

This document is important and requires your immediate attention. If you have any doubt as to how to respond to the Offer, you should consult your stockbroker, investment dealer, bank manager, accountant, lawyer or other professional advisor.

This Directors' Circular is being sent to both registered and non-registered owners of common shares in the share capital of Luxell Technologies Inc. If you are a non-registered owner and have received this document directly from Luxell Technologies Inc., your name, address and information about your holdings of shares have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.

LUXELL TECHNOLOGIES INC.

DIRECTORS' CIRCULAR

RELATING TO THE OFFER BY

LUXELL ACQUISITION CORPORATION

TO PURCHASE FOR CASH ALL OF THE ISSUED AND OUTSTANDING COMMON SHARES OF LUXELL TECHNOLOGIES INC. NOT ALREADY HELD BY LUXELL ACQUISITION CORPORATION FOR CDN\$0.10 PER COMMON SHARE CONSISTING OF \$0.10 CASH DUE ON THE THIRD ANNIVERSARY OF THE EFFECTIVE DATE AND EVIDENCED BY AN UNSECURED NOTE OF LUX ACQUISITION CORPORATION

DIRECTORS' RECOMMENDATION

THE BOARD OF DIRECTORS OF LUXELL TECHNOLOGIES INC. RECOMMENDS THAT SHAREHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES TO THE OFFER.

FEBRUARY 5, 2009

Notice to United States and other Non-Canadian Securityholders

The Offer is made for the securities of a Canadian issuer, and while the Offer is subject to Canadian disclosure requirements, securityholders should be aware that these requirements are different from those of the United States and other non-Canadian jurisdictions. The enforcement by securityholders of civil liabilities under the United States federal securities laws, or under other non-Canadian laws, may be adversely affected by the fact that the issuer is located in Canada, that some or all of its officers and directors are Canadian residents and that a substantial portion of their respective assets may be located in Canada.

LUXELL TECHNOLOGIES INC. DIRECTORS' CIRCULAR
RELATING TO THE OFFER BY LUX ACQUISITION CORPORATION

ERRATA NOTICE

**ALL INSTANCES OF THE OFFEROR'S NAME AS
"*Luxell Acquisition Corporation*" SHOULD BE
READ AS "LUX ACQUISITION CORPORATION".**

LUXELL TECHNOLOGIES INC.

February 5, 2009

Dear Shareholder:

On December 18, 2008 Lux Acquisition Corporation (“LAC”) made an unsolicited offer (the “Offer”) to purchase all of the issued and outstanding common shares (the “Shares”) of Luxell Technologies Inc. (“Luxell” or the “Company”), at a price per Share of Cdn \$0.10, consisting of \$0.10 cash due on the third anniversary of the Effective Date and evidenced by an unsecured Note of Lux Acquisition Corporation. You should have recently received materials from LAC asking you to tender your Shares to the Offer before February 20th, 2009..

The independent members of the Board of Directors, being all of the members of the Special Committee of the Board of Directors of Luxell formed for the purposes of considering the Offer, have unanimously determined that the consideration offered to you pursuant to the Offer is fair and reasonable and unanimously recommend that you **ACCEPT** the Offer and tender your shares.

In reaching its conclusion, your Board of Directors, assisted by the Special Committee’s financial and legal advisors, carefully considered all aspects of the Offer, including all the business and global factors described in the enclosed Directors’ Circular.

In making your decision regarding the Offer, you should consider that the Special Committee has received a written Estimate Valuation Report - Luxell Technologies Inc. as at November 30, 2008 from its financial advisor, Taylor Leibow LLP (the “Report”) to the effect that the consideration offered by LAC to Luxell shareholders (the “Shareholders”) under the Offer is fair and reasonable, from a financial point of view, to Shareholders and specifically, the Offer was made at a time when the trading price of the Shares continued to remain at a wholly unattractive level and the Offer represents an approximately 368% appreciation to the preceding 30 day average price of \$0.027 per common share.

Each of the independent directors of Luxell has accepted or intends to accept the Offer. The other Directors have also determined to accept or intend to accept the Offer.

You are encouraged to read the full explanation of the reasons for our recommendation in the enclosed Directors’ Circular, including the Report dated December 24, 2008, to the effect that, as of the date of the Report and based upon and subject to the matters stated therein, the consideration offered by LAC to Shareholders under the Offer is fair and reasonable from a financial point of view, to Luxell Shareholders.

(signed: “Robert (Pep) Fraser”
Director

(signed: “Pierre Jeannot”
Director

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FORWARD LOOKING STATEMENTS

Certain statements in this Directors' Circular are forward-looking statements and are prospective in nature. Forward-looking statements are not based on historical facts, but rather on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

These statements generally can be identified by the use of forward-looking words such as "may", "should", "will", "could", "intend", "estimate", "plan", "anticipate", "expect", "believe", or "continue" or the negative thereof or similar variations. Forward-looking statements include those relating to Luxell Technologies Inc.'s future and financial performance, business strategy, plans, goals and objectives; the outcome of the Offer (as hereinafter defined); the exercise of stock options; and the acceptance of the Offer by directors and senior officers of Luxell Technologies Inc. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

Certain factors that may cause Luxell Technologies Inc.'s actual results and experience to differ from current expectations include competition, dependence on major clients, pricing, general changes in the economic environment, international expansion, key personnel recruitment, further acquisitions, foreign exchange exposure, changes in law or government policy, the risk that the Offer will not be completed for any reason, and other risks identified in Luxell Technologies Inc.'s public filings. Investors and others are cautioned that the foregoing list of factors is not exhaustive and that undue reliance should not be placed on any forward-looking statements.

Such forward-looking statements should, therefore, be construed in light of such factors and Luxell Technologies Inc. is under no obligation, and expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Capitalized terms used herein but not otherwise defined have the meanings ascribed thereto in the offer to purchase and accompanying circular of Luxell Acquisition Corporation dated January 15, 2009. All currency amounts in this Directors' Circular are expressed in Canadian dollars unless otherwise indicated.

February 5, 2009

Luxell Technologies Inc.
2145 Meadowpine Blvd.
Mississauga, ON L5N 6R8

DIRECTORS' CIRCULAR

This Directors' Circular is issued by the board of directors (the "Board of Directors") of Luxell Technologies Inc. ("Luxell") in connection with the offer announced on December 5, 2007 (the "Offer") by Luxell Acquisition Corporation (the "Offeror" or "LAC") to purchase all of the outstanding common shares of Luxell (the "Shares") not already owned by the Offeror and its affiliates, including Shares that may become outstanding on the exercise of conversion or exchange rights (including Options (as hereinafter defined)) at a price per Share of Cdn \$0.10 (the "Offer Price"), consisting of \$0.10 cash due on the third anniversary of the Effective Date and evidenced by an unsecured Note of LAC.

