



VALUATIONS
UNLIMITED INC.

**Business
Assessment**

ABC Ltd.

Prepared for the Exclusive Use of:

John & Sally Smith

Date: March 5, 2009

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Sample

February, 2009

Mr. & Mrs. John Smith,
Anystreet, Anytown,
Any Province

Dear Mr. & Mrs. Smith:

We have been asked to provide an Opinion of Value of fair market value on ABC Ltd. as of December 31, 2008 for the purpose of selling the business.

The definition of fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under a compulsion to buy or to sell and both having reasonable knowledge of all relevant facts.

In providing our opinion, we have made the following assumptions:

1. We have relied upon and assumed, without verification, the accuracy and completeness of all financial and other information provided to us;
2. The various estimates of value presented herein apply to this opinion only and may not be used out of this context;
3. There are no regulations of any government entity that control or restrict the operations of the business;
4. There are no hidden or unexpected business conditions that would adversely affect our opinion.

Based on our review of the information provided, we are of the opinion a reasonable range of value for ABC Ltd. as of December 31, 2008 is between:

\$1,050,000 to \$1,100,000

Our opinion of value is subject to the restrictions, assumptions and limited conditions set forth in this report.

Valuations Unlimited

Per: _____

Note: This report is to be read in conjunction with the following documents.

sample

INTRODUCTION:

Pursuant to your request for a written Letter of Opinion of Value to assess your business for the purpose of providing our opinion of the fair market value of the business known as **ABC Ltd.** at **December 31, 2008**, we present the following:

For the purpose of this opinion, "fair market value" is the amount at which property would change hands between a willing seller and a willing buyer when neither is under compulsion and when both have reasonable knowledge of the relevant facts. All values expressed herein are in Canadian Dollars.

RESTRICTIONS:

This report is not intended for general circulation, nor is it to be reproduced or used in any way other than as outlined herein. Our prior permission is required in each instance of reproduction or duplication, in whole or in part.

We do not assume any responsibility for losses occasioned to the Owners, as they are involved in this report, or to any reader of this report.

This report must be viewed as our independent opinion based on the information, explanations and material, which we have obtained from the shareholders.

Submission of this report does not imply an obligation on the part of VALUATIONS UNLIMITED INC. or its employees or agents to provide court testimony or to provide testimony before any arbitration body, without making prior written arrangements with us.

We reserve the right, but will be under no obligation, to review all calculations included or referred to herein and, if we consider it necessary, to revise our opinion of value and any other conclusions and recommendations in light of any information existing at the date of this report, which is made known to us after such date.

The financial statements referred to and included in our report were prepared by **Smith & Smith**, Chartered Accountants for the years December 31, 2006 to 2008. Said financial statements were prepared, based on information provided by management. Any financial proforma or projections presented herein were not audited or reviewed by third parties.

Should an audit subsequently be performed, any resulting adjustments could materially alter our opinion and comments on this business operation.

VALUATIONS UNLIMITED INC. and its employees have no present or contemplated investment in the business, and VALUATIONS UNLIMITED INC.'s business fees for this engagement are not contingent upon our findings or upon any other events.

ASSUMPTIONS AND LIMITING CONDITIONS:

This business analysis is subject to the following assumptions and limiting conditions:

- 1) Information, estimates and opinions contained in this report have been obtained from sources considered reliable. However, VALUATIONS UNLIMITED INC. has not independently verified such information and, therefore, assumes no liability for such sources;
- 2) All facts and data set forth in this report are true and accurate to the best of our knowledge and belief. We have not knowingly withheld or omitted anything from the

report which might affect our opinions, conclusions, recommendations or estimate of value;

