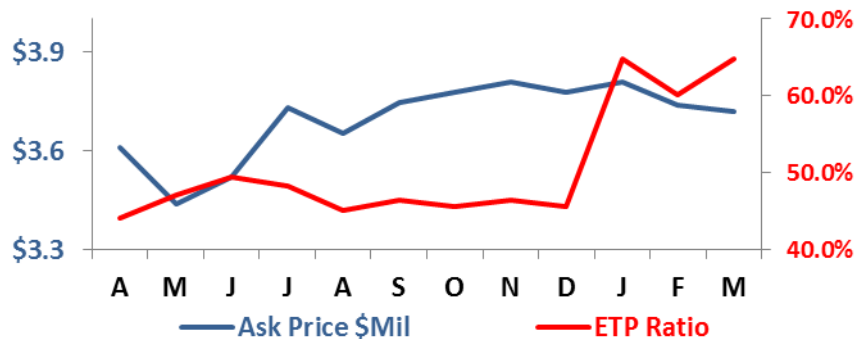
AI² Index – Monthly Comparison – Medium Jets

	Maintenance Rating "ATC Score"	Financial Rating "ATFC Score"	Asset Exposure "ATFE Value"
Optimal	10.000	10.000	
Dec '14	5.442	5.073	\$1,149,569
Mar '15	5.435	5.219	\$1,609,496
Minimal	-5.000	0.000	
Change	↓ 0.007	↑ 0.146	↑ \$459,927

AI² Index – Market Trend – Medium Jets



Ask Price vs. Asset Exposure to Ask Price Ratio ("ETP Ratio") – Medium Jets



Source: AMSTAT (www.amstatcorp.com), Asset Insight research

Small Jets

Summary: very good overall asset quality; 12-month high Ask Price; worst ETP Ratio among all groups

Small Jet Maintenance and Financial Ratings for the 13 models and 334 aircraft researched on March 31st improved by 14.7 and 13.8 AI² basis points, respectively. Regrettably, as with all other groups, Asset Exposure increased by more than \$318k due to updated maintenance cost figures. Six of the models we reviewed generated an ETP Ratio (see page 8) in excess of 40%, with the group's Ratio registering 88.9% from December's 65.6%, and January's record worst 101.1%. Ask Price did increase 10.8% to \$1.95 Million, a 12-month peak figure. Compared to April 2014, Small Jet stats changed as follows:

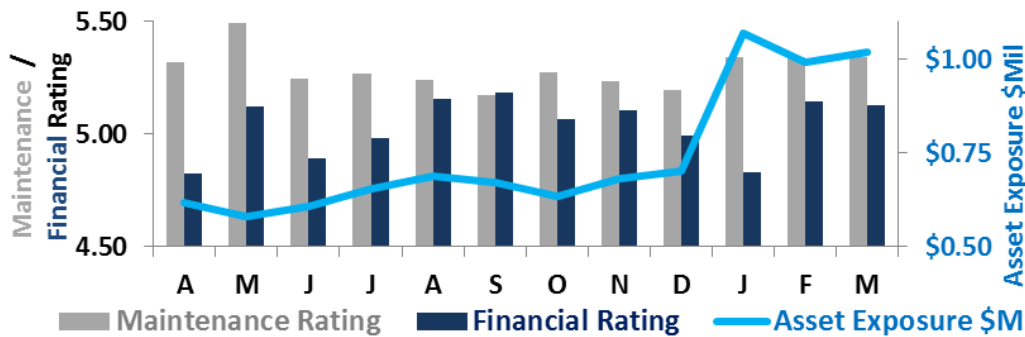
- Maintenance and Financial Ratings improved by 6.5 and 26.7 AI² basis points, respectively.
- Asset Exposure worsened, increasing more than \$415k, or nearly 69%.

Small Jet Ratings improved during the past quarter, allowing them to maintain third place relative to asset quality. While the group's Ask Price increase was admirable, the latest record Asset Exposure figure did not allow the group to recover much from its high ETP Ratio. Still, Small Jet asset quality is "Very Good," affording prospective Buyers the opportunity to identify some good values while, potentially, allowing Sellers to secure a good price.