The terms and conditions of the Offer are set forth in the offer to purchase and the accompanying circular of the Offeror dated January 15, 2009 (together, the "Offer Documents"). The Offer is conditional on, among other things, there having validly been deposited under the Offer and not withdrawn, by the seventh business day following the commencement of the Offer, a number of Shares which constitutes at least a majority of the aggregate number of outstanding Shares (including Shares underlying any options or other rights to acquire Shares that are convertible or exercisable immediately prior to the Expiry Time (as hereinafter defined)) not currently owned by the Offeror and its affiliates, and the votes attaching to which shall be qualified to be included as votes in favour of any Subsequent Acquisition Transaction in determining whether approval (as construed under applicable securities and corporate laws) has been obtained in respect thereof. Reference should be made to the Offer Documents for full details related to the terms and conditions of the Offer.

As at February 5, 2009, there were 133,331,045 Shares issued and outstanding. According to the Offer Documents, as of December 31, 2008, the Offeror, together with its affiliates, owned 520,833 Shares representing approximately 0.4% of the Shares outstanding on a non-diluted basis and on a fully-diluted basis. In addition, according to the Offer Documents and to supplemental information provided to the Board of Directors by the Offeror, holders (collectively, the "Locked-Up Shareholders") of 70,324,682 Shares, Options to purchase an aggregate of 1,758,334 Shares, in the aggregate (the "Locked-Up Shares"), or approximately 53% of the Shares outstanding on a fully-diluted basis, have agreed to irrevocably and unconditionally tender all of their Locked-Up Shares to the Offer pursuant to agreements entered into between each Locked-Up Shareholder and LAC (collectively, the "Lock-Up Agreements"). The Locked-Up Shares represent a majority of those Shares outstanding on a non-diluted and on a fully-diluted basis which are not currently owned by the Offeror and its affiliates. Based on the supplemental information provided to the Board of Directors by the Offeror, this Directors' Circular restates the information appearing in the Offer Documents at page 9 under the subheading "Lock-Up Agreements" and at page 27 under the heading "LOCK-UP AGREEMENTS", by replacing the reference to 1,758,334 Shares being issuable pursuant to the exercise of Options.

The expiry time of the Offer (the "Expiry Time") is stated to be 8:00 p.m. (Mississauga time) on February 20, 2009, unless extended.

The Offer is an "insider bid" within the meaning of OSC Rule 61-501 - Insider Bids, Issuer Bids, Business Combinations and Related Party Transactions ("Rule 61-501") (collectively, the "Rules") by virtue of the Offeror, together with its affiliates, owning securities of Luxell carrying more than 10% of the voting rights attached to all outstanding voting securities of Luxell. The Rules therefore require that a

formal valuation of the securities that are the subject of the bid be prepared by an independent valuator, filed with the applicable securities regulators and summarized in the insider offeror's take-over bid circular. The Rules also require that the Board of Directors establish an independent committee to determine who the valuator will be and supervise the preparation of the formal valuation. Schedule A of the Offer Documents contains a copy of such formal valuation. See Schedule A "VALUATION REPORT OF TAYLOR LEIBOW".

LUXELL TECHNOLOGIES INC.

High Performance Display Products

Luxell's high performance display division manufactures display systems for the aerospace and defence markets. Prior to fiscal year 2005, all of Luxell's displays were monochromatic. In 2006 and 2007, a majority of the displays shipped were colour as the marketplace demand for updated technology and equipment replacement continued. Luxell supplies standard and custom display sizes and formats and has the resources and expertise to design, engineer and integrate complete display systems. Luxell continues to develop and maintain a customer base that includes global defence and aerospace leaders such as Lockheed Martin Corporation and Raytheon Company of the United States, Rheinmetall Defense Electronics of Germany, Indra Sistemas S.A. of Spain, Sysdel cc of the Republic of South Africa, BAE Systems plc of the United Kingdom and Mitsubishi Precision Controls Limited of Japan. Luxell has experienced engineering and technical teams that can custom design and qualify products for robust and demanding environments such as aircraft cockpits.

Black Layer™ Technology

All types of flat panel displays face a common problem of high reflection which results in poor contrast, legibility and character recognition in all lighting conditions, particularly bright ambient light such as sunlight or bright artificial light. Luxell, in collaboration with the NRC, developed the Black Layer™ as a solution to this problem.

The Black Layer™ technology consists of a series of thin film layers that include a thin metal layer, a thicker transparent layer and a final capping metal layer that as a unit is placed into the display structure itself overlaying the highly reflective aluminum conductors.

Luxell's Black Layer™ solution eliminates the need for optical polarizing filters which in many cases, results in a higher contrast, higher performance display. In addition, there is the potential for higher manufacturing yield. Luxell's top emission and bottom emission Black Layer™ display technologies are ready to be licensed, provided that Luxell is able to provide technical and financial support to integrate the structures into a user's end-product design.

Licensing Market & Intellectual Property Protection

While Luxell believed that the OLED market segment created an opportunity for commercialization of and licensing Luxell's patented Black Layer™ technology it had, to fiscal 2006, not concluded any lasting relationship or seen its technology incorporated into an end-use product. In fiscal 2007, Luxell halted its research activities, released its scientific research personnel, cut expenses and focused on patent and intellectual property maintenance.

Luxell relies on a combination of patents, patent applications, non-disclosure agreements and other contract provisions (including contracts with its employees), trade-marks, copyright and trade secret laws to protect its proprietary rights relating to its technologies, technical information, designs and know-how. Because of the substantial length of time and expense associated with developing new products, companies in the high technology sector place considerable importance on obtaining patent protection for new technologies, products and processes. Luxell's policy is to file patent applications to protect inventions, technologies and improvements that are important to the development and commercialization of its business. Luxell will defend and protect its intellectual property as appropriate.

High Performance Display Market

Luxell is currently active in the defence and aerospace markets with applications such as tactical displays, global positioning systems and field communication systems. There are also ground, naval, heavy equipment applications and avionics applications, including computer display units, radar warning devices, navigational displays and flight management and instrumentation systems, which require displays that are compact, rugged and which can provide a wide-viewing angle even in bright sunlight. The defence sector has the most demanding requirements for displays for retrofit, upgrade as well as forward-fit applications.

Research and Development

The engineering and product development team within Luxell has significant engineering and technical expertise in ruggedized display products. There is a range of specialized measurement and test techniques available to benchmark optical performance as well as environmental sensitivity and lifetime of the displays. Highly qualified personnel include expertise in mechanical, electrical, optical, thermal and reliability engineering.

