Cornhill Asset Management
Making Private Equity Public

1 Cornhill
London
EC3V 3ND

Tel: +44 (0)20 7645 8320
Fax:+44 (0)20 7645 8321

Email: info@cornhillassetmanagement.com

Web: www.cornhillassetmanagement.com

10 July 2007

Ticker: AVAP.PL

Market data on close 09/07/2007

Mid market price: 56 pence

Target price: £1.18

52 Wk High 09/07/2007:
56.5 pence

52 Wk Low 11/12/2006:
3 pence

Shares issued: (15/06/2007):
18.96 million

Market capital:
£10.44 million

Market: PLUS

Jonathan Finning
Investment Analyst

jonathan@cornhillassetmanagement.com

Tel: + 44(0) 20 7743 6035

Fax: + 44(0) 20 7743 6409

AVATION PLC (AVAP.PL)

Opening Coverage as Company Broker

09 July 2007: Material fundraising by subsidiary company, Capital Lease Aviation plc is announced

- **Positioning for aggressive growth**: Avation announced yesterday, 9th July 2007 that it had raised USD $23 million (£11.5million) in equity in its second SPV, Capital Lease Aviation PLC (CLA). We believe that this additional capital has not yet been reflected in the share price. If the share price were to reflect the fleet value plus new cash raised in the SPV, we calculate that the Company would trade at £1.18 per share.

- **Further upside over medium term expected**: We expect Avation to build a portfolio of aircraft within CLA to a value of over $100 million over the short to medium term, assuming it can leverage the equity in a similar way to its past transactions. The use of debt leverage gives the company the potential for selling its aircraft portfolios at a price equal to many times the original equity investment.

- **Receptive market environment**: Based on current market transactions, IPO's and trade sales of aircraft are taking place at 110% of balance sheet value.

- **Business model**: To lease commercial aircraft to regional airlines. The company raises capital using SPVs, and then obtains debt by leveraging the equity raised. Historically the Company appears to have been able to leverage its equity 4 to 5 times. Cash flow from airline companies (the lessees) is used to repay the debt thus leaving the company with ownership of the aircraft.

- **Attractive sector**: The aircraft leasing market is still highly fragmented. Leasing to regional airlines is less competitive than the larger global airline leasing business, allowing opportunities for Avation to enter the market and seek to generate greater returns.

- **Unique opportunity**: Few aircraft leasing companies are publicly listed, and those that have been listed have already been bid up by the market or have been bought out by private equity operators due to the profitable nature of the business.

- **Favourable industry fundamentals**: Global traffic in airline passengers is expected to increase by 4.9% annually, according to JP Morgan. Due to factors such as globalization, liberalization, price deregulation, and robust demand in developing countries such as China and India, aircraft lessors look well positioned for growth, with investors enjoying lower forecast risk than typically associated with airline equities.

- **Attractive forecasts for aircraft values and lease rates**: The major aircraft manufacturers, Airbus and Boeing, have been relatively slow in the roll-out of next-generation replacement aircraft, thereby creating a favourable environment for aircraft values and lease rates. Aircraft demand is high due to the general growth in air travel.

- **Market share of aircraft lessors to increase**: Operating lessors own roughly 30% of the global fleet of over 17,000 aircraft (up from 18% just 10 years ago), and this number is expected to approach 40-50% in the next ten years. Avation is one of the few listed companies that offer investors direct exposure to this growth.

- **The logic of leasing**: Most airlines, particularly the smaller lower cost companies that Avation has historically targeted, lease their entire fleets. This enables airlines to leverage their capital by borrowing a much larger number of planes than they would be able to buy outright, giving them a much larger fleet.

Company Description

Avation Plc ("Avation" or "the Company") is a UK Plc with its operations in Singapore and Australia. It is a PLUS Market listed company which provides aircraft leasing. The company was formed when Avation.Net Inc was spun out of AIM quoted Advent Air Ltd (AIM quoted operator of Skywest), and its shares listed on PLUS on November 7th 2006. Skywest is a regional Australian airline based in Perth, Western Australia.

