Enterprise Valuation for:

Spectrum Enterprises, Inc.

PREPARED FOR: Jill Matthews

Date of Report: January 13, 2021

Effective Date: November 30, 2020

STONEBRIDGE

PREPARED BY:
Dan O'Connell, President
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OPINION LETTER

2021-01-13
Jill Matthews
Spectrum Enterprises, Inc.
123 Easy Street, Denver CO

Dear Jill Matthews,

Stonebridge was hired to appraise Spectrum Enterprises, Inc. as of 2020-11-30. The valuation purpose is to estimate the value for 409 (A) IRS compliance purposes. The business was appraised using the fair market value as the standard of value for the company assuming no discount for a lack of control (DLOC) andno discount for lack of marketability (DLOM). Please note the limiting conditions listed in the later section of the report.

The *Fair Market Value (FMV)* is defined as the value an asset or liability would exchange hands given a willing buyer and seller negotiate an "arms-length" transaction with neither party under duress and with the parties having access to all pertinent information.

There are no restrictive agreements that might impact value. I have reviewed information on Spectrum Enterprises, Inc. as well as the assumptions based on client discussions that allowed me to forecast the future cash flow of the business, review the assets and liabilities to the extent possible and build out the Discount and Capitalization Rate, which is essentially an indicator of risk in the business investment.

All traditional approaches to value were considered in this valuation and the appropriate allocation of methods and calculations were weighted that best represent the Company's value. The effective date of this appraisal is 2020-11-30. The appraisal's estimated value for 100.00% of the company's shares or interest, without any discounts and premiums, is $1,200,000 of equity value. Equity value subtracts interest-bearing term debt from the enterprise value. Enterprise value is the invested capital value (debt and equity) of the business. This opinion of value is being presented as described per the valuation assignment in this report. The client is Jill Matthews who is the intended user of this report. This report is to be only used by the stated user for the purpose listed in the valuation assignment.

Daniel P. O'Connell
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COMPLIANCE AND PROCESSES

IRS REVENUE RULING 59-60 COMPLIANCE

When valuing closely held stock or ownership interest of companies, often market quotes are not available for privately-owned companies. IRS Revenue Ruling 59-60 outlines the proper procedures, approaches and qualifications for valuing these closely-held companies and in considering all relevant factors that impacts the fair market value.

IRS Revenue Ruling 59-60 states that certain factors need to be considered in arriving at the Fair Market Value of an asset or liability. This valuation report addresses these requirements, specifically:

1. Define the nature of the business and the economic environment.
2. Research the book value and the company's financial condition.
3. Review the earnings capability and the dividend paying capacity if relevant.
4. Review whether the company has goodwill or intangible value.
5. Research pricing of similar companies and utilize the proper capitalization rates.
6. Discover if restrictive agreements impact value and weight the valuation conclusions logically.

409 (A) COMPLIANCE

The Internal Revenue Service introduced Section 409 (A) of the IRS Code which allows a method for private companies to attain a safe harbor status. This means that a 409 (A) valuation which is performed by a qualified "third party" and adheres to the traditional valuation guidelines that use the Income, Asset and Market Approach is presumed to be valid unless the IRS can demonstrate that the valuation is "grossly unreasonable". With a 409 (A) valuation the burden is on the IRS; without it the burden is on the company to validate that the valuation is reasonable. This valuation has been conducted by a qualified third party appraiser whose valuation methods comply with IRS Revenue Ruling 59-60, the Uniform Standards of Professional Appraisal Practice (USPAP) and uses the Asset, Income and Market Approach with the appropriate weighting. Section 409 (A) is presumed reasonable if the stock was valued within twelve months of the option grant date with no material change between the valuation date and the grant date.

UNIFORM STANDARDS OF PROFESSIONAL APPRASIAL PRACTICE

The Uniform Standards of Professional Appraisal Practice (USPAP) addresses ethical and performance obligations of appraisers. Ethic rules deal with integrity, impartiality, objectivity, independent judgement and ethical conduct. Other requirements consider the appraiser's knowledge, experience, competency and scope of work rules in identifying key issues, research and analysis. This appraisal adheres to the USPAP guidelines.

THE VALUATION PROCESS

Business value is derived from an economic benefit stream and a risk factor that relates to the business and it's expected economic benefit stream. In order to arrive at a valuation opinion, this report will review the company's risk associated with a "proposed" investment and the historical and forecasted financial statements, key ratio reviews, the cost of capital and the future net cash flows. We will then be able to apply the cost of capital to the company's economic benefit stream (the Income Approach) and review and the appropriate risk adjusted multiples to similar companies (the Market Approach) and an analysis of the assets (the Asset Approach). After various valuation methods and calculations have been estimated, the appropriate weighing to specific calculations will be made that best represent the company's enterprise value.

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THE VALUATION ASSIGNMENT

DEFINING THE VALUATION ASSIGNMENT

When defining the appraisal assignment, it is important to understand the concepts or directives that form the basis of this opinion of value and that these concepts meet your understanding of this assignment. If the appraisal assignment changes, some of the following valuation criteria might need to reflect the new intent and the appraisal assignment might need to be updated. "Company" used in this report covers any asset or liability being appraised.

DISCLAIMER

Stonebridge relies on the client, the company and the management team for its financial reporting and projections of the company's financials. While this information is deemed reasonable for the purposes of this report, Stonebridge makes no representations or warranties to the accuracy or thoroughness of this valuation report (see scope of appraisal and the *engagement's limiting conditions*).

VALUATION CONCEPT OF BENEFIT STREAM AND RISK

Business value is derived from an economic benefit and is weighted by a risk factor that relates to the risk in the company's business model. The economic benefit usually refers to a monetary flow such as earnings before interest, taxes, depreciation and amortization (EBITDA), Net Operating Profit After Tax (NOPAT), Gross Profit, or Net Cash Flow (NCF), etc. The risk factor is the rate of return a potential investor requires given the risk of attaining the expected economic benefits stream. The greater this risk, the greater the investor's needed rate of return and the lesser the value of the interest being appraised. In the case of less risk, the less the needed investor's rate of return and the greater the value of the interest being appraised. The investor's needed rate of return is the Cost of Equity and the debt and equity return needed is the Discount Rate.

In order to arrive at a valuation opinion, this report will review the company's historical and forecasted financial statements and the associated business and industry risk. This report will develop the cost of capital and apply that to the economic benefit stream to arrive at the Discounted Cash Flow Method and the Capitalization of Earnings Method. In addition, this report will apply the Market Selling Multiples Method to specific company benefit streams. When the company is being valued an on-going concern, the asset or cost approach to value might not be relevant in this report (see premise of value) and may not be used.

INTEREST BEING APPRAISED

Spectrum Enterprises, Inc. ("the Company) is being appraised for 100.00% of ownership interest which is defined as the enterprise value of the company which is the invested capital value (debt and equity) of the business. The Equity value is calculated by subtracting the term debt from the enterprise valuation.

This appraisal assumes a control interest (no Discount for Lack of Control - DLOC) which is defined as an equity interest greater than 50% or an equity position that is considered a swing vote, and therefore a controlling interest. A control interest means the shareholder has operating control to make decisions and can influence company performance.

This appraisal assumes no adjustment or Discount for a Lack of Marketability (DLOM). An adjustment for lack of marketability is defined as the percentage value deducted from the value of an ownership interest to reflect the absence of marketability relating to the longer period (and risk) it takes to convert ownership to sale proceeds (liquidity).

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THE VALUATION ASSIGNMENT (cont.)

