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Ralphine O'Rourke, Esq.
Primmer, Piper, Eggleston & Cramer, PC
30 Main Street
Suite 500
PO Box 1489
Burlington, VT 05402-1489

RE: Tucows, Inc.
Schurz Communications, Inc.
Keep BT Local


Dear Ralphine:

I have been engaged to review the financial status of the above three named companies in regards to their financial stability and how that then integrates with their letters of intent to purchase Burlington Telecom.

First in order to develop a guideline company measurement tool, we look at the communications industry averages as provided by the 2015 Valuation Handbook – Industry Cost of Capital published by Duff & Phelps. The key ratios we will be looking to benchmark the companies against are listed below and are for the median population on a current and for comparison purpose we have listed the five year average:

	<u>Latest</u>	<u>5 year average</u>
Current Ratio	1.8	1.6
Equity Valuation Multiple		
EV/Sales	2.5	2.4
EV/EBITDA	8.1	7.3

Leverage Ratios

Debt/MV Equity	48.4%	48.3%
Debt/Total Capital	32.6%	32.5%
Cost of Debt	6%	
Cost of Equity Capital		
5-factor model	9.3	
Weighted Average Cost of Capital	7.5	

Tucows, Inc.

Current Assets	83 Million
Current Liabilities	84 Million
Long-term Debt	29 Million
Shareholder Equity	38 Million

Current ratio computes to 1/1, while industry average is 1.8/1. This means for every dollar of current liability there is one dollar of a current asset.

Debt to equity ratio computes to .76/1. This means for every 76 cents of debt there is 1 dollar of equity.

Cost of Debt appears to range from LIBOR plus 200 to 275 basis points or 3.71% to 4.46% as compared to the industry average of 6%.

As of 12/31/2016 the cash and cash equivalents were 15 Million.

Schurz Communications, Inc.

As of 12/31/2016 per audited financial statements we have listed below key numbers to compute comparable ratios:

Current Assets	██████████
Current Liabilities	██████████
Long-term Debt	██████████
Shareholder Equity	██████████

Current ratio computes to ██████ versus industry average of 1.8/1. This means for every dollar of current debt there is ██████ dollars of a current asset.

Debt to equity ratio computes to ██████ This means for every ██████ of debt, there is ██████ of equity.

Cost of debt is currently quoted at [REDACTED] or currently [REDACTED] as compared to the industry average of 6%.

As of 12/31/2016 the cash and cash equivalents were [REDACTED] and current investments were [REDACTED]

Keep BT Local

If we look forward with the proposed LOI there will be a company that will have 10 million on Long-term financing and a beginning capital injection of 500,000 for working capital. Without knowing the current assets and current liabilities we cannot compute the current ratios. If we assume 12 million market value then the Debt Equity ratio would be 5 to 1. Which means for every dollar of debt there is 20 cents of equity. If we assume Market Value of 30 million then the ratio would be .5 to 1. Which means for every 50 cents of debt there is 1 dollar of equity. The Cost of Debt is proposed to be at 14% as compared to the 6% for the industry. In regards to liquidity, the cost of operations including costs of sales and debt service is budgeted for 2018 to be \$6,822,534. This breaks down to \$568,545 per month and with a \$500,000 starting balance provides for less than one month of coverage.

[REDACTED]

There is a purchase price of [REDACTED] Million that assumes normalized working capital and that no additional cash needs to be infused at the time of purchase. There was no financial data available at this time for [REDACTED] financial balance sheet or historical operational results.

General Observations

- If we assume a EBITDA of 3.5 million then an enterprise valuation of Burlington Telecom using the industry average multiples of 8.1 it would compute to a market value of 28.35 million. If we use the enterprise valuation EV/Sales ratio and the 2018 budgeted sales of 10 million, we would come up with a valuation of 25 million for the enterprise value.
- If we assume a FMV (fair market value) of between 25 and 30 million, then the Keep BT Local proposal would pass this equity interest to the Burlington subscribers of BT as owners/members. As stated in the Keep BT Local LOI "In recognition of the fact Burlington residents/taxpayers have already paid nearly \$17 million dollars toward the development and operations of BT, there would be no additional cost for Burlington subscribers to become member/owners of KBTL." This means Burlington residents that are non BT subscribers will not get any benefit from any equity or value transfer.
- In analysis these three companies from purely a financial strength standpoint, the strongest company is Schurz Communications, Inc. with Tucows, Inc. also being a strong company while Keep BT Local has weaknesses with various financial benchmarks. [REDACTED] has not provided information in order to make any assessment as to financial strength.

- The cost of debt for Tucows, Inc. and Schurz Communications is well below the industry standard while Keep BT Local cost of debt is substantially higher than the industry standard. The [REDACTED] has not been defined at this time.
- Cash balance to be left at closing in the company would be zero in Keep BT Local and Schurz Communications while [REDACTED] assumes adequate cash left in and Tucows, Inc. is silent on amount.

I will be more than happy to discuss this analysis with the parties if that is deemed useful. Please be advised that this document and my attachments are privileged communication and covered under the NDA (non-disclosure agreement).

Sincerely,



Jeffery D. Small, CPA/ABV, CVA, CFF