Avation Plc is a PLUS Market listed company which provides aircraft leasing.

The Company also owns a division providing equipment to the broadcasting industry which is stable and profitable but is not expected to have any significant impact on the share price.

As we believe that Avation's aircraft leasing operations are likely to be the key drivers of share price growth, this report will focus on that aspect of the business.

Company Strategy

Avation's main business is to purchase and lease similar types of aircraft in the currently buoyant market for leased aircraft. Avation's strategy is to buy and lease aircraft through special purpose vehicles (SPVs). The use of SPVs is standard practice in the aircraft leasing industry, as it is considered the most practical and efficient way for companies to manage their tax liabilities. An SPV is a leasing company which joins the asset to be acquired with the financing of the asset. Avation's stated strategy is to raise capital by issuing ordinary shares in the SPV, leverage the capital raised, historically by 4 or 5 times by bank borrowing, in order to purchase a fleet of aircraft. As part of the acquisition, Avation leases these aircraft to airlines that can be based anywhere in the world. Importantly, the leasing revenue that Avation receives is sufficient to pay the interest as well as to repay the bank borrowings, so that after 5 to 6 years the SPV has full ownership of the aircraft, with no bank borrowings. During the period of the lease, the airline to which the plane is leased pays for its maintenance. After the debt has been paid off, the net asset value of the SPV will be the residual value of the aircraft itself. As Avation retains ownership of at least 51% of the SPV, it is consolidated onto Avation's balance sheet. In this way, as the debt is paid off, Avation's

Avation's stated strategy is to raise capital by issuing ordinary shares in its SPV, leverage the capital raised, historically by 4 or 5 times by bank borrowing, in order to purchase a fleet of aircraft.

As the debt is paid off, Avation's net asset value (NAV) increases dramatically reflecting the residual value of planes.

net asset value (NAV) increases dramatically reflecting the residual value of planes.

Avation intends to buy aircraft half way through their useful life as developed world passenger aircraft.

Avation intends to buy aircraft half way through their useful life as developed world passenger aircraft. In general, aircraft have a total economic life of up to 40 years, but a developed world service life of only 30 years. For this reason, Avation buys aircraft which are 10-15 years old. An external valuation on each plane is obtained by Avation before making a purchase decision.

An external valuation on each plane is obtained by Avation before making a purchase decision.

We expect Avation to build a portfolio of aircraft within its new SPV, CLA, to a value of over $100 million over the short to medium term, assuming it can leverage the equity in a similar way to its past transactions.

We understand however that there are alternate methods for the company to maximise returns to shareholders, and a flotation or trade sale of CLA may be possible subject to market conditions. A trade sale may be preferred so as to avoid capital gains tax. At present our research shows that based on current market transactions, IPO's and trade sales are taking place at 110% of balance sheet value. As an example, in May 2007 the British private equity group Terra Firma bought the US aircraft leasing company, Pegasus Aviation Finance in a deal valued at $5.2bn (£2.6bn). Pegasus Aviation had built up a fleet of 154 aircraft.

A flotation or trade sale of CLA may be possible subject to market conditions.

IPO's and trade sales are taking place at 110% of balance sheet value.

Stock Market and Corporate Timetable

Avation's shares are quoted on the PLUS market. Should the market capitalization and the size of the asset base of the Company increase, we understand that Avation may review its listing status and consider a move to the AIM Market of London Stock Exchange Plc.

In accordance with PLUS Market regulations, the corporate timetable includes a final audited results announcement for the period ended 30th September 2007 and a half year results announcement for the period ended 31st March 2007.