SCOPE OF THE APPRAISAL

This valuation is a Calculated Valuation. A calculated value provides an approximate indication of enterprise value or range of value. A Calculated Value is based on limited procedures (eg: no audit of company) and uses information deemed to be relevant and agreed upon between the valuator and client regarding the company's performance, market conditions and future opportunities.

STANDARD OF VALUE

The *Fair Market Value* standard is being used in this appraisal to render an opinion of value (or range of value). The Fair Market Value addresses the broadest spectrum of value that is reflected by the company's operations, markets and potential buyers. The common definition of Fair Market Value is the price at which a property would change hands between a willing buyer and seller, when the buyer is not under any compulsion to purchase and the seller is not under any compulsion to sell. Fair Market Value also assumes both buyer and seller have reasonable knowledge of the relevant facts.

PREMISE OF VALUE

This appraisal is based on the company as an on-going concern. The going concern premise of value assumes the company has the financial resources to continue operating into the foreseeable future whereas a non-going concern does not have the resources to continue operating and is a liquidity event.

EFFECTIVE DATE OF APPRAISAL

The report date of the appraisal is 2021-01-13 and the latest reported financials are as of 2020-12-31. The effective date of the valuation is 2020-11-30. If material time has elapsed from these dates or events occurred subsequently that may impact value, we suggest an update to the report, depending on the significance of how this opinion of value will be used by the intended user of this report.

CLIENT AND PURPOSE OF APPRAISAL

The client is Jill Matthews, the only intended user for this report. The purpose of this appraisal is to estimate the Fair Market Value (or value range) of Spectrum Enterprises, Inc. for 409 (A) IRS compliance purposes.

DATA SOURCES, VALUATION PROCESS & CONDITIONS

Financial and operational information was furnished by the Company. The Company provided expectations regarding the company's future performance. This report may utilizes information from the industry standard RMA database, Duff & Phelps Cost of Capital, BVR Deal Stats, BV DataWorld, Plusis DLOM, Mergerstat Review Premiums & Discounts and IBISWorld. Stonebridge did not tour the company's facility or office in its process but is reasonably familiar with the type of facilities involved. There have been no extraordinary or hypothetical assumptions made nor any limiting conditions placed on Stonebridge.

THE VALUATION PROCESS

Value is derived from a risk adjusted economic benefit stream. In order to arrive at a valuation opinion, this report will review the company's risk associated with a "proposed" investment, the historical and forecasted financial statements, key ratios, the cost of capital and the future net cash flows. The cost of capital will be applied to the company's economic benefit stream and review risk adjusted market selling multiples. The appropriate weighing of specific approaches will be made that best represent the Company's value.

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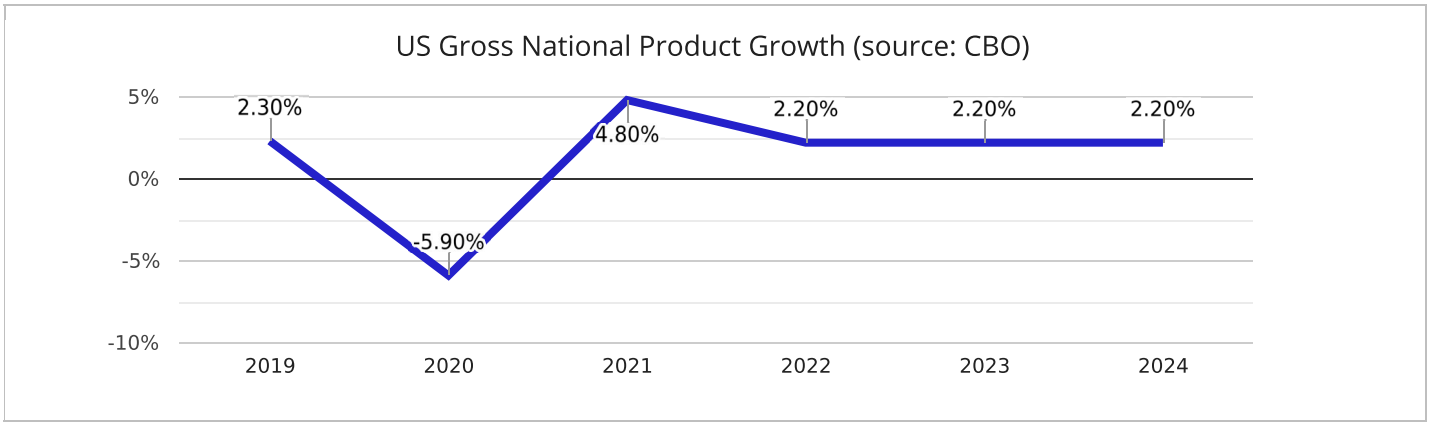
THE GLOBAL AND NATIONAL ECONOMIC IMPACT ON VALUE

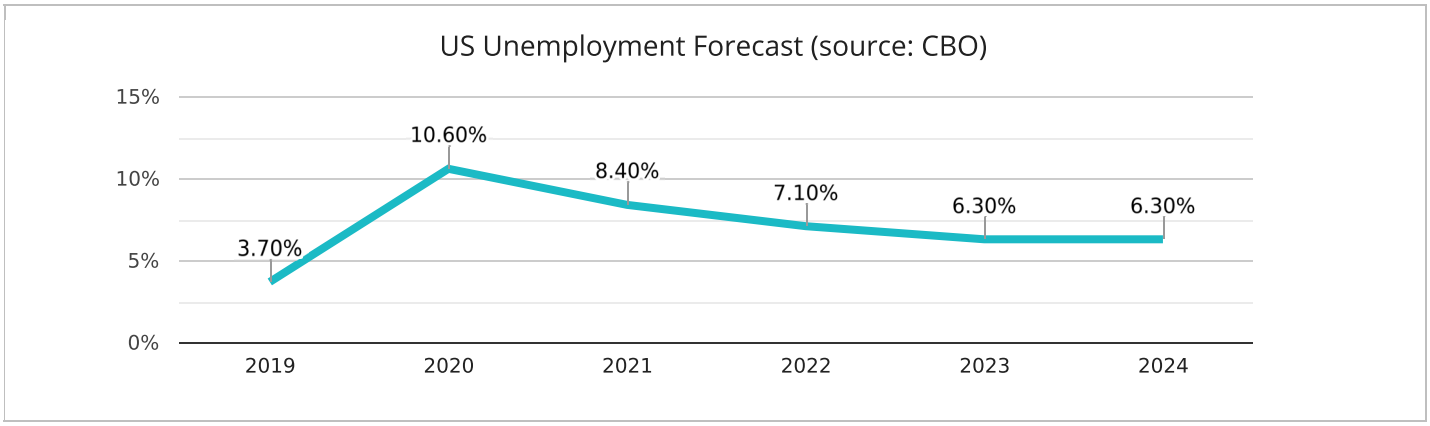
THE GLOBAL ENVIRONMENT AND IMPACT ON THE COMPANY

Economic data and the outlook for the economy can be relevant information that might impact the company and its industry in which it competes. The International Monetary Fund (IMF) is an international organization whose purpose is to promote global trade, financial stability, economic growth and humanitarian needs. Prior to Covid-19, the IMF projected strong global growth, however with the world lock-down to combat the pandemic, the IMF is estimating that the global ecomony will contract by 4.9% in 2020 and then grow 5.4% in 2021.

THE NATIONAL ENVIRONMENT AND IMPACT ON THE COMPANY

While global economic conditions may impact a company, the national and local economy most likely has a greater impact on the Company. The Congressional Budget Office (CBO) published a forecast on two core economic trends, the Gross National Product and the Unemployment Rate. The current environment has seen a contraction in the US output with high levels of unemployment. While both economic trends seems to level out, it appears that it may take years to rebound fully. The Federal Reserve has maintained liquidity in the US economy which does provide capital for continued economic growth.