Facilities and Employees

Luxell's headquarters and operations are located in Mississauga, Ontario where Luxell carries out display product engineering, display design prototyping, sales and marketing, display product production, finance, administration and legal affairs. As at August 31, 2008, Luxell employed 40 staff. Luxell continues to reevaluate its facilities and whether or not change will be required for current and foreseeable future operations.

Revenue by Segment

In fiscal 2008, Luxell's revenues were again comprised of 100% from display products and 0% from technology licensing. Luxell anticipates sales growth of the display products during fiscal 2009 and does not anticipate any revenue from its proprietary Black Layer™ technology.

Competition

The existing competition in the defence display business comes from major companies such as, Barco Displays, Meggitt PLC, Korry (CMC) Electronics Co., and Smith's Aerospace (GE Aviation), Thales. Luxell is also in discussion with several of its competitors regarding potential product sales to complete their needs and product offerings. The existing competition for Luxell's Black Layer™ technology is the add-on circular polarizing filter.

Although meaningful market share statistics are not available, Luxell believes that circular polarizers (major suppliers such as 3M Corporation and Sumitomo Chemical Co. Ltd.) currently have over 85% market share in the OLED market. Circular polarizers are placed in front of the display surface and eliminate ambient light by polarizing it as it enters the display and absorbing it as it leaves.

AVAILABILITY OF DISCLOSURE DOCUMENTS

Luxell is a reporting issuer or equivalent in all provinces of Canada. It files its continuous disclosure documents with the Canadian securities regulatory authorities, and these documents can be found on the SEDAR website under Luxell's profile at www.sedar.com.

SPECIAL COMMITTEE

On November 28, 2008, Luxell's Board of Directors established an independent committee (the "Special Committee"), which committee was composed of Pierre Jeannot and Pep Fraser. The mandate of the Special Committee included, among other things, (i) examining and reviewing the Offer; (ii) negotiating with Lux Acquisition Corporation the terms, conditions, structure and other matters relating to the Offer; and (iii) advising the Board of Directors as to what recommendation(s) should be made to the Shareholders in respect of the Offer. Additionally, as any offer from Lux Acquisition Corporation or its affiliates would constitute an "insider bid" for the purposes of the Rules, the responsibilities of the Special Committee included selecting and retaining a qualified and independent valuator and supervising the preparation of a formal valuation of the Shares. Concurrently with the announcement of the establishment of the Special Committee, Luxell also announced that the committee had appointed Taylor Leibow as its independent financial advisor for the purpose of preparing a formal valuation of Luxell. The mandate of the Special Committee also authorized it to retain legal advisors and on November 28, 2008, the Special Committee retained Luxell's corporate counsel, Robert Isles LLB.

RECOMMENDATION OF THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS

The Special Committee has concluded, after considering the advice of its financial and legal advisors, that the Offer is fair to the Shareholders other than the Offeror and its affiliates, and has recommended to the Board of Directors that it recommend that Shareholders other than the Offeror and its affiliates tender their Shares to the Offer. By resolution adopted unanimously by the directors who voted thereon, the Board of Directors concluded that, based on the recommendation of the Special Committee and the factors referred to below, the Offer is fair, from a financial point of view, to the Shareholders other than the Offeror and its affiliates, **and recommends that such Shareholders accept the Offer and tender their Shares to the Offer.**

Mr. Jean Louis Larmor who is a director, officer and shareholder of LAC, did not vote in respect of the resolution of the Board of Directors regarding the fairness of the Offer and the recommendation of the Board of Directors to the Shareholders in respect thereof.

The conclusion and recommendation of the Special Committee and the Board of Directors are based on the following factors, among others:

- (a) the Offer Price represents a premium of approximately 368% over the volume weighted average trading price of the Shares during the previous 30 trading days from December

26, 2008 to February 5, 2009 on the Toronto Stock Exchange (the “TSX”) and a premium of approximately 400% over the closing price of the Shares on December 17, 2008, the last trading day prior to the public announcement of LAC’s intention to make the Offer;

- (b) the Fairness Opinion has concluded that the Offer Price is fair, from a financial point of view, to the Shareholders other than the Offeror and its affiliates;
- (c) the Offer Price is at the upper end of the range of fair market value set forth in the Valuation, which provides that as of November 30, 2008, the fair market value of the Shares is in the range of \$0.06 and \$0.09 per Share;
- (d) based on the Offer Documents and supplemental information provided to the Board of Directors by the Offeror, LAC, the direct and indirect holder of approximately 0.4% of the outstanding Shares on a non-diluted basis, has entered into the Lock-Up Agreements with the Locked-Up Shareholders whose Locked-Up Shares represent the majority of the aggregate number of outstanding Shares on a Partially Diluted basis and on a fully-diluted basis which are not currently held by LAC and its affiliates, and the votes attaching to which the Board of Directors understands will be qualified to be included as votes in favour of any Subsequent Acquisition Transaction. As a result, the Offeror is expected to be able to successfully acquire all outstanding Shares not already held by it or its affiliates;
- (e) to the knowledge of the Board of Directors, the terms and conditions of the Lock-Up Agreements, including the Offer Price, were negotiated at arm’s length between LAC and the Locked-Up Shareholders;
- (f) it is unlikely that a superior proposal to purchase the Shares will materialize in light of the factors described in paragraphs (d) and (e) above, and the fact that notwithstanding that the Offer have been widely covered by the media throughout Canada and that Luxell management and TAYLOR LEIBOW have performed a limited market canvass no third party has expressed any interest in a transaction to acquire the Shares; and
- (g) there is a significant likelihood that the Offer will be successfully completed, and if it is, there is a significant prospect of the trading volume in the Shares being substantially reduced.

The Special Committee and the Board of Directors also considered and evaluated, among other things: (a) information concerning the business, operations, property, assets, financial condition, operating results and prospects of Luxell; (b) current industry, economic and market conditions and trends and their informed expectations as to the prospects for the industry; and (c) historical market prices and trading information with respect to the Shares.

The foregoing factors reviewed by the Special Committee and the Board of Directors are not intended to be exhaustive. In view of the wide variety of factors considered in connection with the evaluation of the Offer, the Special Committee and the Board of Directors did not find it practicable to, and therefore did not, quantify or assign relative weights to specific factors or methodologies in reaching their conclusions. In addition, individual members of the Board of Directors may have attributed different weights to different factors.