Target Market

Avation's business is to lease aircraft to airlines, to date these have been regional airlines. The regional aircraft leasing market is still highly fragmented and less competitive than the larger global airline leasing business, allowing opportunities for Avation to enter the market and seek to generate greater returns. Regional companies also offer geographic and operator diversity which helps reduce risk, whilst their 9/11 risk factor is considered to be much lower than that of the larger operators. We understand the smaller aircraft used by the regional airlines also tend to hold their value more effectively than the larger aircraft used by global players, such as the Boeing 747. The larger financiers in the market tend to be significant global organisations whose bank borrowings are guaranteed and subsidised by national governments, so there is very little market access to these companies.

The regional aircraft leasing market is still highly fragmented and less competitive than the larger global airline leasing business, allowing opportunities for Avation to enter the market and seek to generate greater returns.

Most airlines, particularly the smaller lower cost companies that Avation has historically targeted, lease their entire fleets. This enables airlines to leverage their capital by borrowing a much larger number of planes than they would be able to buy outright, giving them a much larger fleet.

Most airlines lease their entire fleets. This enables airlines to leverage their capital by borrowing a much larger number of planes than they would be able to buy outright, giving them a much larger fleet.

Current Operations

Avation's first SPV, F100 Pty Ltd, was formed late in 2006. It currently owns three Fokker F100 aircraft but is in the process of finalising contracts to buy and lease a fourth. The Fokker F100 is a medium sized airliner which uses Rolls Royce twin-turbofans, and seats up to 107 people. It is particularly popular with regional airlines such as British Midland, Air Berlin, and KLM. The aircraft are leased to Skywest.

Avation currently owns three Fokker F100 aircraft but is in the process of finalising contracts to buy and lease a fourth.

On 18th May 2007, Avation announced that, subject to final documentation, it had agreed to buy the fourth F100 for $4.9m, 25% of which would be paid in cash, and 75% financed by debt. This aircraft is to be leased to a European regional airline at around US$80,000 per month. Based on Avation's scheduled debt repayments, it will own this aircraft outright in about 72 months.

Outlook

Avation announced yesterday, 9 July 2007 that it had raised equity of $23 million for its second SPV, Capital Lease Aviation Plc (CLA). We understand from management that a global aircraft leasing company has proposed to sell 2 aircraft to the SPV for $10.8m. We expect Avation to lease these planes to Skywest. As with its first SPV, Avation intends to leverage the equity of $23m. Historically it has managed to acquire leverage of 4-5 times capital invested, which would allow it to acquire a $100m portfolio of planes.

Avation announced yesterday, 9 July 2007 that it had raised equity of $23 million for its second SPV, Capital Lease Aviation Plc (CLA).

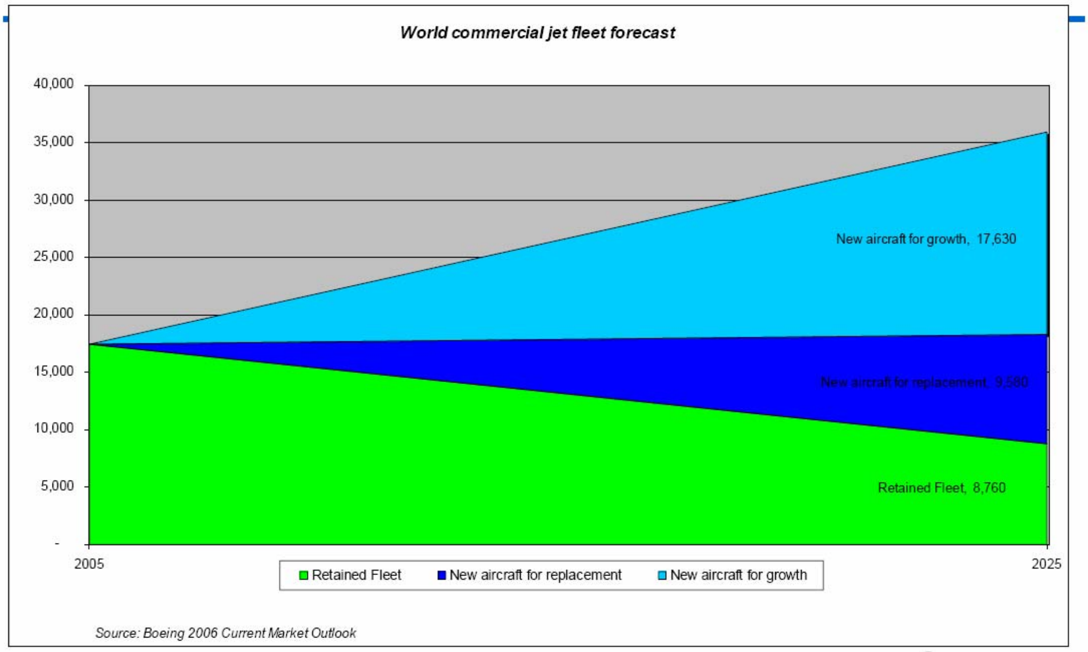
Historically it has managed to acquire leverage of 4-5 times capital invested, which would allow it to acquire a $100m portfolio of planes.