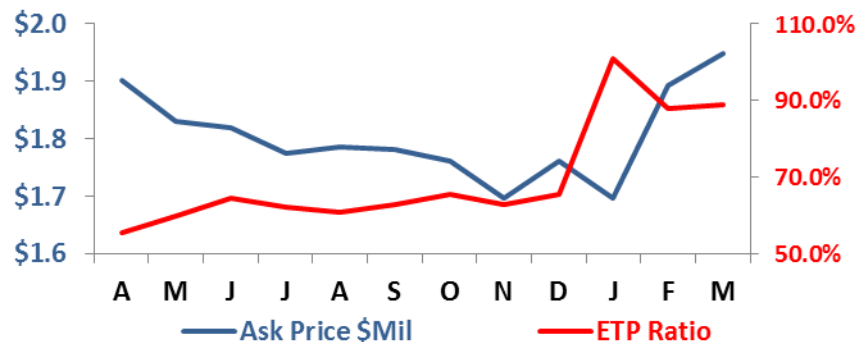
AI² Index – Monthly Comparison – Small Jets

	Maintenance Rating "ATC Score"	Financial Rating "ATFC Score"	Asset Exposure "ATFE Value"
Optimal	10.000	10.000	
Dec '14	5.194	4.993	\$700,200
Mar '15	5.341	5.131	\$1,018,444
Minimal	-5.000	0.000	
Change	↑ 0.147	↑ 0.138	↑ \$318,244

AI² Index – Market Trend – Small Jets



Ask Price vs. Asset Exposure to Ask Price Ratio ("ETP Ratio") – Small Jets



Source: AMSTAT (www.amstatcorp.com), Asset Insight research

Turboprops

Summary: very good asset quality; below average Ask Price; worsening Asset Exposure and “ETP” Ratio

For the 11 models and 314 aircraft researched on March 31st, Maintenance Rating remained virtually unchanged, while Financial Rating improved 13.1 AI² basis points. Asset Exposure did not move in the right direction, increasing 19.4%. Six of the models we track had an Exposure to Price Ratio of 40% or more (see page 8), and the group’s ETP Ratio, while second best among all groups, recorded a worsening figure of 55.0% from December’s 41.8%. The group’s Ask Price posted an increase of \$100k over December to reach \$1.57 Mil, but that was still less than the sector’s 12-month average. Compared to April 2014, Turboprop:

- Maintenance and Financial Ratings improved by 22.4 and 11.1 AI² basis points, respectively.
- Asset Exposure worsened, increasing nearly \$134k, more than 24%.

Turboprops entered 2015 offering good asset quality and, although still lowest among all sectors, the group’s Ratings further improved over the past 90 days. With an Ask Price shy of the group’s 12-month average, the present climate should allow Buyers and Sellers to structure mutually beneficial transactions.

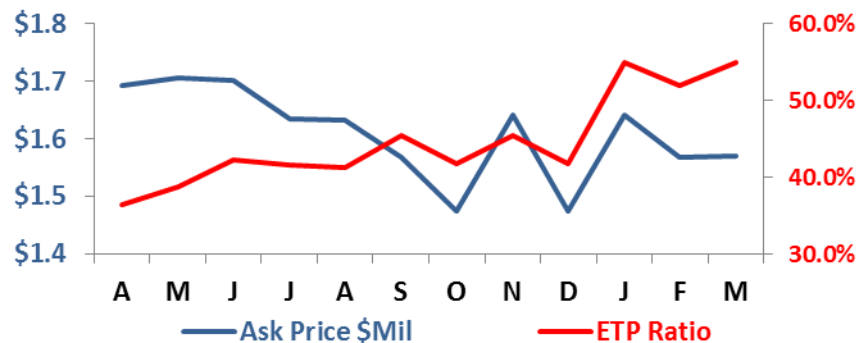
AI² Index – Monthly Comparison - Turboprops

	Maintenance Rating "ATC Score"	Financial Rating "ATFC Score"	Asset Exposure "ATFE Value"
Optimal	10.000	10.000	
Dec '14	5.014	4.735	\$574,753
Mar '15	5.027	4.866	\$686,332
Minimal	-5.000	0.000	
Change	↑ 0.013	↑ 0.131	↑ \$111,579