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This page will review the company, its products and services and the management team.

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THE THREE APPROACHES TO VALUE

When valuing a company's common stock (or an asset or a transfer of a liability) we need to value the enterprise by utilizing the various approaches to value and then allocate the methods and calculations from each approach. The three Approaches to Value are the Income, Market and Asset Approach. Theses approaches, methods and calculations are summarized below.

THE INCOME APPROACH

The Income Approach estimates value by estimating the benefits stream (income) generated by the assets over a period of time. The value of the business is equal to the present value of the future benefits from owning the assets. The two common methods are the Discounted Cash Flow Method and the Capitalization of Earnings Method.

The Discounted Cash Flow Method

The Discounted Cash Flow (DCF) summarizes the company's cash flow for a period of time (usually five years but can be longer until the cash flows reach stability) as well as the cash flow from the Terminal Value (assumes a sale of the business in a future year). The future cash flows are brought to the present value by discounting the cash flows using the Discount Rate which measures the risk in achieving the expected cash flows. The DCF is a multi-year method and the advantages are that each year's sales, costs, receivables, inventory, payables and capital expenditures can be estimated. These cash flows should be estimated with reasonable caution. Because a buyer is purchasing the future cash flow of the business, the DCF model is a strong indication of value.

The Capitalization of Earnings Method

The Capitalization of Earnings Method is similar to the DCF except that it is a single year method that only applies the operating cash flow to the capitalization rate. The Capitalization of Earnings Method is applicable when the cash flow is stable or consistent (mature company).

THE MARKET APPROACH

The Market Approach compares the subject company to it's industry peers. This comparison is accomplished by reviewing either private sale transactions or publicly traded companies. The benefit stream multiples are variations of income such as earnings before interest and taxes (EBIT) or EBITDA (depreciation & amortization), net operating profit after tax, gross profit, sales, etc. The industry multiple's are applied to the subject company's benefit stream using the multiples from the Guideline Public Companies or the private company transactions. The Market Approach is applicable if the subject company is similar to its industry peers.

THE ASSET OR COST APPROACH

The Asset Approach normally results in the lowest value for an operating company and measures the tangible assets. This approach can be based on the Net Asset Value or the Liquidation Value. The liquidation value assumes the company is not an on-going business. This report estimates the Net Asset Value which is defined as the market value of the assets less the market value of the liabilities. An asset-based holding company (eg: real estate or investment companies) would use the Asset Approach.

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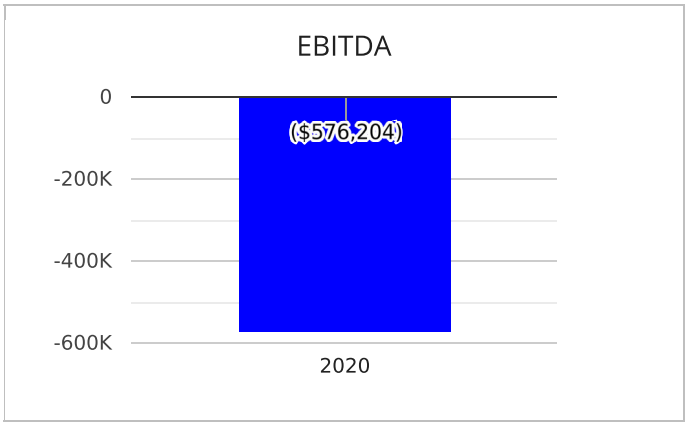
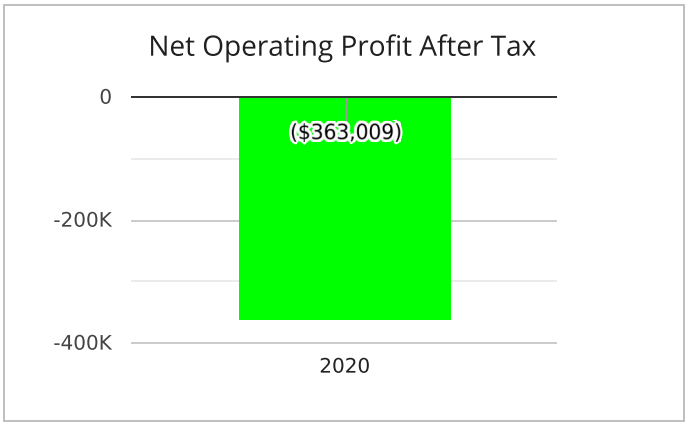
Income Statement	2020
SALES	
Revenues	$0
Revenue Growth Rate	
OPERATING EXPENSES	
Depreciation	$0
Amortization & Depletion	$0
Other Expenses	$576,204
Total Operating Expenses	$576,204
Operating Income (Op. EBIT)	($576,204)
Operating Income %	-
NON-OPERATING EXPENSES	
Interest Expense	$996
Adjustments (see table below)	$0
Other Non Operating Expenses	$0
Total Non-Op. Exp. (income is negative)	($275)
Net Profit Before Tax	**($575,929)**
OTHER KEY INCOME STREAMS	
Net Operating Profit After Tax	($363,009)
Seller's Discretionary Earnings	($576,204)

Net Operating Profit After Tax (NOPAT) applies a 37% marginal tax rate to the Operating Income. NOPAT and EBITDA reflect a debt free company (no interest, no debt). The latest ($363,009) of NOPAT, the ($576,204) of EBITDA and the ($576,204) of Seller's Discretionary Earning's are applied in the Market Approach Method.

Adjustments are non-operating expenses recorded as operating expenses but were not needed to operate the business. Adjustments might be compensation above or below market-based pay or discretionary expenses not expected to occur again. These adjustments 'normalize' the income stream.





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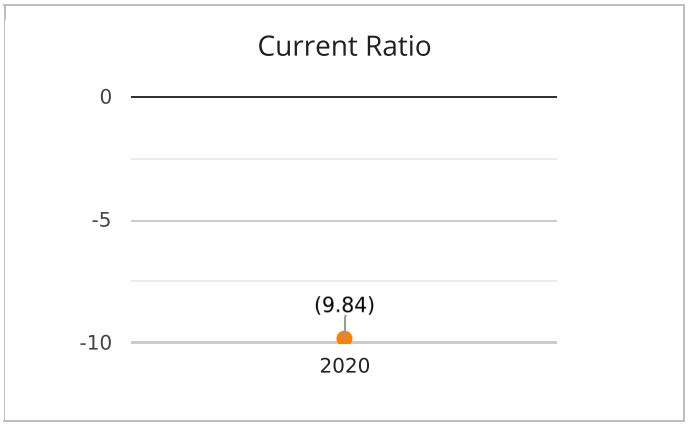
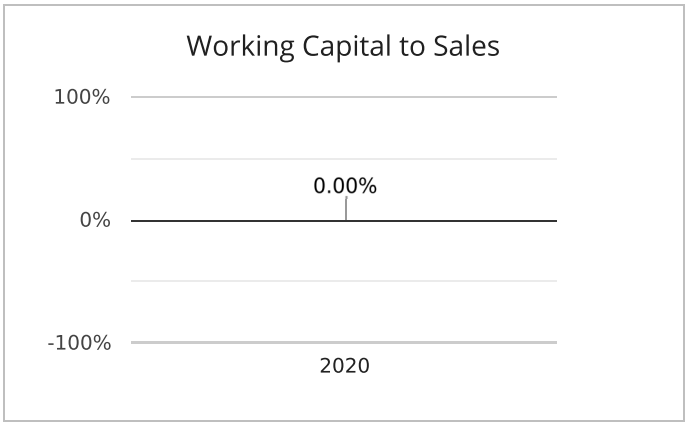
Balance Sheet	2020
CURRENT ASSETS	
Cash & Marketable Securities	$269,202
Accounts Receivable (Trade)	$0
Inventory	$0
Other Current Assets	$118,900
Total Current Assets	**$388,102**
LONG-TERM ASSETS	
Fixed Assets	$0
Accumulated Depreciation	$0
Net Fixed Assets	$0
Other Long-term Assets	$380,000
Total Long-term Assets	$380,000
Total Assets	**$768,102**
CURRENT LIABILITIES	
Cur. Maturities of LT Debt	$0
Accounts Payable	$8,654
Notes Payable	$746
Other Current Liabilities	($48,846)
Total Current Liabilities	**($39,446)**
LT LIABILITIES & EQUITY	
Term Debt	$785,437
Other Long-term Liabilities	$0
Total Long-term Liabilities	$785,437
Total Liabilities	**$745,991**
EQUITY	
Capital Stock	$0
Retained Earnings	$0
Other Stockholders' Equity	$22,111
Total Stockholders Equity	**$22,111**
Total Liabilities & Equity	**$768,102**