- 3) This report has been copyrighted by VALUATIONS UNLIMITED INC. and possession of this report, or a copy thereof, does not carry with it the right of publication of all or any part, nor may it be used for any purpose without the prior express written consent of VALUATIONS UNLIMITED INC., and in any event only with proper authorization;
- 4) No information concerning the contents of this report shall be conveyed to any third party, or to the public through any means without the express written consent of VALUATIONS UNLIMITED INC.;
- 5) No investigation of titles to property or any claims concerning ownership of property by any individuals or company has been undertaken. Unless otherwise stated in this report, title has been assumed to be clear and free of encumbrances and as provided to VALUATIONS UNLIMITED INC.;
- 6) Unless otherwise provided for in writing and agreed to by both parties in advance, the extent of any liability for the completeness or accuracy of the data, opinions, comments, observations, recommendations or conclusions shall not exceed the amount paid to VALUATIONS UNLIMITED INC. for professional fees and, then, only to the party for whom this report was originally prepared;
- 7) The estimates of value presented in this report apply to this analysis only and may not be used out of the context presented herein. Any other use of this report may lead the user to an incorrect conclusion for which VALUATIONS UNLIMITED INC. assumes no responsibility;
- 8) The estimate of "Fair market value" reached in this report is based on the definition of "Fair market value" as stated herein. An actual transaction of all or part of the equity may be concluded at a higher value or lower value depending on the circumstances surrounding the transaction and/or the motivations and knowledge of both the buyers and sellers at the time. VALUATIONS UNLIMITED INC. makes no guarantees as to what values individual buyers and sellers may reach in an actual transaction involving all or any part of the equity;
- 9) It should be specifically noted that this analysis assumes the business will be competently managed and maintained by financially sound owners over the expected period of ownership. Our engagement entails a limited evaluation of management's effectiveness; however, we are not responsible for future marketing efforts and other management or ownership actions upon which actual results will depend;
- 10) No opinion is intended to be expressed for matters which require legal, income tax or other specialized expertise, investigation or knowledge;
- 11) It is assumed that there were no regulations of any government entity, which controlled or restricted the use of the underlying assets, unless specifically referred to in this report. It was also assumed that underlying assets were not operated in violation of any applicable government regulations, codes, ordinances or statutes;
- 12) This report contains prospective financial information, estimates or opinions, which represent our view about reasonable expectations at a particular point in time. Such information, estimates or opinions have not been offered as predications or as assurances that a particular level of income or profit will be achieved or that specific events will occur;

- 13) We have assumed that there were no hidden or unexpected business conditions which would adversely affect the opinions, comments, observations, recommendations and conclusions expressed herein; and
- 14) Hazardous substances, if present, can introduce an actual or potential liability, which will adversely affect the marketability and value of a business. Such liability may be in the form of immediate recognition of existing hazardous conditions or future liability, which could stem from release of currently non-hazardous contaminants. In the development of our opinions, comments, observations, recommendations and conclusions no consideration has been given to such liability or its impact. We have not taken into account any and all future environmental considerations and associated potential liability.

sample

ABC Ltd.

Business Summary

| Owners | Percentage |
|-------------|------------|
| John Smith | 50% |
| Sally Smith | 50% |

| | |
|----------------|-------------------|
| Address | Anytown, Anywhere |
|----------------|-------------------|

| | |
|--------------------------|---------|
| Type of Business: | Service |
|--------------------------|---------|

| | |
|------------------|----------------------|
| Services: | Direct Mail Services |
|------------------|----------------------|

BUSINESS OVERVIEW

HISTORY OF COMPANY

The company has been doing business as **ABC Ltd.** for approximately 11 years and continues to do business under that trade name as of the date of this valuation.

The company's primary business is direct mail services to small business' and advertising agencies.

According to the owners, the fact that they provide a wide range of services helps them to stand out above their competition. In addition, almost all mailings processed by **ABC** are "addressed" mail versus un-addressed bulk mail that is delivered by mail carriers to all households.

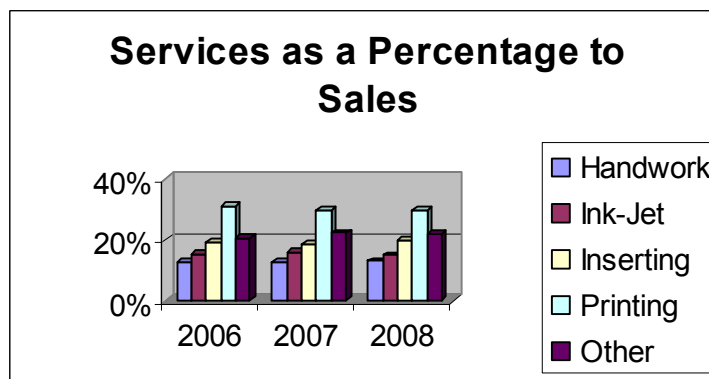
SERVICES PROVIDED

Types of services include:

- Inkjet envelopes or direct impression
- Inserting: automated and manual
- Folding: automated and manual
- Labeling

- Polybagging
- First Class mail
- Addressed/Unaddressed Admail and Publication mail
- Photocopying, Collating, Stapling, Cerlox Binding and Printing
- Laser printing
- Fulfillment services

A breakdown of services are shown in the graph below:



The company is a full service facility that provides a wide range of direct mailing services. These include automated folding and stapling, inserting, labeling, ink jetting, poly bagging, laser printing and photocopying 1st class, 2nd class and 3rd class mail preparations for both Canada and the United States.