AI² Index – Market Trend - Turboprops



Ask Price vs. Asset Exposure to Ask Price Ratio (“ETP Ratio”) – Turboprops

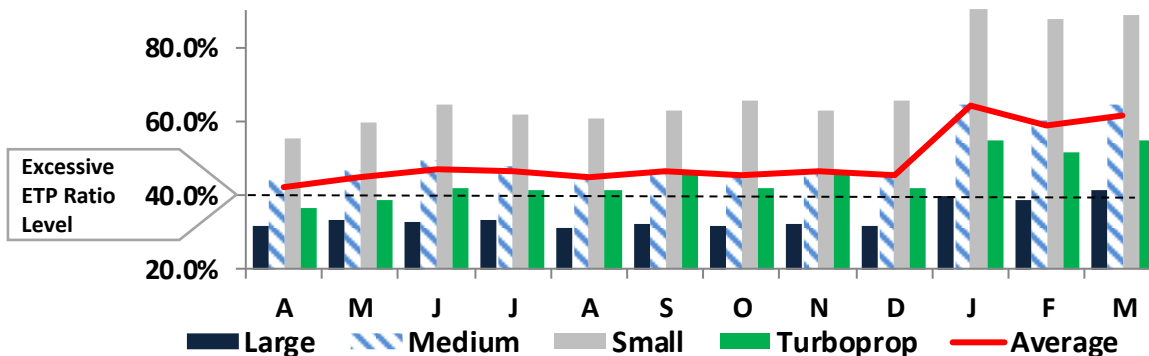


Source: AMSTAT (www.amstatcorp.com), Asset Insight research

Exposure to Price Ratio (“ETP Ratio”)

Spread in the ratio of Asset Exposure to aircraft Ask Price (“ETP Ratio”) widened for the sixth consecutive month, with the average registering below January’s record high but, at 61.4%, still nearly sixteen percentage points above December’s figure. We consider anything over 40% to represent excessive Asset Exposure in relation to Ask Price, and the industry average has been above 40% for each of the past 12 months. Average prices did increase slightly, thanks to Small Jets, but updated maintenance costs (uploaded in January) negatively affected all ETP Ratios.

ETP Ratio by Jet and Turboprop Aircraft Group



ETP Ratio by Aircraft Model

Model	ETP Ratio	Model	ETP Ratio	Model	ETP Ratio
F900LX	3.3%	Learjet 60XR	24.9%	Falcon 50	59.0%
Boeing BBJ	4.8%	Falcon 2000	25.2%	Premier 1	59.6%
F2000LX	8.7%	Global 5000	25.5%	Piaggio P-180 II	61.7%
F900EX EASy	9.8%	Citation Encore	26.1%	Citation V Ultra	61.7%
Phenom 300	9.9%	Falcon 50EX	27.5%	GIV-SP	67.9%
F900DX	11.8%	Citation CJ2	29.8%	KingAir 300	67.9%
CL-605	13.4%	Embraer Legacy 600	30.4%	Piaggio P-180	73.8%
G 450	13.7%	G-200	32.3%	Learjet 60	78.3%
Citation CJ3	13.8%	F900B	33.6%	Hawker 1000A	80.3%
Falcon2000EX Easy	14.5%	Learjet 45XR	35.8%	Hawker 800A	80.9%
F900C	18.0%	Hawker 400XP	35.9%	CL-601-3R	90.3%
Citation CJ1+	18.8%	Global Express	37.1%	Citation VI	90.7%
Hawker 900XP	19.9%	KingAir B-200 - Post-2000	38.0%	Hawker Beechjet 400A	103.0%
G550	20.6%	KingAir 350 - Pre-2001	38.1%	GIV	109.9%
G-150	20.7%	CL-604	39.4%	Citation II	119.4%
F900EX	20.9%	KingAir B-200 - Pre-2001	43.0%	CL-601-3A	128.2%
Premier 1A	21.3%	G-100	43.0%	KingAir C90	129.6%
Piper Meridian	21.4%	Learjet 45 w/APU	46.1%	Beech B-1900C	147.8%
Citation XLS	21.9%	GV	47.3%	Learjet 31	159.0%
KingAir 350 - Post-2000	22.3%	Citation X (MSG3)	49.7%	Learjet 55	159.5%
Challenger 300	22.4%	Hawker 800XP	51.1%	Falcon 20-5	163.4%
Pilatus PC-12	22.4%	Learjet 45	56.0%	Hawker Beechjet 400	173.9%
Global XRS	22.9%	Citation Bravo	56.0%	Learjet 35A	194.3%
Phenom 100	24.1%	GIV-SP (MSG3)	56.0%	CL-601-1A	325.0%
		Learjet 55C	56.8%		

ETP Ratio Calculation & Significance

The Asset Exposure to Price Ratio (“ETP Ratio”) is calculated by dividing the aircraft’s Asset Exposure (the accrued cost of future scheduled maintenance) by its Ask Price. Accordingly, **as the ETP Ratio decreases, the aircraft’s “value” increases** (in relation to its Ask Price). Aircraft whose ETP Ratio is above 40% (shown in red) are burdened, on average, with an excessive level of maintenance Asset Exposure in relation to their Ask Price.