We expect Avation to expand its aircraft leasing business aggressively in the near term via the purchase of additional aircraft which will be leased back to regional airlines such as Skywest and other developed world airlines. The aircraft leasing sector is currently in a growth phase which is expected to continue in the longer term, supporting demand for second hand aircraft. For example, in 2006 people took just over 2 billion journeys on scheduled airlines worldwide, 4% up on the year before, according to the International Civil Aviation Organisation. By 2010, passengers are expected to increase by another 500 million, an increase of 25%, according to the International Air Transport Association (IATA). The trade group, which represents some 250 of the world's airlines, estimates that by then America's domestic market for air travel – at present the largest in the world, with around 750 million passengers a year – will be overtaken by that of both Asia and Europe.

We expect Avation to expand its aircraft leasing business aggressively in the near term via the purchase of additional aircraft which will be leased back to regional airlines.

By 2010, passengers are expected to increase by another 500 million, an increase of 25%.

World Commercial Jet Fleet Forecast



Sector Analysis: Aircraft Leasing

The combination of solid long-term demand fundamentals, a visible and disciplined supply stream, and a highly fragmented aircraft market have proven beneficial for aircraft lessors over the last few years. With global traffic expected to increase by 4.9% annually (according to JP Morgan), as a result of factors such as globalization, liberalization, price deregulation, and robust demand in developing countries, aircraft lessors look well positioned to capitalize on new opportunities and expand upon existing relationships, with investors enjoying lower forecast risk than that typically associated with airline equities.

Global traffic expected to increase by 4.9% annually.

In addition, the major aircraft manufacturers, Airbus and Boeing, have been relatively slow in the roll-out of next-generation replacement aircraft, thereby creating a favourable environment for aircraft values and lease rates.

Major aircraft manufacturers, Airbus and Boeing, have been relatively slow in the roll-out of next-generation replacement aircraft, thereby creating a favourable environment for aircraft values and lease rates.

The aircraft market is highly fragmented, with over 1,800 aircraft owners including, but not limited to, airlines, lessors, banks, and governments. The aircraft leasing industry is divided into two leasing segments: (1) leasing of new aircraft acquired directly or indirectly from manufacturers and (2) leasing or re-leasing of aircraft in the secondary market. Avation belongs to the second segment.

Operating lessors own roughly 30% of the global fleet of over 17,000 aircraft (up from 18% just 10 years ago), and we expect this number to approach 40-50% in the next ten years. Airlines find leases attractive due to various factors, including fleet flexibility, low capital commitment, and reduced residual value risk. Therefore, as the high cost associated with fleet renewals and expansions incite airlines to outsource ownership to operating lessors, the percentage of aircraft owned by airlines continues to decline, now hovering close to only 50%.

Operating lessors own roughly 30% of the global fleet of over 17,000 aircraft (up from 18% just 10 years ago), and we expect this number to approach 40-50% in the next ten years.