Customers use ABC's services to mass mail direct marketing materials for promotional products and services. As well, the company has the capability of providing graphic design and consulting services to assist their client in maximizing their marketing materials.

Market studies have shown ABC's services are growing as companies are attempting to reach out to more of the market in a cost efficient way.

PRODUCTION PROCESS

ABC is equipped to handle communications that have a variable or personalized message to deliver such as:

- Personalized letter
- Order form
- Monthly Invoice
- Personalized report

The process typically begins with a customer sending the 'data' to **ABC** for sorting. The 'data' is the names and addresses of the people and/or companies that will receive the information that is to be mailed. This information is sorted by postal route. The next step is to process the advertising material that is normally supplied by a printing or marketing client. Occasionally the customer will send only a sample and the company will have to reprint or photocopy the appropriate number of copies for mailing. If the material requires colour, it is sent to a printing company for processing.

In many cases the production process produces enough advertising material for a number of mailings. These items are loaded on pallets and stored in the company warehouse. **ABC** charges the customer rent for each pallet.

MARKET SERVED

ABC Ltd. services primarily Anytown, Anywhere which has approximately 1500 small businesses and advertising agencies, of which ABC Ltd. estimates it has 25% of the overall market. For the most part, these are small businesses in the start up to growing stage.

MARKETING AND PROMOTION

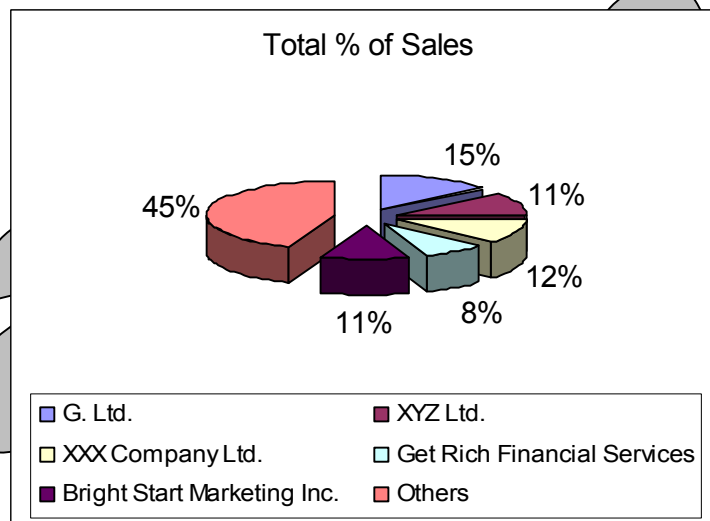
The company advertises in the yellow pages, various trade magazines and directories and in the Direct Marketing News. They also receive numerous requests for quotes from printing and marketing companies. ABC has recently hired an additional full time salesman to make cold calls on prospective clients.

CUSTOMERS

The top five customers of ABC Ltd. are:

- G. Ltd.
- XYZ Ltd.
- XXX Company Ltd.
- Get Rich Financial Services
- Bright Start Marketing Inc.

The following graph demonstrates the percentage of sales each represent to ABC Ltd.



Approximately 80% of ABC's customers are repeat customers, however most of the major contracts are received from marketing and printing companies. These companies spread their business to a number of direct mail firms and are not dependent on any one company. There are several hundred of these companies in the area.

Terms for customers are usually 30 days, however, if the company qualifies, those terms could extend to 60 days. Due to tight credit requirements, very little bad debt has been experienced.

COMPETITIVE ENVIRONMENT

Most of the direct mail advertising industry is a shared market that no company dominates.

Management has stated that **ABC** has the advantage of being able to handle more complex assignments than most of their competitors. In the past few months the company has had better success in obtaining new business through the bidding process. They have made their rates more competitive.

