

4.0 MARKET OVERVIEW

4.1 Provincial

Prince Edward Island has an aging infrastructure. The 2014-2015 Capital Budget will invest \$73 million in infrastructure projects across Prince Edward Island as well as \$32 million for projects to further improve the highway system. The budget also estimates that the Province will spend a total of approximately \$160 million over the next five years on transportation and infrastructure renewal.¹

4.2 Federal

The Building Canada Plan will end in 2014; however, the Federal Government is committed to creating a new Infrastructure program for 2015.

¹ Prince Edward Island Capital Estimates Fall 2013 as presented by the Honourable Wesley J. Sheridan, Minister of Finance, Energy and Municipal Affairs and Chair of Treasury Board.

5.0 BUSINESS OUTLOOK/BENEFITS FOR ACQUIRING PARTIES

The purchaser of Island Excavators (1985) Ltd. will be acquiring a well established and well known Island heavy construction operation. All of the equipment and product is in place to continue to provide services to the Island population and with such close proximity to the Confederation Bridge there is opportunity to continue to submit tenders for projects in Nova Scotia and New Brunswick.

Island Excavators currently has a number of private snow removal and sanding contracts for the 2014/2015 winter season. A current government snow removal and sanding contract is in place until April 2019 for approximately 110 total kilometers.

6.0 PERSONNEL

Island Excavators (1985) Ltd. employs 16 full time staff year round. During the winter these employees would be responsible for snow removal as well as any maintenance or building that may be required.

Approximately 25 – 50 are employed seasonally.

Current key staff includes:

- Wade Campbell – Owner
- Todd Ralph – Office Manager, 10 years service
- Joanne Lowther – Bookkeeper/Accountant, 8 years service
- Dennis Lowther – Foreman, 22 years service
- Ronnie MacKinnon – Foreman/Operating, 30+ years service
- Doug Ferguson, 30+ years service
- Vacant Position - Controller

7.0 BUSINESS ASSETS

7.1 Materials & Shop Inventory

As at September 30, 2014, materials inventory and fair market values (FMV) were as follow:
Shop inventory can be viewed in Appendix D.

Island Excavators (1985) Ltd. Inventory September 30, 2014						
Aggregates	Unit	Amount	Cost	COST	Selling Prices	FMV
Imported 3-6" stone	t	400.00	32.56	13,024.00	40.00	16,000.00
Island crushed gravel	t	645.00	22.50	14,512.50	30.00	19,350.00
Rock Dust	t	901.50	23.00	20,734.50	35.25	31,777.88
R5 Stone	t	361.01	34.51	12,458.46	35.00	12,635.35
Reclaimed Asphalt	t	10,498.05	21.10	221,508.86	34.65	363,757.43
Reclaimed Asphalt - Winsloe	t	138.00	21.00	2,898.00	35.65	4,919.70
Concrete Rip-Rap	t	2,800.00	16.75	46,900.00	20.00	56,000.00
Sand	t	34,953.38	11.99	419,091.03	20.00	699,067.60
Imported Drainage	t	925.64	25.39	23,502.00	35.00	32,397.40
Imported Driveway Mix	t	720.46	27.19	19,589.31	28.00	20,172.88
Compost	yd	704.30	17.30	12,184.39	30.00	21,129.00
Topsoil	yd3	35,026.25	14.64	512,784.30	20.00	700,525.00
Island Rip-Rap	t	11,925.00	20.13	240,050.25	40.00	477,000.00
Pit Run Gravel	t	500.00	20.00	10,000.00	30.00	15,000.00
Fill-Stockpile	Tandem loads	1,376.75	56.29	77,497.26	80.00	110,140.00
Total Inventory				<u>1,646,734.84</u>		<u>2,579,872.24</u>

*Prepared by client

7.2 Fixed Asset Listing and Market Values

Island Excavators (1985) Ltd. has had a number of recent appraisals completed on their property and equipment. These appraisals can be found in Appendix C of this document.