Competitor Analysis

The aircraft operating lessor market currently consists of two parts. The top two players in aircraft leasing, GECAS (owned by General Electric) and ILFC (owned by American International Group), currently control approximately 60% of the worldwide fleet represented by the top 18 operating lessors, but less than 15% of the total worldwide aircraft fleet. However, the second tier of the aircraft leasing market is highly fragmented, with multiple players operating fleets with market values in the $1-5 billion range.

The top two players in aircraft leasing, GECAS (owned by General Electric) and ILFC (owned by American International Group), currently control approximately 60% of the worldwide fleet represented by the top 18 operating lessors, but less than 15% of the total worldwide aircraft fleet.

In general, GECAS and ILFC focus their efforts on newer, lower-yielding aircraft, where their cost-of-capital advantage allows them to continue to earn attractive leveraged returns. The second tier of industry players tends to focus on higher-yielding opportunities, in part due to their lack of scale and inherent cost-of-capital disadvantage. That said, with the emergence of the aircraft securitization market, the relative cost-of-capital disadvantage of the second-tier aircraft operating lessors as compared to GECAS and ILFC is rapidly narrowing, paving the way for them to compete on a more level playing field across the aircraft opportunity spectrum.

Aircraft Operating Lessor Market Share				
As of August 2006				
Rank By # Of Aircraft	Lessor	Parent/Sponsor	# Of Owned / Managed Aircraft	Estimated Fleet Value (US $ Millions)
1	GECAS	GE	1,703	$37,262
2	ILFC	AIG	922	$35,616
3	Boeing Capital	Boeing	265	$3,917
4	BAE Systems	BAE	242	$824
5	Pegasus Aviation	Oaktree	224	$3,865
6	**AerCap**	**Cerberus**	**223**	**$3,770**
7	Aviation Capital Group	Pacific Life	211	$4,537
8	CIT Aerospace	CIT	208	$5,711
9	Babcock & Brown		198	$4,592
10	RBS Aviation Capital	RBS	176	$5,806
11	Saab Aircraft Leasing	Saab	172	$278
12	Raytheon Aircraft Credit	Raytheon	150	$249
13	AWAS	Terra Firma	146	$2,356
14	GATX Air	GATX	114	$1,931
15	Pembroke Group		89	$1,305
16	**Aircastle***	**Fortress**	**62**	**$1,525**
17	Q Aviation		50	$1,033
18	**Genesis Lease**	**GE**	**41**	**$1,492**
		Total (Top 18)	**5,196**	**$116,069**

Source: AirClaims and JPMorgan estimates. *On January 22, 2007, AYR announced that it has entered into definitive agreements to purchase 38 aircraft from Guggenheim Aviation Investment Fund LP for $1.595 billion. The aircraft will be purchased in a series of closings between January 2007 and February 2009, with 28 of these aircraft scheduled to close during 2007.

Note: Publicly listed companies are listed in bold. Source: JP Morgan

Valuation

Avation's share price has reacted well to its announcements of plans to expand by buying additional aircraft, by rising from 17 pence on the 17th May 2007 to close at 56 pence on the 9th July 2007. However, the Company still looks undervalued. Aircraft leasing companies generally trade at a market capitalisation that is approximately equal to the market value of their fleet.

Avation's share price has reacted well to its announcements of plans to expand by buying additional aircraft, by rising from 17 pence on the 17th May 2007 to close at 56 pence on the 9th July 2007. However, the Company still looks undervalued.

As an example, the fleet value of Aircastle, a US domiciled aircraft leasing company, at the end of Q1 2007 was $2.022 billion (according to SEC filings of Q1 2007 company report), the company's market capitalisation at this time was $2.304 billion, so the share was in fact trading at a 14% premium to fleet value.