The following table lists the competitors of ABC Ltd. from largest to smallest.

| Name | Location | Size |
|--------------|-------------------|--------|
| Competitor A | Anytown, Anywhere | Large |
| Competitor B | Anytown, Anywhere | Large |
| Competitor C | Anytown, Anywhere | Medium |
| Competitor D | Anytown, Anywhere | Small |
| Competitor E | Anytown, Anywhere | Small |

According to management, competition has grown slightly over the past few years, however, due to the recent economic times, it is anticipated that only the companies that have been around will weather the storm.

SUPPLIERS

There are approximately 20 potential product suppliers to the Company of which they deal with approximately 15 at any given time. The Company orders its products in quantities considered necessary to its projected sales and to maximize the opportunity for quantity discount pricing. Terms are net 30 days and the Company's accounts payable are current.

HUMAN RESOURCES

ABC currently has fifteen employees on its roster. A complete listing of personnel is attached as Schedule B. there are six office employees and nine who work in the plant. There is no union at this time. According to management, the earnings for their staff are higher than the average in the industry and in the area.

When the company has a heavy work load, they hire temporary employees to assist their permanent staff. At present there are 3 Temporary Employment Agencies that **ABC** is using. In the past, the company has not had any difficulty in finding experienced people.

OPERATIONS

ABC management has indicated that their current operations are sufficient to meet the needs of their clients. At this time, they do not foresee any increase in staff to accommodate growth nor do they expect to increase bank loans.

DESCRIPTION OF FACILITIES

The company leases 5000 square feet of space in an industrial park that is close to the areas highway system. The lease is based on \$5.50 per square foot which is typical for this location and will expire in 2010 with a five year renewal option.

EQUIPMENT & VEHICLES

Please refer to the detailed equipment and vehicle lists attached.

FINANCIAL ANALYSIS

The financial analysis is outlined on the following pages.

ASSET VALUATION OF OUTSTANDING SHARES

The asset valuation approach is generally useful for asset intensive businesses and holding companies. This valuation approach is usually not as useful when appraising businesses with few assets, on-going businesses with large intangible assets and service businesses.

The adjusted book value method consists of a review of every item on the balance sheet. Each item is reviewed to see if it needs to be adjusted to fair market value. Sometimes appraisals on individual assets must be obtained from real estate or machinery & equipment appraisers to accurately apply this method. The adjusted book value method typically does not take into consideration any intangible value that the company may have.

Some of the adjustments include the removal of cash and investments as they do not typically transfer with the sale of a business and will remain the property of the seller. As well, land and buildings are removed from the Pro Forma Balance sheet in order for the true valuation of the business to be determined. It is also assumed that all shareholder and inter company loans be paid off at the time of sale.

The spreadsheet on page 15 is the actual Balance Sheets recorded from the companies financial statements.

The spreadsheet on page 16 is the adjusted Balance Sheet known as the Proforma.

ABC Ltd.
Balance Sheet Figures
As At December 31

| | 2008 | 2007 | 2006 |
|--|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Current | | | |
| Bank | 50,450 | 16,914 | 13,139 |
| Accounts receivables | 125,000 | 98,350 | 68,500 |
| Prepaid expenses | 18,870 | 16,627 | 15,912 |
| Total Current Assets | <u>194,320</u> | <u>131,891</u> | <u>97,551</u> |
| Capital Assets | | | |
| Processing equipment | 600,000 | 550,000 | 550,000 |
| Computer equipment | 100,000 | 100,000 | 100,000 |
| Less Accumulated Amortization | (259,160) | (236,145) | (215,960) |
| Total Capital Assets | <u>440,840</u> | <u>413,855</u> | <u>434,040</u> |
| TOTAL ASSETS | <u>635,160</u> | <u>545,746</u> | <u>531,591</u> |
| LIABILITIES & EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 125,130 | 155,145 | 119,125 |
| Income taxes payable | 1,416 | 3,950 | - |
| Total current liabilities | <u>126,546</u> | <u>159,095</u> | <u>119,125</u> |
| Due to related parties | | | |
| Advances from shareholders | 30,000 | 50,000 | 50,000 |
| Total due to related parties | <u>30,000</u> | <u>50,000</u> | <u>50,000</u> |
| Total Current Liabilities | <u>156,546</u> | <u>209,095</u> | <u>169,125</u> |
| TOTAL LIABILITIES | <u>156,546</u> | <u>209,095</u> | <u>169,125</u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | | | |
| Common shares | 100 | 100 | 100 |
| Retained earnings | <u>478,514</u> | <u>336,551</u> | <u>362,366</u> |
| TOTAL SHAREHOLDERS' EQUITY | <u>478,614</u> | <u>336,651</u> | <u>362,466</u> |
| TOTAL LIABILITIES & EQUITY | <u>635,160</u> | <u>545,746</u> | <u>531,591</u> |