REASONS TO ACCEPT THE OFFER

The Offer should be accepted by Shareholders as it represents the best opportunity to realize value for the Shares through the stewardship of the current Board of Directors and management of Luxell. The Offeror does not believe that there are any other alternatives for Luxell and financing and equity opportunities do not exist in this current market environment. As such, the Offeror believes that it is likely that Luxell will succumb to the consequence of negative working capital and the evaporation of lenders and investors who are interested in paying for the public company status. In short, the Offeror believes that Luxell will fail and Shareholders will receive nothing for their Shares. The Offeror believes that the price of the Offer to be paid by issuing the Notes due in three (3) years with a principal amount of \$0.10 per Share is a full and fair price for the Shares which it is seeking to purchase under the Offer. Shareholders should consider the following factors, among others, in making a decision whether to accept the Offer:

- (a) that if the Offer is not successful, the trading prices of the Shares on the TSX may decline significantly;
- (b) the fact that trading prices of the Shares since the announcement of the Offer have been below the Offer Price;
- (c) the fact that in order to be effective, the Offer must be accepted by the holders of a majority of the Shares other than Shares held by the Offeror and its affiliates and that the Locked-Up Shareholders, who in fact so hold in the aggregate a majority of the Shares other than Shares held by the Offeror and its affiliates, solicited Lux Acquisition Corporation to enter into, and entered into, the Lock-Up Agreements; and
- (d) the current economic, industry and market conditions affecting Luxell.

The foregoing list of factors is not intended to be exhaustive. Shareholders should consider the Offer carefully and come to their own conclusions as to whether to accept or reject the Offer. **Shareholders who are in doubt as to how to respond should consult with their own investment dealer, stockbroker, bank manager, lawyer or other professional advisor. Shareholders are advised that acceptance of the Offer may have tax consequences and they should consult their own professional tax advisors.**

VALUATION REPORT OF TAYLOR LEIBOW

The following constitutes a summary only of the Estimate Valuation Report - Luxell Technologies Inc. as at November 30, 2008 from its financial advisor, Taylor Leibow LLP (the "Valuation Report") by TAYLOR LEIBOW dated December 24, 2008 (the "Valuation") prepared in accordance with the Rules. The Valuation Report has been provided for the use of the Special Committee and the Board of Directors. The following summary is qualified in its entirety by the full text of the Valuation Report, attached as Schedule A to the Offer Documents and as Schedule A to this Directors' Circular, respectively. The Valuation Report not a recommendation to any holder of Shares on whether to tender its Shares to the Offer. A copy of the Valuation Report is also available on the SEDAR website under Luxell's profile at www.sedar.com. The Valuation Report is among a number of factors taken into consideration by the Special Committee and the Board of Directors in making their determination that the Offer is fair to Shareholders and to recommend that Shareholders accept the Offer and tender their Shares to the Offer. Shareholders are urged to read the Valuation Report carefully and in their entirety.

Credentials of TAYLOR LEIBOW

TAYLOR LEIBOW is one of Canada's largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Valuation Report has been approved for release by a committee of TAYLOR LEIBOW's managing directors and internal counsel, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

Relationships with Interested Parties

None of TAYLOR LEIBOW or its affiliates:

- (a) is an "issuer insider", "associated entity" or "affiliated entity" of the Offeror as such terms are used in Rule 61-501;
- (b) is a financial advisor to the Offeror or LAC in connection with the Offer;
- (c) is a manager or co-manager of a soliciting dealer group formed to solicit acceptances of the Offer, nor will TAYLOR LEIBOW, as a member of such group, perform services beyond the customary soliciting dealer functions, nor will TAYLOR LEIBOW receive more than the per-share or per-shareholder fee payable to other members of the group;
- (d) has a financial incentive with respect to the conclusions reached in the Valuation or the Fairness Opinion or has a material financial interest in the completion of the Offer.

Selection of TAYLOR LEIBOW

Under the Rules, the Special Committee was required to:

- (a) determine who the valuator would be; and
- (b) supervise the preparation of the formal valuation of the Shares.

The Board of Directors established the Initial Special Committee (as hereinafter defined) to supervise the preparation of a formal valuation. The Initial Special Committee considered who should be invited to submit a proposal to act as financial advisor to the Initial Special Committee. The Initial Special Committee considered a number of potential valutors and ultimately invited TAYLOR LEIBOW to make such a proposal.

After deliberation, the Initial Special Committee determined, based in part upon certain representations made to it by TAYLOR LEIBOW, that TAYLOR LEIBOW was independent and qualified to prepare a formal valuation and should be retained as financial advisor to the Initial Special Committee for the purposes of, among other things, preparing and delivering to the Initial Special Committee a formal valuation of the Shares. Accordingly, the Initial Special Committee directed Luxell to enter into an engagement letter (the "Engagement Letter") with TAYLOR LEIBOW dated June 12, 2007, which provided, among other things, that the services of TAYLOR LEIBOW would be provided under the supervision and direction of the Initial Special Committee. The TAYLOR LEIBOW mandate was re-confirmed by the Special Committee in relation to the Offer.

Pursuant to the terms of the Engagement Letter, TAYLOR LEIBOW has received, for its work, the Valuation Report, fees of approximately \$25,000.00. The fees to be paid to TAYLOR LEIBOW under the Engagement Letter were agreed between TAYLOR LEIBOW and the Special Committee. None of the fees payable to TAYLOR LEIBOW are contingent upon the conclusions reached by TAYLOR LEIBOW in the Valuation or the Fairness Opinion or on the completion of the Offer, and the fees payable to TAYLOR LEIBOW pursuant to the Engagement Letter are not financially material to TAYLOR LEIBOW. In the Engagement Letter, Luxell has agreed to indemnify TAYLOR LEIBOW in respect of certain liabilities that might arise out of its engagement and to reimburse it for its reasonable expenses. In addition, TAYLOR LEIBOW has represented that no understandings or agreements exist between TAYLOR LEIBOW and Luxell or the Offeror with respect to future financial advisory or investment banking business.

TAYLOR LEIBOW Valuation Report

TAYLOR LEIBOW provided: (a) the Valuation to the Special Committee and the Board of Directors stating that, as at November 30, 2008 and subject to the assumptions, limitations and qualifications set out therein, the fair market value of the Shares is in the range of \$0.06 to \$0.09 per Share; and (b) the Fairness Opinion to the Special Committee and the Board of Directors stating that, as at November 30, 2008 and subject to the assumptions, limitations and qualifications set out therein, the consideration offered to the Shareholders, other than the Offeror and its affiliates, pursuant to the Offer is fair, from a financial point of view, to such Shareholders.