POINTS TO CONSIDER

Current Ratio: The Current Ratio is a liquidity measure of the short-term balance sheet (current assets/current liabilities. The latest current ratio of (9.84) is below the trend line. The latest working capital is above the average trend line of 0.00% in working capital percent to sales. The industry current ratio is 1.60.The Company has excess working capital of $451,216.

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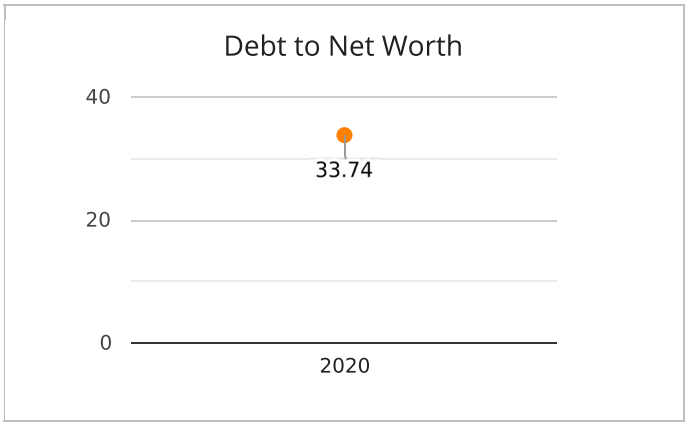
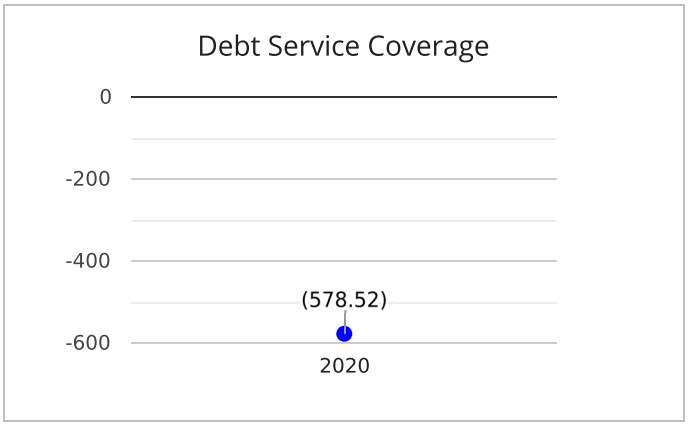
Balance Sheet (Common-Sized)	2020
CURRENT ASSETS	
Cash	35.05%
Accounts Receivable	0.00%
Inventory	0.00%
Other Current Assets	15.48%
Total Current Assets	**50.53%**
LONG-TERM ASSETS	
Total Fixed Assets	0.00%
Accumulated Depreciation	0.00%
Net Fixed Assets	0.00%
Other Long-term Assets	49.47%
Total Long Term Assets	49.47%
Total Assets	**100.00%**
CURRENT LIABILITIES	
Current Maturities of LT Debt	0.00%
Accounts Payable	1.13%
Notes Payable	0.10%
Other Current Liabilities	(6.36%)
Total Current Liabilities	**(5.14%)**
LONG_TERM LIABILITIES	
Term Debt	102.26%
Other Long-term Liabilities	0.00%
Total Long Term Liabilities	102.26%
Total Liabilities	**97.12%**
STOCKHOLDERS' EQUITY	
Capital Stock	0.00%
Retained Earnings	0.00%
Other Stockholders Equity	2.88%
Total Stockholders' Equity	**2.88%**
Total Liabilities & Equity	**100.00%**





POINTS TO CONSIDER

Leverage: A company's capital structure should allow for adequate liquidity which can be measured by the Debt to Net Worth Ratio (< 4:1 is best) and the Debt Service Coverage Ratio (> 1.25 is acceptable). The Company has too much liabilities or too little equity.

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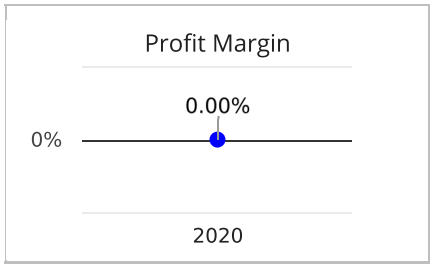
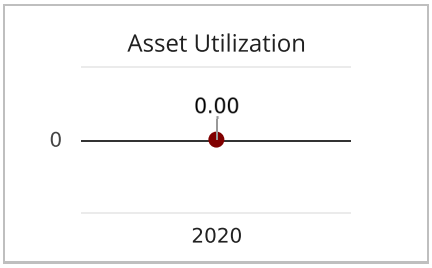
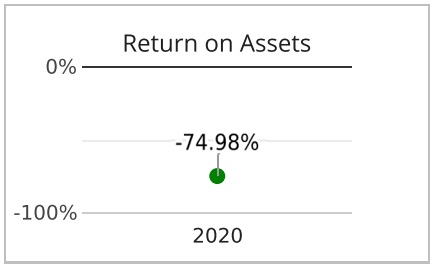
RATIO REVIEW	2020
PROFITABILITY RATIOS	
Sales Growth (> is better)	
Gross Profit Growth (> is better)	
Operating Expense Growth (< is better)	
Operating Income Growth (> is better)	
Operating Expense	-
Operating Income	-
Net Profit Before Tax	-
Operating EBITDA Margin	-
Return on Assets (> is better)	(74.98%)
Return on Equity (> is better)	(5209.44%)
Return on Capital Employed (> is better)	(71.32%)
LIQUIDITY RATIOS	
Current Ratio (> is better)	(9.84)
Quick Ratio (> is better)	(9.84)
Near Term Cash (cash + AR - AP)	$260,548
Working Capital (> is better)	$427,548
Working Capital to Sales (< is better)	-
Working Capital Turnover (> is better)	0
ACTIVITY RATIOS	
Accounts Receivable Days (< is better)	-
Inventory Days (sales)	-
Accounts Payable Days - no wages (> is better)	-
Working Capital Days (> is better)	-
Cash Conversion Cycle (< is better)	-
Asset Turnover (> is better)	0
Fixed Asset Turnover (> is better)	-
Sustainable Growth Rate (> is better)	(3386.13%)
FINANCIAL RATIOS	
Term Debt to Net Worth	35.52
Debt To Net Worth (< 4:1 is better)	33.74
Debt to Assets (financing assets)	0.97
Capitalization Ratio (<30% is better)	97.26%
Interest Coverage (>3 is better)	(577.24)
Debt Service Coverage Ratio (1.25 is better)	(578.52)







POINTS TO CONSIDER

In the latest period expense controls did not materially influence the Return on Assets (ROA)and the Asset Utilization had no impact on the ROA. The ROA is one of the most important measures on overall company performance. Expense controls and driving the most sales from the assets are the key to building future value.