PROFORMA BALANCE SHEET

ABC Ltd.
Balance Sheet
(All Figures in \$CDN)

| | Actual <u>Dec. 31, 2008</u> | <u>Adjustments</u> | Pro Forma for Valuation |
|--|--------------------------------|------------------------|----------------------------|
| ASSETS | | | |
| Current | | | |
| Bank | 50,450 | (50,450) | - |
| Accounts receivables | 125,000 | - | 125,000 |
| Prepaid expenses | 18,870 | 130 | 19,000 |
| Total Current Assets | <u>194,320</u> | <u>(50,320)</u> | <u>144,000</u> |
| Capital Assets | | | |
| Processing equipment | 600,000 | - | 600,000 |
| Computer equipment | 100,000 | - | 100,000 |
| Less Accumulated Amortization | (259,160) | 160 | (259,000) |
| Total Capital Assets | <u>440,840</u> | <u>160</u> | <u>441,000</u> |
| TOTAL ASSETS | <u><u>635,160</u></u> | <u><u>(50,160)</u></u> | <u><u>585,000</u></u> |
| LIABILITIES & EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 125,130 | (130) | 125,000 |
| Income taxes payable | 1,416 | (416) | 1,000 |
| Total current liabilities | <u>126,546</u> | <u>(546)</u> | <u>126,000</u> |
| Due to related parties | | | |
| Advances from shareholders | 30,000 | (30,000) | - |
| Total due to related parties | <u>30,000</u> | <u>(30,000)</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>156,546</u> | <u>(30,546)</u> | <u>126,000</u> |
| NET BOOK VALUE | | | |
| Share capital | | | |
| Common shares | 100 | (100) | - |
| Retained earnings | 478,514 | (19,514) | 459,000 |
| TOTAL NET BOOK VALUE | <u>478,614</u> | <u>(19,614)</u> | <u>459,000</u> |
| TOTAL LIABILITIES & EQUITY | <u><u>635,160</u></u> | <u><u>(50,160)</u></u> | <u><u>585,000</u></u> |

PRE-TAX RESTATED CASH FLOW PROFITS

Pre-Tax Restated Cash Flow Profits

For The Year Ended December 31, 2008

| | |
|---|---------|
| Profit Before Taxes | 297,926 |
| Add Back: | |
| Owners' Compensation | 125,000 |
| Depreciation | 23,015 |
| Vehicle Expense | 15,000 |
| TOTAL ADD BACKS | 163,015 |
| PROFIT PLUS ADD BACKS | 460,941 |
| Deduct: | |
| Normalized Management Compensation | 95,000 |
| Economic Depreciation | 15,650 |
| TOTAL DEDUCTIONS | 110,650 |
| CASH FLOW PROFITS | |
| after Normalized Management Salaries | |
| and Economic Depreciation | |
| but before Income Taxes | 350,291 |

Asset Valuation of Outstanding Shares

ABC Ltd.

As at December 31, 2008

| | |
|--|-----------------------|
| Accounts Receivable to be calculated on closing, Estimated | 125,000 |
| Other Current Assets | 19,000 |
| Equipment, Furniture and Fixtures | 441,000 |
| Goodwill | 350,291 |
| TOTAL ASSET VALUE: | <u>935,291</u> |
| Less: Liabilities | 126,000 |
| TOTAL VALUE OF ALL ISSUED AND OUTSTANDING SHARES: | <u><u>809,291</u></u> |
| Having a Proforma Book Value of 459,000 | |

The Asset Valuation of Shares is:

| | |
|---------------|------------------|
| **High | \$850,000 |
| **Low | \$810,000 |

**High and low are based on the market value ranges of the equipment, furniture and fixtures

MARKET VALUATION METHOD

Data for this method was obtained from The Institute of Business Appraisers, Inc. (IBA) market database.

A search for data in Standard Industrial Classification (SIC) code 7331 was requested and received from The Institute of Business Appraisers (IBA) database. The following shows the modified report.