The full text of the Valuation and of the Fairness Opinion sets out the assumptions made, matters considered and limitations and qualifications on the review undertaken in connection with the Valuation Report. Shareholders are urged to read the Valuation Report carefully and in their entirety.

Prior Valuation

To the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, only the following Valuation Reports were obtained by Luxell after June 2005. The first report was a Fairness Opinion effective August 31, 2005 which set out our independent opinion of the fairness, from a financial point of view, of the proposed corporate reorganization of Luxell, the Lux Initial Limited Partnership and the Lux Operating Limited Partnership. The second report was a Limited Scope Fairness Opinion effective June 15, 2007, which set out our independent opinion of the fairness, again from a financial point of view, of the proposed exchange between Luxell and the Lux Investor Limited Partnership of notes for the partnership units of Lux Operating Limited Partnership. The third and final report issued by TL was an update to the second report, effective November 23, 2007.

ARRANGEMENTS, AGREEMENTS OR UNDERSTANDINGS

Other than the Lock-Up Agreements, there are no formal or informal arrangements, agreements, contracts or understandings made or proposed to be made between the Offeror and any of the directors or senior officers of Luxell, any associate of the directors or senior officers of Luxell, any person holding more than 10% of any class of equity securities of Luxell, nor any person acting jointly or in concert with Luxell, and no payment or other benefit is proposed to be made or given by the Offeror to any of the directors or senior officers of Luxell, any associate of the directors or senior officers of Luxell, any person holding more than 10% of any class of equity securities of Luxell, nor any person acting jointly or in

concert with Luxell, by way of compensation for loss of office or for remaining in or retiring from office as a result of the Offer or any Compulsory Acquisition or Subsequent Acquisition Transaction.

DIRECTORS OF LUXELL

The members of the Board of Directors are Messieurs Pierre Jeannot, Robert Fraser, Keith King, John MacDonald, Giulio Vitali, Jean-Louis Larmor.

OWNERSHIP OF SECURITIES OF LUXELL BY DIRECTORS AND OFFICERS

The following table sets forth the number and percentage of outstanding securities (including Shares issuable upon exercise of options or other securities convertible into or providing a right to acquire Shares) of Luxell beneficially owned or over which control or direction is exercised, by each director and senior officer of Luxell and, where known after reasonable inquiry, by each associate thereof, and by any person or company acting jointly or in concert with Luxell as of the date of the Offer:

<u>NAME</u>	<u>POSTION</u>	<u>NUMBER OF SHARES</u>	<u>Basic</u>	<u>Fully Diluted⁽¹⁾</u>	<u>NUMBER OF OPTIONS</u>	<u>PERCENTAGE OF OUTSTANDING OPTIONS</u>
Pierre Jeannot	Director	100,000	NM	NM	0	0%
Robert Fraser	Director	83,000	NM	NM	0	0%
Keith King	Director	10,624,513	8.0%	7.9%	0	0%
John MacDonald	Director	1,664,513	1.3%	1.3%	750,000	17.9%
Giulio Vitali	Director	3,455,960	2.6%	2.6%	400,000	9.5%
Jean-Louis Larmor	Director & President	520,833	NM	NM	675,000	16.1%
Simon Dann	Acting Secretary, Dir Gov't & Corp Relations	113,750	NM	NM	295,000	7%
Gerard Hartley	Vice President Business Development	104,408	NM	NM	50,000	2.5%
Richard Pepperall	Vice President Operations Engineering	0	NM	NM	275,000	6.6%

(1) After giving effect to the issuance of 2,445,000 Shares upon the exercise of the 4,193,000 Options outstanding on February 5, 2009.

(3) NM (not meaningful).

As of February 5, 2009, the directors and senior officers of Luxell as a group beneficially owned, directly or indirectly, an aggregate of 16,667,351 Shares, representing approximately 12.3% of the outstanding Shares, and an aggregate of 2,445,000 Options, representing approximately 58% of the outstanding Options.

INTENTIONS WITH RESPECT TO THE OFFER

To the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, the following directors and senior officers of Luxell, holding, in the aggregate, 16,667,351 Shares and 2,445,000 Options, have accepted or intend to accept the Offer in respect of all of their Shares: Pierre Jeannot, Robert Fraser, Keith King, John MacDonald, Giulio Vitali, Jean-Louis Larmor, Simon Dann, Gerard Hartley.

PRINCIPAL HOLDERS OF SHARES

The authorized share capital of Luxell is comprised of an unlimited number of Shares and an unlimited number of preferred, non-participating, non-voting convertible shares issuable in series. As at February 5, 2009, there were 135,043,525 Shares issued and outstanding.

To the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, no person or company beneficially owns or exercises control or direction over or holds more than 10% of Shares outstanding, other than LAC and the Offeror, which together with their affiliates, own 520,833 Shares, or approximately 0.4% of the Shares outstanding on a non-diluted basis.

To the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, no person or company acting jointly or in concert with Luxell beneficially owns or exercises control or direction over any Shares of Luxell, except as indicated above.

STOCK OPTION PLAN

Luxell has a Stock Option Plan (the "Plan") for the directors, executive officers, employees and consultants of Luxell and of its subsidiaries. Each option ("Option") granted pursuant to the Plan allows its holder to purchase one Share. As at February 5, 2009, there were 4,193,000 Options issued and outstanding, of which 3,668,837 are exercisable at a price that is less than the Offer Price. Under the Plan, in the event that an offer to purchase is made to all holders of Shares, the Board of Directors may cause all unvested Options to become immediately vested for the sole purpose of permitting the Shares underlying such Options to be tendered in response to the offer. For purposes of the Offer, Luxell has arranged for the acceleration of the vesting of all outstanding Options.

The Offer Documents indicate that subsequent to the date of the Offer, LAC may decide that, with the cooperation of Luxell, it may accept or allow for cashless or conditional exercises of Options. Holders of Options are advised to contact Luxell in order to obtain further details regarding cashless or conditional exercises of Options.

TRADING IN SHARES

To the knowledge of the Board of Directors, during the six months preceding the date of this Directors' Circular, none of Luxell or the directors or senior officers of Luxell nor, to the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, any associates of the directors or senior officers of Luxell, any person or company who beneficially owns, exercises control or direction over or holds more than 10% of the Shares or any person or company acting jointly or in concert with Luxell, has traded any securities of Luxell, save for Keith King who purchased 450,000 shares at \$0.02 per share on December 23, 2008.