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INTERIM FINANCIALS

INCOME STATEMENT FOR YEAR TO DATE ENDING	11/30/2020
REVENUES	**$0**
Cost of Goods Sold	$0
Gross Profit	
OPERATING EXPENSES	
Amortization	
Depreciation	
Wages & Salaries	
Officer Salaries/Wages	$0
Other Expenses	$528,187
Total Operating Expenses	**$528,187**
Operating Income	**($528,187)**
Interest	$913
Other Expenses (Income)	($1,165)
Net Profit Before Tax	**($527,935)**
Addbacks	$0
Reported Profit (loss)	**($527,935)**

BALANCE SHEET AS OF:	11/30/2020
CURRENT ASSETS	
Cash and Equivalents	$269,202
Accounts Receivable (Trade)	$0
Inventory	$0
Other Current Assets	$118,900
Total Current Assets	**$388,102**
LONG-TERM ASSETS	
Net Fixed Assets	$0
Other LT Assets	$380,000
Total Assets	**$768,102**
CURRENT LIABILITIES	
Cur. Maturities of LT Debt	$0
Accounts Payable	$8,654
Notes Payable	$746
Other Current Liablities	($48,846)
Total Current Liabilites	**($39,446)**
LONG-TERM LIABILITIES	
Term Debt	$785,437
Other LT Liabilities	$0
Total Liabilities	**$745,991**
EQUITY	$22,111
Total Liabilities & Stockholders' Equity	**$768,102**

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Income Statement (Forecast)	2021	2022	2023	2024	2025
INCOME STATEMENT BRIEF					
Sales	$325,000	$1,625,000	$2,925,000	$4,680,000	$6,552,000
Sales Growth	400.00%	400.00%	80.00%	60.00%	40.00%
Cost of Goods Sold	$0	$0	$0	$0	$0
Gross Profit	$325,000	$1,625,000	$2,925,000	$4,680,000	$6,552,000
Gross Profit Margin	100.00%	100.00%	100.00%	100.00%	100.00%
OPERATING EXPENSES					
Depreciation	$0	$0	$0	$0	$0
Selling, General & Admin Expenses	$406,250	$1,950,000	$2,486,250	$3,744,000	$4,914,000
Total Operating Expenses	$406,250	$1,950,000	$2,486,250	$3,744,000	$4,914,000
Operating Income (EBIT)	($81,250)	($325,000)	$438,750	$936,000	$1,638,000
Operating Income %	(25.00%)	(20.00%)	15.00%	20.00%	25.00%
Operating EBITDA	($81,250)	($325,000)	$438,750	$936,000	$1,638,000
EBITDA %	(25.00%)	(20.00%)	15.00%	20.00%	25.00%
Net Operating Profit After Tax (NOPAT)	($51,188)	($204,750)	$276,413	$589,680	$1,031,940
NOPAT %	(15.75%)	(12.60%)	9.45%	12.60%	15.75%
Seller's Discretionary Earnings (SDE)	($81,250)	($325,000)	$438,750	$936,000	$1,638,000

A startup's balance sheet can change quickly as the capital structure and debt leverage changes in the early years. Therefore this report does not estimate the forecasted balance sheet.

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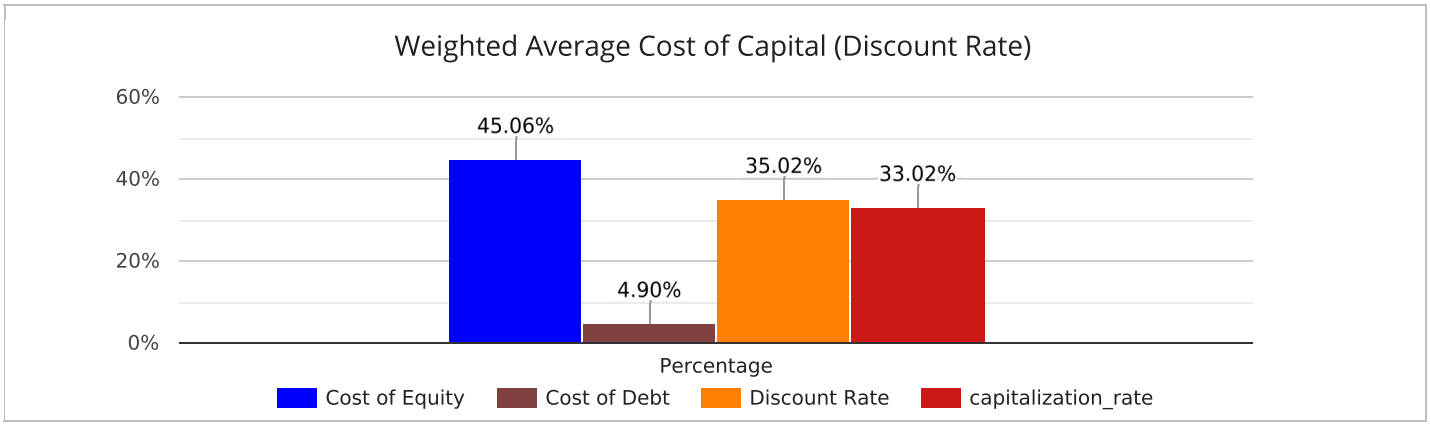
BUILD UP METHOD, DISCOUNT AND CAPITALIZATION RATE

The Build Up Method (BUM) applies risk factors to a proposed investment to arrive at the Discount Rate which is used in the Income Approach to Value. The BUM adds the Risk-Free Rate (assumes no risk on T Bills), the Equity Risk Premium (risk of equity above the T Bill), the Company Specific Risk Premium (CSRP) which is a non-diversified company risk, the Industry Risk (specific to the subject's industry) and Size Premium Risk (smaller companies have more risk). These risk factors total the Cost of Equity which is the rate of return an investor would seek on this type of investment in the subject company. The 20 year T-bill is a "normalized" rate that considers the Federal Reserves' policies to increase the money supply which drives interest rates lower.

The CSRP was given 25.00% points which adds to the investment risk which decreases value. The Cost of Equity and the Cost of Debt are weighted proportionately to determine the industry's capital structure and is called the Weighted Average Cost of Capital (WACC) and is commonly referred to as the Discount Rate (Cost of Capital). The Discount Rate is applied to the future cash flows in the Discounted Cash Flow Method on the next page. The long-term Growth Rate is deducted from the Discount Rate to arrive at the Capitalization Rate. The Capitalization Rate is applied to the Capitalization of Earnings method reviewed on the "Valuation Approaches" page.