SIC CODE: 7331

| Business Type | Annual Gross \$000's | Discret. Earnings \$000's | Owner's Comp. \$000's | Sale Price \$000's | Price/ Gross | Price/ Earnings |
|----------------------------|-------------------------|---------------------------------|-----------------------------|-----------------------|--------------|-----------------|
| Direct mail | 330 | 90 | | 130 | 0.39 | 1.44 |
| Mail order | 796 | 146 | | 449 | 0.56 | 3.08 |
| Coupon Advertising | 257 | 92 | | 50 | 0.19 | 0.54 |
| Pack/ship service | 130 | 40 | | 75 | 0.58 | 1.88 |
| Direct Mail Advert | 259 | 21 | | 100 | 0.39 | 4.76 |
| Direct Mail | 253 | 91 | | 200 | 0.79 | 2.2 |
| Postal/Mailbox/Misc | 673 | 88 | | 135 | 0.2 | 1.53 |
| Direct Mailing | 445 | 142 | | 260 | 0.58 | 1.83 |
| Direct Mail/Printing | 622 | 166 | | 358 | 0.58 | 2.16 |
| Advertising | 336 | 86 | | 83 | 0.25 | 0.97 |
| Direct Mailing | 407 | 75 | | 125 | 0.31 | 1.67 |
| Direct Mailing | 446 | 142 | | 260 | 0.58 | 1.83 |
| Advertising Direct Mailing | 446 | 142 | 93 | 260 | 0.58 | 1.83 |
| Advertising Direct Mailing | 407 | 75 | 18 | 125 | 0.31 | 1.67 |

As shown there are several companies included in this database. It is expected that companies within a size factor of five of the subject company can be used to determine an indication of value for the subject company.

The median for the Price / Gross Sales was calculated. The median was selected for use as it tends to minimize the effects of outliers that may be included in the average. The Price / Sales ratio is typically a much better indication of value than the Price / Earnings ratio. This is

because business brokers who have submitted this information to the IBA all have different understandings of what should be included in earnings. The spreadsheet below, is the information provided outlining the Profit and Loss information for the past three years. Page 21, further explains the calculation.

ABC Ltd.
Statement of Earnings
For the years ended December 31

| | 2008 | 2008 % | 2007 | 2007 % | 2006 | 2006 % |
|--|------------------|---------------|------------------|---------------|------------------|---------------|
| TOTAL REVENUE | 1,200,000 | 100.00 | 1,100,000 | 100.00 | 1,000,000 | 100.00 |
| TOTAL COST OF SALES | 624,000 | 52.00 | 561,000 | 51.00 | 540,000 | 54.00 |
| GROSS PROFIT | 576,000 | 48.00 | 539,000 | 49.00 | 460,000 | 46.00 |
| OPERATING EXPENSES | | | | | | |
| TOTAL OPERATING EXPENSES | 130,059 | 10.84 | 135,579 | 12.33 | 121,890 | 12.19 |
| Operating Income | 445,941 | 37.16 | 403,421 | 36.67 | 338,110 | 33.81 |
| Officers Compensation | | | | | | |
| Management salaries | 125,000 | 10.42 | 125,000 | 11.36 | 125,000 | 12.50 |
| Total Officers Compensation | 125,000 | 10.42 | 125,000 | 11.36 | 125,000 | 12.50 |
| Operating EBITDA | 320,941 | 26.75 | 278,421 | 25.31 | 213,110 | 21.31 |
| Depreciation and Amortization | | | | | | |
| Depreciation | 23,015 | 1.92 | 20,185 | 1.84 | 18,053 | 1.81 |
| Amortization | | | | | | |
| Total Depreciation and Amortization | 23,015 | 1.92 | 20,185 | 1.84 | 18,053 | 1.81 |
| Operating Income/(Loss) EBIT | 297,926 | 24.83 | 258,236 | 23.48 | 195,057 | 19.51 |

PRICE / EARNINGS MULTIPLE METHOD

| | |
|---|-----------------------|
| Forecasted Pre-tax Net Income | 297,926 |
| Earnings before Interest and Taxes (EBIT) | 297,926 |
| Add: One Owner's Comp. (Peter Ducts' Market Salary) | <u>95,000</u> |
| EBIT Plus one Owner's Compensation | <u><u>690,852</u></u> |

| | |
|------------------------------------|-------------------------|
| EBIT Plus one Owner's Compensation | 690,852 |
| Price / Earnings Multiple | <u>1.83</u> |
| Gross Value | <u><u>1,264,259</u></u> |

Adjustments:

The information shown in the table from the various databases was obtained primarily from business brokers. The businesses are typically sold as asset only sales. The purpose of this appraisal however is to value the stock and not only the value of the assets of the company. Accordingly, the value generated using this method must be adjusted for the assets and liabilities included in the corporation that would not transfer in a normal asset sale.