If the share price were to reflect the value of the 4 planes (£0.69 per share) plus new cash raised in the SPV (£0.49 per share after the liquidity discount), the Company would trade at £1.18 per share. We therefore forecast a short term target price of £1.18.

Avation currently has three, soon to be four aircraft with an average market value of about $6.5 million (£3.25 million) per plane. If the share price were to reflect the £13 million market value of the four planes without factoring in developments regarding CLA, it would trade at about 69 pence.

On 9th July 2007, Avation announced that its second SPV, CLA had raised USD $23m (£11.5) by issuing 49% of its share capital to sophisticated investors. In theory therefore, the total market value placed on the SPV is USD $46 million, of which Avation owns 51%. The theoretical upside to Avation is therefore $23 million. We apply a liquidity discount of 20% to the SPV as it cannot exist without the support of and integration with Avation at this stage. Hence the CLA position is worth £23 x 0.8 = USD $18.4 million. There are some 18.96 million Avation shares in issue, therefore we value the CLA holding at USD $0.97 ($18.4m divided by 18.96 m shares), or £0.49.

If the share price were to reflect the value of the 4 planes (£0.69 per share) plus new cash raised in the SPV (£0.49 per share after the liquidity discount), the Company would trade at £1.18 per share. We therefore forecast a short term target price of £1.18.

If CLA is able to leverage the $23m raised by 4-5 times and acquire over USD $100m worth of aircraft, the book value (balance sheet value) of Avation will increase significantly thus providing medium term upside.

Supporting Calculations:

Market value of 4 planes: £13m

New equity in CLA: £11.5m

New equity in CLA, applying a liquidity discount of 20%: £11.5 x 0.8 = £9.2m

Value of Company Assets: £13m + £9.2m = £22.2m

Shares in issue: 18.96m

Value per share: £1.18

If CLA is able to leverage the $23m raised by 4-5 times and acquire over USD $100m worth of aircraft, the book value (balance sheet value) of Avation will increase significantly thus providing medium term upside.

The low market capitalisation to fleet value ratio, together with the recent announcement of USD $23m (£11.5) of additional capital which is expected to be leveraged, make the Company look highly undervalued.

Forecast Earnings per Share

Avation is yet to publish a full period of financial performance since beginning its aircraft leasing operations, therefore we shall update this note following the availability of company financial statements.

Sector P/Es

Many of the largest aircraft leasing companies, including most of the top 18 companies listed in the table on page 9, are private, or the leasing operation is a division of a larger leasing conglomerate, so a relevant P/E cannot be calculated. There are currently only three listed direct competitors in this highly profitable sector, so competition is limited.

Many of the largest aircraft leasing companies, including most of the top 18 companies listed in the table on page 8, are private, or the leasing operation is a division of a larger leasing conglomerate

P/E's of public companies in the Airline Leasing Sector

Lessor	Ticker	Share price	P/E (2006A)	P/E (2007E)	P/E (2008E)
AerCap Holdings N.V.	AER	$32.25	29.05	14.13	11.99
Aircastle Ltd	AYR	$40.02	34.21	21.29	16.20
Genesis Lease Ltd	GLS	$27.95	34.94	25.57	23.35
Sector Average			**32.73**	**20.33**	**17.18**

There are currently only three listed direct competitors in this highly profitable sector, so competition is limited.

Source: Bloomberg

Date of valuations: 09/07/07

Management

Avation's management has significant expertise in the airline industry, the broadcasting industry, and in the management of growth companies. Jeff Chatfield and Andrew Baudinette are the founding directors of Avation Plc, and two other directors were recently employed. The directors have substantial ownership of shares and options in Avation, further aligning their interests with those of the Company's shareholders. Mr Chatfield increased his ownership of shares from 2.56 million to 3.1 million in March 2007 signalling his belief in the long term prospects of the Company.

Avation's management has significant expertise in the airline industry, the broadcasting industry, and in the management of growth companies.