8.0 FINANCIAL HIGHLIGHTS

8.1 Net Income Before Taxes

Table I

	2013	2012	2011	2010	2009
Revenues					
Contracting	\$ 1,895,688	\$ 3,188,369	\$ 3,127,482	\$ 3,409,071	\$ 1,781,684
Equipment rental and small jobs	322,902	951,684	881,513	1,165,189	1,016,109
Snow Removal	387,479	424,239	327,395	231,348	308,172
Materials	92,654	134,154	28,222	13,126	33,510
Trucking	20,193	22,529	16,411	12,922	-
Miscellaneous	669	724	9,251	-	-
Gain on disposal of property and equipment	20,881	-	5,000	-	9,088
Interest (write off of interest)	4,701	(6,392)	2,311	3,336	1,312
	<u>\$ 2,745,167</u>	<u>\$ 4,715,307</u>	<u>\$ 4,397,585</u>	<u>\$ 4,834,992</u>	<u>\$ 3,149,875</u>
Operating Expenses					
Amortization of deferred finance charges	32,216	48,324	48,324	46,666	48,324
Amortization of leased assets	80,299	76,820	64,176	51,454	51,071
Amortization of property and equipment	227,258	222,960	210,685	268,936	199,235
Interest and bank charges	175,573	153,295	101,795	85,384	76,587
Interest on long term debt	69,058	51,195	45,885	48,161	20,610
Interest on obligations under capital lease	19,797	20,036	14,651	19,210	15,256
Loss on disposal of property under capital lease	-	21,288	-	4,093	-
Depletion of gravel pits	121	321	321	655	207
Gas and oil	405,066	480,195	487,918	501,628	339,658
Insurance	88,752	73,272	75,682	73,990	71,104
Licenses and registrations	28,209	20,138	29,931	30,533	27,186
Rentals	11,664	23,880	61,203	60,984	74,017
Repairs and maintenance	128,663	250,143	219,971	315,167	154,643
Supplies, materials and subcontracting	1,758,637	1,567,860	1,699,008	1,908,282	868,839
Travel	12,993	17,134	11,253	4,673	14,038
Wages and employee benefits	754,572	780,982	627,968	796,936	667,826
Worker's compensation insurance	26,794	51,359	44,254	23,943	19,096
	<u>\$ 3,819,672</u>	<u>\$ 3,859,202</u>	<u>\$ 3,743,025</u>	<u>\$ 4,240,695</u>	<u>\$ 2,647,697</u>
Earnings from operations	<u>\$ (1,074,505)</u>	<u>\$ 856,105</u>	<u>\$ 654,560</u>	<u>\$ 594,297</u>	<u>\$ 502,178</u>
General and Administrative					
Advertising and Promotion	14,766	22,720	43,173	21,752	15,773
Bad debts	(14,269)	16,805	34,683	44,599	45,914
Lights, heat and telephone	20,937	36,131	29,412	38,353	49,225
Office	14,170	22,532	24,741	29,892	20,504
Professional fees	9,304	16,842	14,812	11,202	12,586
Property taxes	3,435	3,137	3,777	4,943	2,209
Salaries and benefits	304,409	287,189	265,666	216,196	187,480
	<u>\$ 352,752</u>	<u>\$ 405,356</u>	<u>\$ 416,264</u>	<u>\$ 366,937</u>	<u>\$ 333,691</u>
Total General and Administrative	<u>\$ 352,752</u>	<u>\$ 405,356</u>	<u>\$ 416,264</u>	<u>\$ 366,937</u>	<u>\$ 333,691</u>
Net Income	<u><u>\$ (1,427,257)</u></u>	<u><u>\$ 450,749</u></u>	<u><u>\$ 238,296</u></u>	<u><u>\$ 227,360</u></u>	<u><u>\$ 168,487</u></u>