Market AI² Index Aircraft

Following is a list of the aircraft analyzed by Asset Insight to produce this report (additions are in **BOLD** print):

<u>Large Jets</u>	<u>Medium Jets</u>	<u>Small Jets</u>	<u>Turboprops</u>
Beechcraft-Hawker:			
	• Beechjet 400	• Premier 1	• King Air C90
	• Beechjet 400A	• Premier 1A	• King Air B-200
	• Hawker 400XP		• King Air 300
	• Hawker 800A		• King Air 350
	• Hawker 800XP		• B-1900C
	• Hawker 900XP		
	• Hawker 1000A		
Boeing:			
• BBJ			
Bombardier:			
• CL-601-1A; 3A; -3R; -SE	• Challenger 300	• Learjet 31	
• CL-604	• Learjet 45; 45 w/APU	• Learjet 35A	
• CL-605	• Learjet 45XR		
• Global 5000	• Learjet 55-55A		
• Global Express	• Learjet 55C		
• Global XRS	• Learjet 60		
	• Learjet 60XR		
Cessna:			
	• Citation VI	• Citation II	
	• Citation X (MSG3)	• Citation CJ1+	
	• Citation XLS; XLS (MSG3)	• Citation CJ2	
	• Citation XLS+ (MSG3)	• Citation CJ3	
		• Citation Bravo	
		• Citation V Ultra	
		• Citation Encore	
Dassault Falcon Jet:			
• F2000	• Falcon 20-5		
• F2000EX; F2000EX Easy	• Falcon 50		
• F2000DX; F2000LX	• Falcon 50EX		
• F900; F900B ; F900C			
• F900EX; F900EX Easy			
• F900DX; F900LX			
Embraer:			
• Legacy 600		• Phenom 100	
•		• Phenom 300	
Gulfstream:			
• G-IV	• G-100		
• GIV-SP & GIV-SP (MSG3)	• G-150		
• GV	• G-200		
• G350			
• G450			
• G550			
Piaggio:			
			• P-180; P180 II
Pilatus:			
			• PC-12
Piper:			
			• Malibu Meridian

Analysis Methodology

Asset Insight, Inc. has developed a proprietary **Asset Grading System Process**™ (AGSP) that objectively evaluates assets relative to their Optimal Maintenance Condition and provides an easy-to-understand, uniform, yet robust, set of data that can be acted upon, on a timely basis, to protect and/or enhance an asset’s financial performance.

The AGSP is based on patented algorithms analyzing current age, the hours and cycles on an aircraft’s Major Sectors – airframe, engine(s), propeller(s), APU, paint, and interior – as well as the cost to repair or replace parts with no defined life. The AGSP derives an index (the “Asset Insight Index”) providing an objective measure of an aircraft’s current maintenance status and its related Financial Exposure going forward – that is, the financial liability accrued with respect to future scheduled maintenance events.

The Three Components of the "Asset Insight Index"

ATC Score / ATFC Score / ATFE Value

Maintenance Rating – Asset Technical Condition Score (“ATC Score”)

The “Asset Technical Condition Score” (“ATC Score”) utilizes the Asset Grading System Process (Patent Pending) developed by Asset Insight, Inc. to objectively evaluate and grade an aircraft's maintenance status, on a standardized scale, relative to its Optimal Maintenance Condition (achieved on the day it came off the production line), utilizing the aircraft's (standard/typical) Scheduled Maintenance Program. The ATC Score is based on a scale ranging from -5.000 to 10.000, the latter reflecting a newly produced aircraft (see scale below).



Financial Rating – Asset Technical Financial Condition Score (“ATFC Score”)

The “Asset Technical Financial Condition Score” (“ATFC Score”) evaluates and grades the Aircraft's financial rating relative to its Optimal Maintenance Condition based on the Aircraft's ATC Score (see Maintenance Rating above). The ATFC Score is based on a scale from 0.000 to 10.000, the latter reflecting a newly produced aircraft (see scale below).



To score each aircraft make/model, the average cost for completing each maintenance event comprising the ATC Maintenance Program is determined. Having compiled the aircraft's maintenance history, the time (calendar, flight hours or cycles) accumulated toward each individual scheduled/anticipated maintenance event is used to determine the aircraft's ATFC Score.

The Financial Rating (ATFC Score) differs from the Maintenance Rating (ATC Score). While the ATC Score evaluates and grades an aircraft's maintenance status relative to its Optimal Maintenance Condition, the ATFC Score grades an aircraft's financial condition relative to its Optimal Maintenance Condition, meaning the ATFC

Score is weighted by the estimated cost to complete each maintenance event. Accordingly, the Maintenance Rating is likely to differ from the Financial Rating.