Jeff Chatfield is Chairman of Avation.Net Inc and of Avation Plc. He is also the Chairman of both Advent Air Ltd. and Skywest Ltd. He is responsible for the development of the Advent Group of which Avation.Net Inc was a part until it was spun off into Avation Plc. He has been instrumental in establishing and growing Advent's investments, and been responsible for the Skywest takeover as well as the Avation.Net Inc business. Mr Chatfield has worked as a director in the management of a number of companies in the airline, data distribution, electronics, broadcasting and manufacturing sectors. Mr Chatfield is responsible for the aircraft leasing business.

The directors have substantial ownership of shares and options in Avation, further aligning their interests with those of the Company's shareholders.

Richard Sinclair, CPA is the Finance Director. Mr Sinclair has worked in very large listed public companies such as Allco (Singapore) Ltd, a public company involved in real estate, aircraft and other capital assets, and Westfield Ltd, a public company which is the worlds largest shopping centre owner.

Andrew Baudinette, Director of Avation PLC and MD of Avation.net Inc (the media side of the business). Mr Baudinette has two decades of experience in media having held management positions in the radio, newspaper and television industries. He was appointed as CEO of Avation.Net Inc in 2003 and appointed Managing Director in 2005. Andrew has significant management experience and has had a lot of practical exposure to corporate re-structuring. He has been involved with start-up businesses in the advertising, travel, technology and entertainment industries.

Cornhill Asset Management
Making Private Equity Public

Significant Shareholders (March 2007)

The total number of shares in issue as at 15th June 2007 was 18,964,197 with a par value of 1p. At that date, the largest shareholders were:

Shareholder	Number of Shares	% Holding
FITEL NOMINEES LIMITED	7,386,555	38.95%
HARGREAVE HALE NOMINEES LIMITED	3,014,490	15.90%
APOLLO NOMINEES LTD	1,926,756	10.16%
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	1,039,071	5.48%
OTHER	5,597,325	29.52%
TOTAL	**18,964,197**	**100.00%**

Investment Risks

Company: Avation's business model depends on its ability to source second hand aircraft half way through their life span, to lease them to regional airlines, and to exit from the SPV to realise the value. As there is less competition in the regional aircraft leasing sector, and demand among airlines for second hand aircraft is very strong, management is finding it relatively easy to source attractive lease prospects, however, aircraft sourcing is more challenging.

Avation's business model depends on its ability to source second hand aircraft half way through their life span, to lease them to regional airlines, and to exit from the SPV to realise the value.

The key risk to Avation's growth strategy to date has been its relationship with Advent Air, which owns Skywest, and is Avation's most important customer. As Jeff Chatfield, a founding director of Avation, is also Chairman of Skywest, the close relationship between the companies suggests that Advent will provide more business for Avation in the future as it is also expanding rapidly. Advent is profitable and has significant and growing cash balances, which limits the risk for Avation. Avation now intends to diversify its lessee clients by developing relationships with other regional airlines.

As Jeff Chatfield, a founding director of Avation, is also Chairman of Skywest, the close relationship between the companies suggests that Advent will provide more business for Avation in the future as it is also expanding rapidly.

Sector: Avation currently has very few listed competitors, and appears to focus on regional airlines, which are at the more fragmented end of the market, so competition is limited. The risk is that, given the profitability of the business and current demand for

Avation currently has very few listed competitors, and appears to focus on regional airlines, which are at the more fragmented end of the market, so competition is limited.

aircraft, other players may join the sector.

Macroeconomic: An economic slowdown, geopolitical event (i.e. acts of terrorism, war), government regulation or disease outbreak (i.e. SARS) could curtail passenger and cargo volumes and subsequently exacerbate the supply/demand imbalance. As a result, this could place pressure on aircraft asset values and lease rate factors. Changes in interest rates may also impact Avation, however the Company's policy is to structure the debt and lease using fixed interest rates only, which mitigates risk to an extent as it removes any uncertainty that lease receipts may not cover interest payments and debt repayments.