Add: Assets not Typically Included in Asset Sales:
from Adjusted Book Value Method

| | |
|--|----------------|
| Accounts Receivable | 125,000 |
| Prepaid Insurance | 19,000 |
| Total Added to Value Obtained Using Multiple | <u>144,000</u> |

Less: Liabilities not Typically Transferred in Asset Sales:
from Adjusted Book Value Method

| | |
|---|------------------|
| All Liabilities | <u>(126,000)</u> |
| Total Subtracted from Value Obtained Using Multiple | <u>(126,000)</u> |

Estimated Value - Price / Earnings Multiple Method 1,282,259

Estimated Value - Price / Earnings Multiple Method - Rounded 1,280,000

Using the Market Valuation Method, the estimated value of ABC Ltd. is approximately \$1,280,000.

HISTORICAL EARNINGS VALUATION OF SHARES

Build-up Method

The Build-up Method computes a discount rate using the individual components identified below and adds them together to determine the total discount rate.

Using the Build-Up Method, a discount rate is comprised of the following:

1. A "risk-free rate" defined as the amount an investor feels certain of realizing over the holding period. This rate is composed of two parts. First, a "rental rate" to compensate the investor for the use of the money over the holding period. Secondly, a rate to cover the expected rate of inflation over the holding period.
2. A premium to cover the risk of the investment. This includes both Systematic risk and Unsystematic risk. Systematic risk is the risk related to changes over time in return to the investment market as a whole. Unsystematic risk is the risk specific to the investment in question.

U.S. Treasury obligations come the closest to "risk-free" investments. The best "risk-free" investment is probably the short-term U. S. Treasury Bill, however, its rate is not generally used by business appraisers as it does not match the typical holding period for closely held company investments. Instead, the "risk-free" rate most typically used by most business appraisers is the twenty-year U.S. Treasury

bond. The rate as of the effective date of the valuation should be used.

The risk premia added to the “risk-free” rate must cover three things. First, the risk of the market – the overall risk of equity investments, usually called the Equity Risk Premium. Second, an additional premium to compensate for the difference in size between large publicly traded securities and small public companies, usually is called the Size Premium. Third, a premium specifically related to the risk of the specific investment above that covered by the other premiums, usually called the Company Specific Risk Premium.

The table shown below lists the elements of the discount rate using the build up method for ABC Ltd.

Note: The rates have been intentionally left blank.

| | |
|---|---|
| Risk-Free Rate | |
| Equity Risk Premium | |
| Size Premium | |
| Company Specific Risk Premium | |
| Total Discount Rate | |
| Total Discount rate – Rounded | |
| Less: Long-Term Sustainable Growth Rate | |
| Capitalization Rate | 5 |

The Risk-free rate, Equity Risk Premium and Size Premium were all obtained from Ibbotson Associates 2008 Valuation Yearbook. Ibbotson Associates is a company that publishes an annual study based on Standard & Poors 500 stock returns over the yields on U.S. and Canadian Treasury Rates.

The Equity Risk Premium is taken from a table called "Key Variables in Estimating the Cost of Capital found in the Ibbotson publication. The number was taken from the "Equity Risk Premia" section of the table using the S & P 500, long-horizon expected equity risk premium, a factor representative of the risk of equity investments in the stock market as a whole.

The Size Premium identifies the risk of smaller public companies from those of large public companies. This premium has been identified by rates taken from a table called "Size Premia" also found in the annual Ibbotson Associates 2008 Valuation Yearbook publication. The size premium selected was that for companies with capitalization below \$192 million. This factor takes into consideration the additional risk for smaller public companies traded on the stock exchanges. It must be added to the previous factor representative of the risk of the entire stock market equities as a whole.

There is no readily available source of information that can effectively be used to determine the unsystematic risk, identified as the Company Specific Risk Premium. The appraiser using judgment and experience must determine it.

The Company Specific Risk Premium was selected by the appraiser based on using a net cash flow income stream and, in part, on a review by the appraiser of criteria such as the following:

1. Industry risk;
2. Financial position of the company;
3. Level of Diversification;
4. Depth of Management;
5. Competition;
6. Barrier to funds (difficulty for small businesses to borrow funds);
7. and Expected growth or decline of the business.