ISSUANCE OF SECURITIES OF LUXELL

According to the public disclosure record, Luxell has made the following distributions of Shares (excluding Shares distributed pursuant to the exercise of stock options and conversion rights) during the past five years prior to the date hereof:

Date	Description of Distribution	Price per Security	Aggregate Gross Proceeds
December 23, 2004	Rights offering of 5,427, 417 common shares.	\$0.40	\$2,170,000
February 6, 2006	Issue 200,000 common shares in exchange for an extension on the maturity date of shareholder loans in an amount of \$600,000.00. The promissory notes had a repayment date of September 14, 2004 and Luxell exercised an option to extend the maturity date of the notes until re-financing was completed by agreeing to pay \$60,000.00 in common shares.	\$0.30	\$60,000
October 23, 2006	Repayment of loan to a shareholder for \$53,127 was exchanged for 531,280 common shares.	\$0.10	\$53,127
May 1, 2007	A non-brokered private placement of Class A Notes with an initial term of 6 months from the date of issue and an option to extend for a further 3 months.	N/A	\$3,750,000
July 18, 2007	Private placement of 10,000,000 common shares. Luxell issued 1,000,000 broker warrant's to purchase up to 1,000,000 common shares at \$0.13 per share exercisable for 24 months.	\$0.12	\$1,200,000
August 30, 2007	Luxell issued an aggregate of 3,041,667 common shares with a value of \$365,000 in connection with a 10% coupon on the Class A Notes.	\$0.12	\$365,000
November 28, 2007	Luxell issued an aggregate of 2,750,001 common shares with a value of \$385,000 in connection with a 10% coupon on the Class A Notes.	\$0.14	\$385,000
December 5, 2007	Luxell issued an aggregate of 2,145,126 common shares with a value of \$300,317 in connection with residual interest payable on the bridge financing.	\$0.14	\$300,317
May 10, 2008	Private placement of 61,911,000 units, each unit consisting of one common share and one-half share purchase warrant. Each whole warrant	\$0.10	\$6,191,100

	entitling the holder to purchase an additional common share at an exercise price of \$0.25 for a period of 24 months. Luxell issued an aggregate of 2,587,755 common shares to the agents for the private placement.		
June 4, 2008	Luxell issued an aggregate of 3,409,096 common shares with a value of \$375,000 in connection with the final 10% coupon on Class A Notes.	\$0.11	\$375,000
November 17, 2008	Issuance of 2,969,937 common shares as part of conversion option re Promissory Notes issued to creditors resulting from Proposal to Creditors from 2006.	\$0.40	1,187,975
July 18, 2007	Private placement of 10,000,000 common shares. Luxell issued 1,000,000 broker warrant's to purchase up to 1,000,000 common shares at \$0.13 per share exercisable for 24 months.	\$0.12	\$1,200,000
August 30, 2007	Luxell issued an aggregate of 3,041,667 common shares with a value of \$365,000 in connection with a 10% coupon on the Class A Notes.	\$0.12	\$365,000
November 28, 2007	Luxell issued an aggregate of 2,750,001 common shares with a value of \$385,000 in connection with a 10% coupon on the Class A Notes.	\$0.14	\$385,000

OWNERSHIP OF SECURITIES OF LAC AND THE OFFEROR

Except for Jean-Louis Larmor and as disclosed in this Directors' Circular, none of Luxell, the directors or the senior officers of Luxell or, to the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, any associates of the directors or senior officers of Luxell, any person or company beneficially owning, exercising control or direction over or holding more than 10% of any class of shares of Luxell or any person or company acting jointly or in concert with Luxell, owns or exercises control or direction over any securities of any class of LAC or the Offeror.

AGREEMENTS BETWEEN LUXELL AND ITS DIRECTORS AND OFFICERS

There are no arrangements or agreements made or proposed to be made between Luxell and any of its directors or senior officers pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office in the event the Offer is successfully completed.

Luxell has resolved to purchase directors and officers "run-off" insurance for the period from the Expiry Time until 6 years after the Expiry Time for all present and former directors and officers of Luxell, covering claims made within 6 years after the Expiry Time.

RELATIONSHIP BETWEEN THE OFFEROR AND THE DIRECTORS AND OFFICERS OF LUXELL

Except for Jean-Louis Larmor, to the knowledge of the directors or senior officers of Luxell, after reasonable inquiry, none of the directors or senior officers of Luxell are directors or officers of the Offeror or LAC or any of their affiliates (other than Luxell).

Except as set forth in this Director's Circular and for a waiver of liability and indemnity granted by Luxell in favour of all of the directors of Luxell, in their capacities as directors of Luxell, to the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, there are no arrangements or agreements made or currently proposed to be made between the Offeror and any of the directors or senior officers of Luxell, including arrangements or agreements with respect to compensation for loss of office or as to their remaining in or retiring from office if the Offer is successfully completed.

Except for Pierre Jeannot, Robert Fraser, Keith King, John MacDonald, Giulio Vitali and Jean-Louis Larmor, no other directors or senior officers, or entities controlled by them, of Luxell have entered into a Lock-Up Agreement with the Offeror. The particulars of the Lock-Up Agreements are described in the Offer Documents.

INTERESTS OF DIRECTORS AND OFFICERS OF LUXELL IN MATERIAL CONTRACTS OF THE OFFEROR

Other than as disclosed in this Director's Circular, no director or senior officer of Luxell or their associates or, to the knowledge of the directors and senior officers of Luxell, after reasonable inquiry, any person or company owning more than 10% of the Shares, has any interest in any material contract to which LAC or the Offeror is a party.

MATERIAL CHANGES IN THE AFFAIRS OF LUXELL

Except for the Offer, as disclosed in this Directors' Circular or as disclosed publicly by Luxell, no other information is known to the directors or senior officers of Luxell that indicates any material change in the affairs of Luxell since November 30, 2008, the date of the last published financial statements of Luxell for the first quarter of its 2008 fiscal year.

OTHER INFORMATION

Except as disclosed in this Directors' Circular, there is no other information that is known by the directors or senior officers of Luxell that would reasonably be expected to affect the decision of Shareholders to accept or reject the Offer.

OTHER TRANSACTIONS

Except as disclosed in this Directors' Circular, there is no transaction, board resolution, agreement in principle or signed contract of Luxell in response to the Offer. The directors of Luxell are not aware of any negotiations currently being undertaken by Luxell or that are underway in response to the Offer that

relate to or would result in (a) an extraordinary transaction such as a merger or reorganization involving Luxell or any of Luxell's subsidiaries; (b) the purchase, sale or transfer of a material amount of assets by Luxell or any of Luxell's subsidiaries; (c) an issuer bid for or other acquisition of securities by or of Luxell; or (d) any material change in the present capitalization or dividend policy of Luxell.

STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides Shareholders with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular or a notice that is required to be delivered to the Shareholders. However, such rights must be exercised within prescribed time limits. Shareholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

APPROVAL OF THE DIRECTORS' CIRCULAR

The contents of this Directors' Circular have been approved, and the delivery of this Directors' Circular has been authorized, by the Board of Directors.

CERTIFICATE

Dated: February 5, 2009

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. The foregoing does not contain any misrepresentation likely to affect the value or the market price of the securities subject to the Offer within the meaning of the *Securities Act (Ontario)*.

ON BEHALF OF THE BOARD OF DIRECTORS

 signed "Pierre Jeannot"
Pierre Jeannot, Chairman

CONSENT OF FINANCIAL ADVISOR

To: The Boards of Directors of Luxell Technologies Inc. and the Offeror

We refer to the formal valuation dated December 24, 2008, which we prepared for the Special Committee of the Board of Directors of Luxell Technologies Inc. in connection with the Offer made by the Offeror to the holders of Shares, other than the Offeror and its affiliates. We consent to the filing of the formal valuation with the applicable Canadian securities regulatory authorities and the inclusion of the formal valuation in this Circular. In providing such consent, we do not intend that any person other than the Special Committee and the Board of Directors of Luxell Technologies Inc. rely upon such formal valuation.

Hamilton, Ontario

(Signed) **TAYLOR LEIBOW LLP**

January 15, 2009

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SCHEDULE "A"

**ESTIMATE VALUATION REPORT
LUXELL TECHNOLOGIES INC.
AS AT NOVEMBER 30, 2008**



A MEMBER OF DFK INTERNATIONAL

HAMILTON OFFICE
EFFORT SQUARE
7TH FLOOR
105 MAIN STREET EAST
HAMILTON, ONTARIO
L8N 1G6

BURLINGTON OFFICE
THE TAYLOR LEIBOW BUILDING
FIRST FLOOR
3410 SOUTH SERVICE RD.
BURLINGTON, ONTARIO
L7N 3T2

TEL.: (905) 523-0000
FAX: (905) 523-4681

TEL.: (905) 637-9959
FAX: (905) 637-3195

WEBSITE: WWW.TAYLORLEIBOW.COM

EXECUTIVE SUMMARY – VALUATION OF LUXELL TECHNOLOGIES INC.

In this Executive Summary, we outline the conclusions and main assumptions contained in our Estimate Valuation Report (the “TL Report”). The summary below outlines our conclusions as to the Fair Market Value of the issued and outstanding common shares (the “Shares”) of Luxell Technologies Inc. at November 30, 2008 and the Notes to be issued in exchange for the Shares.

We used the discounted cash-flow method to value the Shares. We applied discount rates of between 30.90% and 40.70% to the future cash flows for the years 2009 to 2011, and discount rates of between 27.90% and 37.70% to subsequent years. We arrived at an Enterprise Value of between \$12,648,000 and \$9,541,000. We deducted Debt of \$376,000 to arrive at our conclusion as to the Fair Market Value of the Shares of between **\$12,272,000** and **\$9,165,000** as noted below. Based on 135,378,456 Shares, the per share value is between **\$0.091** and **\$0.068**.

	August 31, 2009	August 31, 2010	August 31, 2011	2012 and beyond
	\$	\$	\$	\$
Forecasted after-tax cash flows	(243,187)	3,370,779	5,130,270	4,041,285
Discount factor (high)	0.9016	0.7081	0.5373	1.7312
Discount factor (low)	0.8798	0.6526	0.4638	1.1005
Present value of forecasted after-tax cash flows (high)	(219,266)	2,386,910	2,756,326	6,996,138
Present value of forecasted after-tax cash flows (low)	(213,959)	2,199,696	2,379,460	4,447,437
SUM OF THE ABOVE (high, low)	11,920,000	8,813,000		
ADD: PRESENT VALUE OF TAX SHIELD	728,000	728,000		
ENTERPRISE VALUE (high, low)	12,648,000	9,541,000		
LESS: DEBT	(376,000)	(376,000)		
FAIR MARKET VALUE OF THE SHARES (high, low)	12,272,000	9,165,000		
FAIR MARKET VALUE PER SHARE (high, low)	\$ 0.091	\$ 0.068		

With respect to the Notes, we discounted the expected future repayment of the Notes and concluded that, subject to the restrictions and other comments noted above, the Fair Market Value of one Note is between **\$0.031** and **\$0.040**.

NOTE: This Executive Summary forms part of, and must be read in conjunction with, the TL Report, including all restrictions, disclaimers, scope of review items, assumptions and all other considerations.

LUXELL TECHNOLOGIES INC.

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Hamilton, December 24, 2008

The Special Independent Committee of the Board of Directors (the “Special Committee”)
Luxell Technologies Inc.
2145 Meadowpine Blvd.
Mississauga, ON
L5N 6R8

Dear Special Committee Members:

**RE: ESTIMATE VALUATION REPORT
LUXELL TECHNOLOGIES INC.
AS AT NOVEMBER 30, 2008**

1 INTRODUCTION

1.1 Business Interest Being Valued and Purpose of the Valuation

You have asked us (Taylor Leibow LLP Chartered Accountants, referred to hereafter as “TL”, “we” or “us”), as independent and objective experts in the valuation and pricing of privately-held business interests, to provide you with this Estimate Valuation Report. In this Report, we state and explain our conclusion as to the Fair Market Value of the issued and outstanding common shares (the “Shares”) of Luxell Technologies Inc. (“Luxell”) as at November 30, 2008 (the “valuation date”) and the Fair Market Value of one Note (see Section 1.2 for definition) as at November 30, 2008.

You have requested this Report in connection with in connection with the requirement of Multilateral Instrument 61-101 of the Ontario Securities Commission related to the insider bid discussed in Section 1.2 below. Based on the information provided to us, Luxell’s Shares were comprised of 135,378,456 Shares (including “Shares to be Issued” from the financial statements) with a stated value of \$55,261,432 at the valuation date.

1.2 The Transaction

At the valuation date, Lux Acquisition Corporation intended to provide notice to Luxell of its intention to offer to purchase all of the Shares at an indicated price of \$0.10 per Share. The offer was made on December 18, 2008. In the offer, the implied price of \$0.10 per Share would be paid by way of non-interest bearing, unsecured promissory notes (the “Notes”) which would be repaid in full (subject to certain events) on the third anniversary of the effective date of the Transaction.

Lux Acquisition Corporation was incorporated on December 5, 2008 for the purpose of effecting the Transaction. Lux Acquisition Corporation is wholly owned by Mr. Jean Louis Larmor, who is the sole director and officer, and President and CEO, of Luxell.