Changes in interest rates may also impact Avation, however the Company's policy is to structure the debt and lease using fixed interest rates only, which mitigates risk to an extent as it removes any uncertainty that lease receipts may not cover interest payments and debt repayments.

Conclusion

The industry fundamentals are attractive. Global traffic is expected to increase by 4.9% annually, according to JP Morgan. Due to factors such as globalization, liberalization, price deregulation, and robust demand in developing countries such as India and China, aircraft lessors look well positioned for growth, with investors enjoying lower forecast risk than typically associated with airline equities.

In addition, the leasing environment for second hand aircraft appears solid as the major aircraft manufacturers, Airbus and Boeing, have been slow in rolling out next-generation replacement aircraft. The market share of aircraft lessors is expected to increase from about 30% of the global fleet to 40-50% over the next ten years.

Avation provides a unique opportunity to gain exposure to very profitable sector which at present is not well represented on the stock market, at an entry price which is still a very low.

Avation provides a unique opportunity to gain exposure to very profitable sector which at present is not well represented on the stock market, at an entry price which is still very low. Few aircraft leasing companies are publicly listed, and those that have been listed have already been bid up by the market, or bought out by private equity operators. Avation's management team has significant expertise in the airline industry and in the management of growth companies. In addition, the Company's strategy to date has been to focus on regional airlines, which are at the more fragmented end of the market, allowing opportunities for Avation to enter the market and seek to generate greater returns.

From a valuation point of view, Avation looks undervalued. If the share price were to reflect the value of the 4 planes (£0.69 per share) plus new cash raised in the SPV (£0.49 per share after the liquidity discount), the Company would trade at £1.18 per share. We therefore forecast a short term target price of £1.18.

If the share price were to reflect the value of the 4 planes (£0.69 per share) plus new cash raised in the SPV (£0.49 per share after the liquidity discount), the Company would trade at £1.18 per share.

We therefore forecast a short term target price of £1.18.

If CLA is able to leverage the $23m raised by 4-5 times and acquire over USD $100m worth of aircraft, the book value (balance sheet value) of Avation will increase significantly thus providing substantial further upside over the medium term.

The low market capitalisation to fleet value ratio, together with the recent announcement of USD $23m (£11.5m) of additional capital which is expected to be leveraged, make the Company look highly undervalued over both the short and medium term.

The low market capitalisation to fleet value ratio, together with the recent announcement of USD $23m (£11.5) of additional capital which is expected to be leveraged, make the Company look highly undervalued over both the short and medium term.

Sources of Avation Research Note:

Avation Company presentation and discussion with management, June 2007, “Commercial Aircraft industry overview“, Simat, Helliesen & Eichner, Inc. (‘‘SH&E’’), an international air transport consulting firm, JPMorgan Research note, “Aircraft Leasing” 23 Jan 2007, Bear Stearns sector research, research notes by Growth Equities & Company Research (GE&CR is owned by t1ps.com Ltd which is regulated by the Financial Services Authority), Bloomberg, RNS (Regulatory News Service) press releases, The Financial Times, The Economist.

Disclaimer

This note is for the general information of clients of Cornhill Asset Management Limited ("Cornhill Asset Management") only and is not provided for the purposes of directing investment decisions. It does not take into account the particular investment objectives, financial situation or needs of individual clients and as such, clients are advised to contact their investment adviser to discuss their own particular circumstances before taking any action.

This note should not be construed in any circumstances as an offer to sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. The information contained in this note is based on information that we consider reliable, but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only.

Neither the whole nor any part of this material may be duplicated in any form or by any means. Neither should any of this material be redistributed or disclosed to anyone without the prior consent of Cornhill Asset Management. Cornhill Asset Management accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of all or any of this material.

The services, securities and investments discussed in this report may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss. Past performance is no guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This note is issued by Cornhill Asset Management in the UK, which is authorised and regulated by the Financial Services Authority.