For example, if an aircraft had only two maintenance components, and if one component is three-quarters of the way toward its overhaul while the second is one-quarter of the way toward its overhaul, their combined ATC Score would be 5.000, based on the following calculation: $(75\% + 25\%) / 2 \times \text{Perfect Score (10.000)} = 5.000$.

However, if the first of these components has an overhaul cost of \$1,000, while the second has an overhaul cost of \$10,000, their combined ATFC Score would be 2.955 (see below).

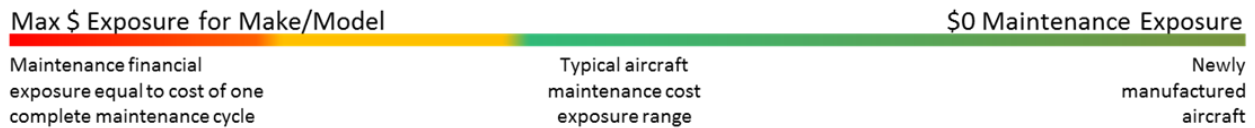
	<u>Remaining Useful Life</u>	<u>Overhaul Cost</u>	<u>Remaining Financial Value</u>
Component #1	75%	\$1,000	\$750
Component #2	25%	<u>\$10,000</u>	<u>\$2,500</u>
		<u>\$11,000</u>	<u>\$3,250</u>

ATFC Score Calculation Methodology

Aircraft's Financial Ratio $(\$3,250 / \$11,000) \times \text{Perfect Score (10.000)} = 2.955$

Asset Exposure – Asset Technical Financial Exposure Value (“ATFE Value”)

The “Asset Technical Financial Exposure Value” (“ATFE Value”) measures the aircraft’s financial exposure based on its maintenance condition – the liability accrued / consumed with respect to future scheduled maintenance events – and presents this information in financial terms, as follows:



To derive an aircraft's ATFE Value, the estimated cost for completing each event comprising the ATC Maintenance Program has been established. Having compiled an aircraft's maintenance history, the time (flight hours, landings / cycles, and / or calendar period) accumulated toward each individual scheduled / anticipated maintenance event is used to compute the dollar liability accrued toward that event, with the ATFE Value representing the total accrued liability toward future maintenance events

Ask Price vs. Asset Exposure to Ask Price Ratio (“ETP Ratio”) Graph

The graph displays the relationship between each aircraft group’s “Asset Exposure to Ask Price” Ratio (the ATFE Value divided by the Average Ask Price) and the Average Ask Price. In general, as aircraft Ask Prices rise, the Ratio should decrease – all other factors being equal. However, the Ratio’s relationship to Ask Price is not an absolute inverse correlation. Aircraft with a greater or lesser maintenance-related Financial Exposure, but with the same Ask Price, may replace aircraft listed “for sale” during any given month. Accordingly, it is possible for both the Ratio and the Ask Price lines to move in the same direction.

Asset Exposure to Ask Price Ratio (“ETP Ratio”)

The Asset Exposure to Ask Price Ratio (“ETP Ratio”) is calculated by dividing the aircraft’s ATFE Value (the financial liability accrued with respect to future scheduled maintenance events) by its Ask Price. Accordingly, as the ETP Ratio decreases, the aircraft’s “value” increases (in relation to its Ask Price). Aircraft whose ETP Ratio is 40% or greater are believed to have accrued an excessive level of maintenance Asset Exposure (ATFE Value) in relation to their Ask Price. ETP Ratios are only available in cases where a statistically significant sample of aircraft Ask Price

and maintenance status can be derived for a specific Make / Model.

General Information

Asset Insight, Inc. (www.assetinsightinc.com) provides asset evaluation and financial optimization services. The company's "Asset Grading System Standard" (Patent Pending), and related analyses, provides the ability to translate the asset's technical condition into easy-to-understand, actionable financial information. Asset Insight is independent of any manufacturer, appraisal firm, financial services firm, or technical services facility, enabling it to provide an unbiased view of an asset's condition with respect to its technical status and related financial exposure. The company is managed by business, technical and financial professionals with significant experience in aviation asset management.

This Analysis is not intended to represent a technical evaluation of any Aircraft. Further, the reader, or any party using information contained in this Report, should recognize that this Report is limited in scope, and that discrepant conditions may exist in the analyzed aircraft that were not known by Asset Insight, Inc.

The Asset Insight Index and its ATC Score, ATFC Score, and ATFE Value components are based upon the aircraft maintenance condition information reviewed by Asset Insight, Inc. as of a certain date. Running an analysis on any aircraft utilizing a different date, revised maintenance data and/or utilization figures will likely generate different results.

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