Discount & Capitalization Rate	Percentage
Risk Free Rate	2.50%
Equity Risk Premium	5.50%
Industry Risk Premium	1.15%
Size Premium	10.91%
Company Specific Risk Premium	25.00%
Cost Of Equity	**45.06%**
Cost Of Debt	4.90%
Discount Rate (WACC)	**35.02%**
Growth Rate Terminal Year	2.00%
Capitalization Rate	**33.02%**



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THE WEIGHTED AVERAGE COST OF CAPITAL DETAIL

Calculating the Cost of Equity is the first part to estimate the weighted average cost of capital. Spectrum Enterprises, Inc.'s Cost of Equity is 45.06%. The information source is the CRSP Deciles Size Study from Duff & Phelps Cost of Capital (online) and the formula is:

Ke = Rf + ERP + RPi + RPs + CSRP

Ke = Cost of equity

(Source: Duff & Phelps Cost of Capital, normalized 20-year treasury)

Rf = Risk free rate of return on security

(Source: Duff & Phelps Cost of Capital)

ERP= Equity risk premium

(Source: Duff & Phelps Cost of Capital)

RPi = Industry risk premium

(Source: Duff and Phelps Cost of Capital Full Beta)

RPs = Risk premium on small stocks

(Source: Duff and Phelps Cost of Capital CRSP Decile 10z)

CSRP = Company specific risk premium

(The CSRP is added to account for risk above the financial markets)

The Weighted Average Cost of Capital (WAAC) or Discount Rate for Spectrum Enterprises, Inc. is 35.02%. The WACC proportionately weights the capital structure with the industry's capitalization of equity and debt. To arrive at the WACC the Cost of Equity and the Cost of Debt need to be calculated. The formula is:

WACC = (Ke x's E) + (Kd x's D)

WACC = Weighted average cost of capital

Ke = Cost of equity

Kd = Cost of debt

E = Percentage of equity in the capital structure

D = Percentage of debt in the capital structure

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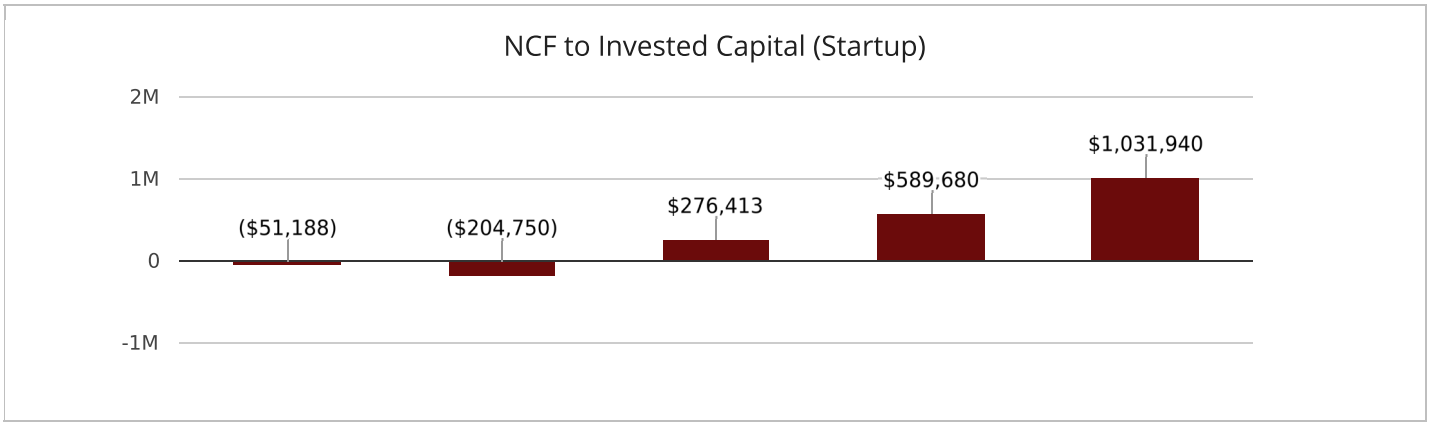
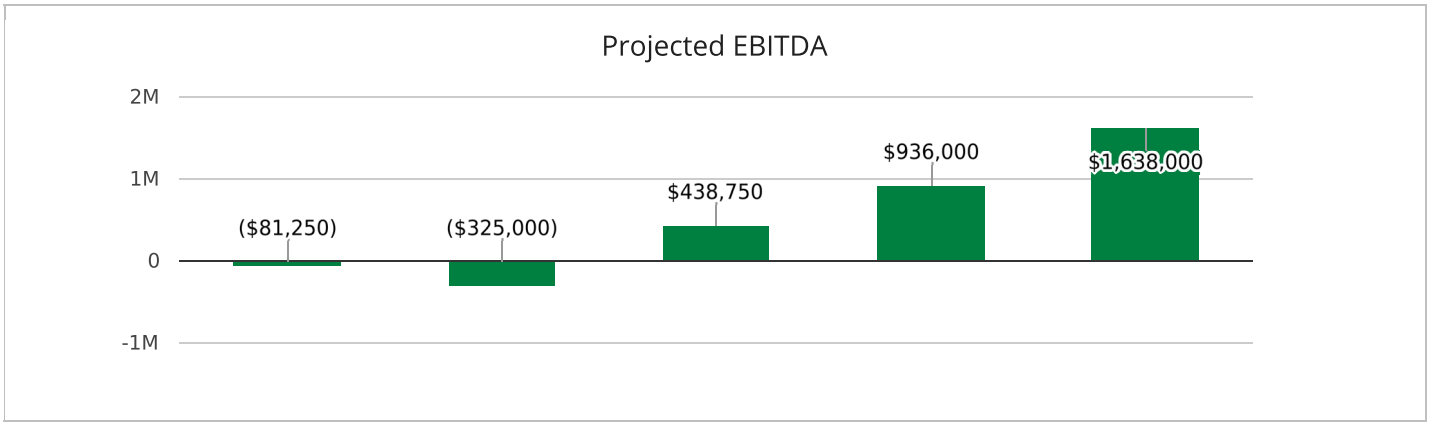
NET CASH FLOW (TO INVESTED CAPITAL)

The Net Cash Flow to Invested Capital is the cash available to debt and equity holders and is projected for a period of years (below). In the "termination" year after the last projected year, the shareholders theoretically recapitalize the business to total the sale proceeds along with the years of Operating Net Cash Flow. The Terminal Value is based on the month after the last projected year of net cash flow which is capitalized using the Capitalization Rate. The present value of the sum of the Operating Net Cash Flow plus the Terminal Value cash flow is presented on the next page under the Discounted Cash Flow Method.

Mid-Year or End-of-Year Convention Note:When applying the discount rate, it is typical to use either the end-of-year or mid-year in assuming the timing of the annual cash flows. Normally the mid-year best reflects the timing of the cash flows as the first half of cash flows will be overly discounted and the last half of the years will be under discounted. However the mid-year convention is best as the first and last half both cancel each other out and the middle of the year takes precedent. The end-of-year convention assumes the cash flows will come in at the very end of the year, which is unusual. This report uses the mid-year convention.

Net Cash Flow to IC	2021	2022	2023	2024	2025
Revenue	$325,000	$1,625,000	$2,925,000	$4,680,000	$6,552,000
Growth Rate	400.00%	400.00%	80.00%	60.00%	40.00%
EBITDA	($81,250)	($325,000)	$438,750	$936,000	$1,638,000
EBITDA %	(25.00%)	(20.00%)	15.00%	20.00%	25.00%
Income Taxes (37% Marginal Rate)	$30,063	$120,250	($162,338)	($346,320)	($606,060)
Capital Expenditures	$0	$0	$0	$0	$0
NCF to Invested Capital (Startup)	($51,188)	($204,750)	$276,413	$589,680	$1,031,940





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DISCOUNTED CASH FLOW METHOD (INCOME APPROACH)

The Net Cash Flow (NCF) is projected for five years. In the “termination” year after the fifth year, the shareholders theoretically recapitalize the business to total the sale proceeds and five years of operating net cash flow. The terminal value is based on the month after the fifth year's net cash flow which is capitalized using the Capitalization Rate. The DCF Method is the present value of the two cash flows.