Some industries have higher risks associated with them than others. A company's financial risk is typically evaluated based on various financial ratios and a comparison of them to industry averages and the company's historical results. A company with more products, a wider customer base, different geographical locations, etc. generally has less risk associated with it than a less diverse company. Other operational factors includes such things as management depth, key man issues, and the expected growth or decline of the business.

Another rate used in the income approach is the expected long-term growth rate. Based on the historical growth of the company, taking into consideration the present economic outlook and the industry outlook, the appraisers have determined that the long-term sustainable long-term growth rate for ABC Ltd. should be 3%. This means that assuming long-term inflation averages three percent, the

company should experience real annual growth rate of (Company growth rate minus inflation (3%))

The following is a review of the individual factors often used in order to develop the specific company risk.

Note: The risk premiums have been intentionally left blank.

| Company Specific Risk Premium | |
|--|--|
| Industry and economic risk | |
| Financial position of the company | |
| Level of diversification | |
| Depth and quality of management | |
| Competition | |
| Barrier to funds (difficulty for small businesses to borrow funds) | |
| Expected growth or decline of the business | |
| Total Specific Company Risk Premium | |

sample

ABC Ltd.
As At December 31

RESTATED PROFIT AND LOSS:
Years Ending December 31

| | 2008 | 2007 | 2006 |
|------------------------------------|------------------|------------------|------------------|
| SALES | 1,200,000 | 1,100,000 | 1,000,000 |
| PROFIT BEFORE TAXES | 297,926 | 258,236 | 195,057 |
| ADD BACK: | | | |
| Owners compensation | 125,000 | 125,000 | 125,000 |
| Depreciation | 23,015 | 20,185 | 18,053 |
| Vehicle Expense | 15,000 | 15,000 | 15,000 |
| TOTAL ADD BACKS | 163,015 | 160,185 | 158,053 |
| TOTAL PROFIT PLUS ADD BACKS | 460,941 | 418,421 | 353,110 |
| DEDUCT: | | | |
| Normalized Management Salaries | 95,000 | 95,000 | 95,000 |
| Economic Depreciation | 14,730 | 12,918 | 11,554 |
| TOTAL ADJUSTMENTS | 109,730 | 107,918 | 106,554 |
| RESTATED PROFIT | 351,211 | 310,503 | 246,556 |
| ESTIMATED INCOME TAX | | | |
| @ 18.62% on 1st 400,000 | 65,396 | 57,816 | 45,909 |
| @ 40.79% on Remainder | 0 | 0 | 0 |
| TOTAL TAXES | 65,396 | 57,816 | 45,909 |
| NET RESTATED AFTER TAXES | 285,815 | 252,687 | 200,647 |

Weighted Average Restated Profit after Taxes

| | N I A T | | M U L T I P L E | | |
|--|-----------|---|-----------------|---|-----------------------|
| 2008 | 285,815 | X | 3 | = | 857,446 |
| 2007 | 252,687 | X | 2 | = | 505,373 |
| 2006 | 200,647 | X | 1 | = | 200,647 |
| | | | | | <u>1,563,466</u> |
| | 1,563,466 | / | 6 | = | 260,578 |
| Weighted Average Restated Profit After Taxes: | | | | | <u>260,578</u> |

After reviewing this operation, we are of the opinion that, given the established nature of this business, the capitalization rate after-tax earnings is:

$$260,578 \quad \times \quad 5.00 \quad = \quad 1,302,889$$

sample

EQUIPMENT LIST

| ITEM | MANUFACTURER | MODEL | AGE | HOURS USED AVERAGE WEEK | ORIGINAL COST "APPROX" | ESTIMATED VALUE APPROX. USED | ESTIMATED COST REPLACEMENT NEW |
|------------------|--------------|-------|--------|-------------------------------|------------------------------|------------------------------------|--------------------------------------|
| Printer | Xerox | Super | 5 yrs | 30 | \$1,500.00 | \$500.00 | \$2,500.00 |
| Printer | Heidelberg | | 10 yrs | 15 | \$50,000.00 | \$35,000.00 | \$75,000.00 |
| Stacking Machine | | | 8 yrs | 40 | \$45,000.00 | \$32,000.00 | \$60,000.00 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
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| | | | | | | | |

sample