8.2 Normalized EBITDA

Table II

	Notes	2013	2012	2011	2010	2009
Net income before taxes		\$ (1,427,257)	\$ 450,749	\$ 238,296	\$ 227,360	\$ 168,487
EBITDA adjustments						
Miscellaneous		-	(724)	(9,251)	-	-
Gain on disposal of property and equipment		(20,881)	-	(5,000)	-	(9,088)
Interest (write off of interest)		(4,701)	6,392	(2,311)	(3,336)	(1,312)
Amortization of deferred finance charges		32,216	48,324	48,324	46,666	48,324
Amortization of leased assets		80,299	76,820	64,176	51,454	51,071
Amortization of property and equipment		227,752	222,960	210,685	268,936	199,235
Interest on long term debt		69,058	51,195	45,885	48,161	20,610
Interest on obligations under capital lease		19,797	20,036	14,651	19,210	15,256
		<u>\$ 403,540</u>	<u>\$ 425,003</u>	<u>\$ 367,159</u>	<u>\$ 431,091</u>	<u>\$ 324,096</u>
EBITDA		\$ (1,023,717)	\$ 875,752	\$ 605,455	\$ 658,451	\$ 492,583
Normalizing Adjustments						
Donations	1	7,260	10,533	38,062	3,656	7,829
Travel and meals	2	2,993	7,134	1,253	(5,327)	4,038
Extraordinary Item	3	800,000	37,665	-	-	-
		<u>\$ 810,253</u>	<u>\$ 55,332</u>	<u>\$ 39,315</u>	<u>\$ (1,671)</u>	<u>\$ 11,867</u>
Normalized EBITDA		<u><u>\$ (213,464)</u></u>	<u><u>\$ 931,084</u></u>	<u><u>\$ 644,770</u></u>	<u><u>\$ 656,780</u></u>	<u><u>\$ 504,450</u></u>

Note 1 - Donations

Donations have been added back to the earnings of the company, as they are discretionary in nature and therefore would not have to be continued by a potential purchaser.

Note 2 - Travel and meals

Travel and meal expenses include a combination of costs that could be considered discretionary in nature, and therefore would not have to be continued by a potential purchaser. Costs have been adjusted to approximately \$10,000 per year to reflect what a potential purchaser may incur.

Note 3 - Extraordinary item

In 2013, there was a large inventory adjustment which negatively impacted earnings. This write down amounted to approximately \$800,000 and is included in supplies, materials and subcontracting and was written down due to the economic conditions in the industry sector at this time. In 2012, the company had to pay \$37,665 to dispose of contaminated soil. This cost will not be represented in the future cash flows of the business. Therefore, we have adjusted cash flows accordingly in 2012 for that expense.

Table III

	2013	2012	2011	2010	2009
Normalized travel and meals expense	10,000	10,000	10,000	10,000	10,000
Expense	12,993	17,134	11,253	4,673	14,038
Adjustment required	2,993	7,134	1,253	(5,327)	4,038

8.3 Capital Additions

Island Excavators had a number of capital additions between 2009 and 2013. Additions are as follows in Table VI.

Table VI

	2013	2012	2011	2010	2009
Purchase of property and equipment	\$ 55,663	\$ 111,642	\$ 178,798	\$ 383,455	\$ 361,258
Purchase of assets under capital lease	43,188	200,754	390,013	133,314	190,950
Total Purchases	\$ 98,851	\$ 312,396	\$ 568,811	\$ 516,769	\$ 552,208

8.4 Financial Summary

Information as provided by Island Excavators (1985) Ltd.

Table V

	Estimated FMV
Materials inventory	2,580,000
Shop inventory	32,000
Equipment	1,731,000
Real estate	225,000
Excavation pits	69,000
Snow contracts	300,000
	\$ 4,937,000

9.0 SALE OF BUSINESS

The company is currently accepting offers for an en bloc sale of its assets.

APPENDIX A

HISTORICAL FINANCIAL STATEMENTS

ISLAND EXCAVATORS (1985) LTD.

Financial Statements

December 31, 2013