Discounted Cash Flow Method (NCF to IC)	Present Value
Discounted Value of Operating Net Cash Flow	$421,859
Discounted Cash Flow of Terminal Value	$799,715
Discounted Cash Flow Method (DCF)	**$1,221,574**

THE TERMINAL VALUE METHOD

The mean of the selected Market Selling Multiples reflects public or private company selling multiples of EBITDA. The Terminal Value Method is a variation of the Selling Multiples Method that is applied to startup businesses. Rather than applying the latest EBITDA to the applicable 'selling' multiple, the Terminal Value Method applies this multiple to the estimated EBITDA in the **tenth year** after the Company is achieving sales and earnings. That value is brought to the present value using the discount rate. For the purposes of this valuation report, the industry multiples applies the industry mean and not individual companies within the industry. We believe the industry mean is a broad and accurate number.

Terminal Value Method	Values
EBITDA Multiple	9
Latest Proj. EBITDA	$1,638,000
EBITDA Applied Value	$14,742,000
Applied Discount Rate	35.02%
Present Value	$3,225,072

NET ASSET VALUE METHOD (ASSET APPROACH)

The asset approach reviews the market value of the company's assets and liabilities. The market value of the liabilities is subtracted from the market value of the assets to arrive at the Net Asset Value. If the asset and liabilities have been adjusted, this will be displayed on the next page.

Net Asset Value (before adjustments)	Value
Total Assets	$768,102
Total Liabilities	$745,991
Net Asset Value	**$22,111**

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ALLOCATED VALUATION FOR FMV

The Discounted Cash Flow (DCF) Method is a calculation based on several years of estimated cash flows. The Discount Rate should include the inherent risk in the business. The DCF Method was weighted 50% (multi-year approach) and the Terminal Value Method which often serves as a proxy to cash flow was weighted at 50%. The Funding Method has been weighed 0%. This allocation represents the Company's Fair Market Value.

Allocation	Valuation	Weighting	Applied Value
Discounted Cash Flow Method	$1,221,574	100.00%	$1,221,574
Net Asset Value	$1,022,111	0.00%	$0
Terminal Value Method	$3,225,072	0.00%	$0
FMV for 100% Interest		100.00%	$1,221,574

VALUATION CONCLUSION

Spectrum Enterprises, Inc. is valued at approximately $1,221,574 for the enterprise value. Because the company is a startup, the Terminal Value Method was used rather than the Selling Multiples Method that applies the latest income stream to an industry multiple. As a company that resembles a startup business (large ramp up in revenues) the Terminal Value Method, the Discounted Cash Flow Method and the Net Asset Value have been reviewed to estimate enterprise value. See the Company's deck book for more detailed information.

The Net Asset Value (NAV) table below adds the intangible value the Company has built that is off the balance sheet. The NAV for the Company is estimated at $1,000,000.

NET ASSET VALUE			
BALANCE SHEET AS OF:	11/30/2020	Adjustment	Adjusted
CURRENT ASSETS			
Cash and Equivalents	$269,202	$0	$269,202
Accounts Receivable (Trade)	$0	$0	$0
Inventory	$0	$0	$0
Other Current Assets	$118,900	$0	$118,900
Total Current Assets	**$388,102**		**$388,102**
LONG-TERM ASSETS			
Net Fixed Assets	$0	$0	$0
Other LT Assets	$380,000	$1,000,000	$1,380,000
Total Assets	**$768,102**		**$1,768,102**
CURRENT LIABILITIES			
Cur. Maturities of LT Debt	$0	$0	$0
Accounts Payable	$8,654	$0	$8,654
Notes Payable	$746	$0	$746
Other Current Liablities	($48,846)	$0	-$48,846
Total Current Liabilites	**($39,446)**		**-$39,446**
LONG-TERM LIABILITIES			
Term Debt	$785,437	$0	$785,437
Other LT Liabilities	$0	$0	$0
Total Liabilities	**$745,991**		**$745,991**
NET ASSET VALUE	**$22,111**		**$1,022,111**

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APPRAISER'S INDEPENDENCE

The business appraiser offers an objective and independent opinion of value of a business interest or a business appraiser can act in an advisory function which is not an objective opinion of value. In this valuation, the appraiser is offering an objective and independent opinion of value of the business interest. The appraiser is independent of the client and has no ownership interest, employee benefits or role in the company, is not an officer of the company and has no ongoing role in the future of the company. The consideration paid to an appraiser for the engagement should not be subject to meeting a client's expected concept of value. The appraisal fee for this valuation engagement is not dependent on any expectations of the client.

DANIEL P. O'CONNELL

Dan has been active in the appraisal business for over 20 years. Dan has passed intensive testing with the American Society of Appraisers (ASA) and will be applying for Senior Credentials. Dan has consulted with hundreds of companies in size from $2 million to $250 million in size on how to best build equity in the business by using the valuation process. Dan's concept is if business owners understand the components of business valuations, it serves as a great building tool to increase a company's cash flow and enterprise value. Dan meets the Qualified Valuation Expert status the IRS demands.

Dan started Stonebridge, a mergers & acquisitions firm in 1995 has been active in the financial services industry for over 25 years with a strong background in corporate finance, investment banking, financial analysis and business strategies. Dan has been active in the mergers and acquisitions area representing privately-owned businesses with $5 million to $100 million in sales as well as representing buyers for strategic acquisitions.

In addition, Dan assisted business owners in recapitalizing their balance sheet and raising growth capital, business reorganizations and buyouts. In the process, Dan was responsible for securing the proper financing for many of the transactions including debt and equity instruments. Dan has worked in the manufacturing, distribution, retail and business services industries. Over the years, Dan has provided hundreds of Fair Market Value business valuations to clients in who wanted market-based valuations.

Dan started Fiscal Advantage, a financial assessment service company for small businesses. Fiscal Advantage offer its Performance Insights program, a year-long practice (delivered quarterly) whose primary goal is to present information and an outside analytical perspective that can be utilized to accelerate financial performance and enterprise value.

ASSOCIATIONS AND EDUCATION

Dan graduated from St. John's University with a major in Business Administration and Management. Dan is a Member of the American Association of Appraisers and has applied for the Senior ASA Credentials.

Courses ASA Business Valuation 201, Market Approach to Value – Tested out
ASA Business Valuation 202, Income Approach to Value – Tested out
ASA Business Valuation 203, Asset Approach to Value, Discounts and Premiums – Tested out
ASA Business Valuation 204, Advanced Topics in Business Valuation – Tested out
Uniform Standards of Professional Appraisal Practice – Tested out
ASA Principles of Appraisal Code of Ethics – Tested out

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ADJUSTMENTS TO THE FINANCIAL STATEMENTS

A valuation reviews the benefits stream (income measure such as EBITDA) where owner discretionary spending is adjusted or added back to earnings to 'restore' the financial statements to a normalized basis. These adjustments can be made on the income statement and would include items such as one-time charges not expected to occur again and any shareholder distributions beyond a normal salary or expenses not pertinent to the day-to-day operations of the business. The balance sheet can also be adjusted to separate non-operating assets from the operating assets. The value of the non-operating assets is added to the fair market value.

BUILD UP METHOD (BUM)

The BUM's purpose is to measure the totality of a company's business risk. The risk measure starts with a risk-free rate which is the expected return on 20 Year Treasury Bills backed by the U.S. government. These risk-free investments generally offer a low risk and therefore lower rates of return. A company does not have the backing of the U.S. government and as an equity risk, the risk is higher than the T Bill. This Equity Risk is the risk of the equity investment beyond that of the risk-free rate. The Company Specific Risk Premium considers the non-diversified risk or the fact that this risk can't be diversified or spread over several companies or industries. In this valuation, we are including a size risk premium due to the subject company being smaller than the Guideline Public Companies used in the comparisons.

CAPITALIZATION METHOD

The Capitalization Method converts a company's benefit stream to a present value of the business. The Capitalization Method can use alternative measures such as Cash Flow to Equity or Cash Flow to Invested Capital. The formula is Benefit stream / Cap Rate.

CAPITALIZATION RATE

The Capitalization Rate is a percentage number calculated by deducting a company's growth rate from the Discount Rate. The Capitalization Rate is used to convert a company's single period benefits (income stream) to a capitalized value of a business.

DISCOUNTED CASH FLOW METHOD

Discounted Cash Flow (DCF) is the present value of future income streams. The DCF Method calculates the present value of a company's benefits stream (cash flow) and termination value, to present value of the business value. DCF utilizes the discount rate in the calculation.

DISCOUNT RATE

The Discount Rate is the risk rate used in a valuation to convert multiple periods of future benefits (income stream) to a capitalization value (present value). The discount rate utilizes the weighted average cost of capital (WACC) debt and equity participants would require given the risk of the future income stream of a business. The smaller the discount rate, the larger the business value.

EXCESS WORKING CAPITAL

When companies sell, buyers expect sellers to deliver the appropriate working capital at the closing, that is consistent with the industry or the needed liquidity to maintain the business. This working capital variance can be positive (cash back to seller) or negative (credit to buyer). If working capital is insufficient, buyers will consider the variance as purchase price which means a reduction in value.

GUIDELINE PUBLIC COMPANIES METHOD

The Market Approach uses selling multiples from Guideline Public companies where stock is traded daily. Accessing private data on company transactions can be difficult and spotty. Publicly traded companies are typically larger than private companies, are better capitalized, have more transparency, and are openly traded. Therefore, publicly traded company multiples are normally discounted by 30% due to size and liquidity. Public companies traded in volume presents a strong valuation model.

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NET CASH FLOW TO INVESTED CAPITAL

The Net Cash Flow (NCF) to Invested Capital is a widely used measure in determining the cash flow that is available to debt holders and shareholders. The NCF begins with the earnings before interest, taxes, depreciation and amortization or EBITDA. Interest is added back to reflect a debt free company (no debt, no interest paid). Because taxes will be paid and capital expenditures may be needed, these costs are subtracted from the EBITDA numbers. This net cash flow is used in the Discounted Cash Flow and Capitalization of Earnings Method.

WEIGHTING THE METHODS OF VALUE

Some valuation methods might better reflect value for a specific company. Experts select which methods best fits with the subject company being appraised to arrive at the Fair Market Value. A weighted average best suits most companies for a market-based appraisal. This valuation weights up to five different methods to arrive at Fair market Value.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

The weighted average cost of capital is the rate of a company's funding (debt and equity). WACC is the amount the debt and equity holders expect to receive and is the minimum return that is normally required by a company. If a company's ROIC is greater than the WACC, value is being created. If less, value is being diminished.

MARKET VALUE OF EQUITY (MVE)

The Market Value of Equity (MVE) is based on the income stream of a business including interest on debt and principle amounts. By deducting the interest payment from the Net Cash Flow and considering the change in the debt (principle), the company is valuing its equity. The Net Cash Flow to MVE is the cash available to the shareholders as the debt holders has been paid.

MARKET VALUE OF INVESTED CAPITAL (MVIC)

The Market Value of Invested Capital (MVIC) is based on the income stream of a business and does not include interest on debt or any principle amounts. By not deducting any interest payment from the Net Cash Flow and not considering the change in the debt (principle), the company is valuing the business based on the enterprise value of debt and equity. The Net Cash Flow to MVIC is the cash available to the shareholders and the debt holders.

SCOPE OF APPRAISAL

The scope of the appraisal defines the comprehensiveness of the process, the extent of the procedures used, and the detail of information collected and analyzed. The valuation scope ranges between a limited and a comprehensive valuation. A 'Calculated Value' such as this valuation, is a limited valuation. A calculated valuation provides an approximate indication of enterprise value or range of value based on limited procedures and information deemed to be relevant. The information collected is deemed to be accurate as presented by company management.

STANDARD OF VALUE

The standard of value refers to the type of value to be assessed. There are four types of values: Fair Market Value, Fair Value, Investment Value and Intrinsic Value. The Fair Market Value is the most common standard and is the value an asset would expect to sell for on the open market given broad assumptions. The Fair Value deals mostly with a fair value for legal purposes, and not the market or economic value. The Investment Value is based on what an asset would sell for given a specific buyer which is opportunistic in nature and is considered strategic. The Intrinsic Value considers all factors any prudent investor would see in the inherent value of a business and does not consider any extreme aspects of market conditions or behaviors.

GOODWILL (INTANGIBLE ASSETS)

Goodwill is the portion of the business value beyond the value of the identifiable tangible assets and identifiable intangible assets of the business. Goodwill is an intangible asset and is usually the result of an acquisition or purchase.

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ENGAGEMENT'S LIMITING CONDITIONS

1. This valuation is only valid for the stated purpose and as of the date listed in the Appraisal Assignment.

2. This valuation was performed with information from the Company and/or the Client. This information may include financials, ownership positions, business conditions, forecasted assumptions and other data and has been excepted and deemed to be accurate, but has not been verified. Stonebridge and the appraiser make no representations or warranties to the accuracy of this information.

3. This valuation relied upon industry information and has been accepted but not validated, but deemed accurate. Stonebridge makes no representations on the accuracy of this content.

4. Forecasted numbers are reliant on historical data and the Company or Clients vision and assumptions going forward. Because actual results can be different from forecasted results, sometimes significant variances can occur.

5. Forecasted numbers and the valuation conclusion both are predicated on continuous management execution and expertise and the company continuing to operate in such a manner as to not diminish the operations which may impact value. Because assumptions are based on client assumptions and Stonebridge has not performed an audit of the company or its financials, Stonebridge does not make any representations or warrantees to the valuation conclusion as the forecast can differ from actual performance.

6. This valuation does not offer or imply any investment or accounting advice in any way. The value in this report is the product of both Company or Client information that was used in the valuation process to determine value. This report is only to be used by the intended user (the client) and only for the purpose listed in the Appraisal Assignment.

7. Any future work product where the client is in need of additional work (testifying or providing more information) will be determined in a separate agreement between the client and Stonebridge.

8. Stonebridge is not obligated to perform any future services that deal with any subject manner in this report including testimony or attendance in court, or conference calls or meetings of any type unless a separate agreement is made between the parties. Any separate agreement must agree on the services and pricing required.

9. Stonebridge is not responsible for any environmental conditions or governmental laws, codes or rulings in any event that relate to the subject company, it's shareholders or client's diminished value in the asset being appraised. Stonebridge has not conducted any compliance, analysis or review on property or general company compliance with any governmental organizations or authorities and Stonebridge makes no representations or warranties on these conditions.

10. Stonebridge recommends that the client further investigate or contact specific professionals who can provide guidance on any governmental, environmental, legal, operational or financial matters that may impact value.

11. No changes to this report can be made. Only Stonebridge is allowed to make changes.

12. This report does not present a fairness opinion as to an actual value for a proposed transaction, a solvency opinion or an investment opinion unless expressly stated in the Appraisal Assignment. Values of exchanged assets may be significantly different from the appraisal value on a specific date and between specific parties.

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