1.3 Standards and Independence

This Report has been prepared in conformity with the practice standards of the Canadian Institute of Chartered Business Valuators. Our compensation for this Report is not contingent on any event or action resulting from the use of this Report. Further, no individual involved in the preparation of this Report has any financial interest in Luxell or in the outcome of this valuation and/or any resulting transactions.

To the best of our knowledge, we have no business relationship with any of Luxell’s significant shareholders or the other parties to the Transaction, except as noted above. There are no understandings or agreements, formal or informal, between TL and Luxell or its shareholders or any other parties to the Transaction to conduct any future business dealings.

None of the principles of TL own, or have owned in the past, directly or indirectly, shares, options or any other investments in Luxell or any other parties to the Transaction. TL and its principles do not have any financial interest whatsoever in the outcome of the Transaction or the future of Luxell. TL confirms that, in our professional judgment, we prepared this Report free of any conflict of interest that would impair the quality, reliability or integrity of our conclusions.

1.4 Fair Market Value

For the purpose of this Report, the term Fair Market Value is defined as:

- “the highest price, expressed in terms of cash or cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”

1.5 Taylor Leibow LLP Chartered Accountants

TL is an independent accounting and business-advisory firm specializing in business valuation, litigation support, economic damage assessments, insolvency, assurance services and taxation consulting. Its principles have provided business valuation opinions and related advice to numerous companies throughout Canada, including several companies in the technology research and applications field. It operates primarily from its head office in Hamilton, Ontario. TL was founded in 1947 by Mr. Samuel Taylor and Mr. Maxwell (Kevey) Leibow. It has grown to employ over 70 professionals and has become the largest independent accounting firm in the Hamilton/Burlington area.

Mr. Michael R. Carnegie, BComm, CA•CBV and Mr. Brad Borkwood, BAcc, CA•CBV were the individuals primarily involved in the preparation of this report.

Mr. Carnegie graduated from McMaster University in 1988 with an Honours Bachelor of Commerce degree. He received his Chartered Accountant designation in 1991. Mr. Carnegie became a member of the Canadian Institute of Chartered Business Valuators in 1997. Mr. Carnegie became a partner of TL on January 1, 1998 and has had primary responsibility for the Business Valuations department since that time. Mr. Carnegie has been a distinguished speaker at numerous conferences and seminars and has written several articles that have been published in various publications.

In addition to his duties at TL, Mr. Carnegie was appointed to the position of AIC Industry Professor in Strategic Business Valuations at the Michael G. DeGroot School of Business on January 1, 2008.

Mr. Borkwood graduated from Brock University in 2000 with a Bachelor of Accounting degree. He received his Chartered Accountant designation in 2002. Mr. Borkwood became the Manager of the Business Valuations department in 2003 and became a member of the Canadian Institute of Chartered Business Valuators in 2005. Mr. Borkwood has worked solely in the Business Valuation department at TL since 2002, has completed numerous business valuation assignments and has attended numerous professional development courses.

1.6 Engagement Timing and Financial Terms

TL was contacted with respect to this specific engagement by Mr. John MacDonald of John MacDonald & Associates (one of Luxell's professional advisors) on behalf of the Special Committee. TL was formally engaged by the Special Committee pursuant to an engagement letter issued on December 11, 2008, and signed by Mr. Pierre Jeannot (on behalf of the Special Committee) on December 12, 2008. The engagement letter also addressed a separate Estimate Valuation Report related to the value of the Notes. At this time, TL began performing the work that eventually resulted in the issuance of the Estimate Valuation Report in Draft form on December 23, 2008 and in its final form on December 24, 2008. The agreed-upon fee for our preparation of the two Estimate Valuation Reports was \$20,000 plus GST. After the issuance of our engagement letter, which contemplated two separate reports, we opted to prepare one combined report to set out the value of the Notes and Shares, and received approval to do so.

1.7 Prior Valuations

We understand that no formal valuations were prepared by independent valuers other than TL with respect to the assets of Luxell prior to this report and that no formal valuations were prepared with respect to the Notes. Although no formal valuation reports were issued with respect to the Shares or the Notes, TL has previously issued three reports which involved certain of Luxell's assets. The first report was a Fairness Opinion effective August 31, 2005 which set out our independent opinion of the fairness, from a financial point of view, of the proposed corporate reorganization of Luxell, the Lux Initial Limited Partnership and the Lux Operating Limited Partnership. The second report was a Limited Scope Fairness Opinion effective June 15, 2007, which set out our independent opinion of the fairness, again from a financial point of view, of the proposed exchange between Luxell and the Lux Investor Limited Partnership of notes for the partnership units of Lux Operating Limited Partnership. The third and final report issued by TL was an update to the second report, effective November 23, 2007.

None of the previously issued reports impact this report or any conclusions expressed herein. Other than the previously issued reports addressed above, TL has not previously provided assurance or any other consultative services to Luxell, Lux Acquisition Corporation or any of the aforementioned limited partnerships, or any other related companies. From time to time, TL receives referrals for business-valuation or litigation-support work from Mr. John MacDonald (a shareholder of Luxell). TL has never been engaged directly by Mr. MacDonald with respect to any of these engagements. An employee of TL was previously seconded to John MacDonald & Associates. This employee worked independently under instructions from John MacDonald & Associates and did not take instructions from TL.

1.8 Other Value Considerations

It should be noted that our Fair Market Value conclusion represents the *intrinsic* or *stand-alone* value of the Shares at the valuation date, which refers to the notional value of the Shares given economic and business conditions existing at the valuation date, without consideration of possible synergistic benefits (or economies of scale) that might be available in different degrees to different arm's-length purchasers (see comments in Section 3 – "The Market for the Shares").

For the purposes of this Report, we consider one theoretical purchaser of the Shares from the pool of potential purchasers, which we refer to hereafter as the Purchaser.

It should also be noted that our Fair Market Value conclusion is valid only at the valuation date and does not apply at any other time. Changes in the economy and/or the outlook for an industry can have a pervasive impact on values, particularly multipliers and other ratios. Also, because Luxell's financial position changes over time, value will change even if all other factors remain constant.

Note that we have not separately valued warrants or other options nor have we increased the amount of Shares to account for any option or warrant exercise. Our understanding of the Transaction is such that these equity instruments would need to be exercised in order to participate in the Transaction, and given that all exercise prices exceed \$0.10 per share, we assumed that no prudent party would exercise any options or warrants.

For other relevant definitions, see Section 12.

2 OVERVIEW AND VALUATION SUMMARY

We considered various valuation techniques and methodologies. After completing the necessary research, investigations and analysis, we concluded that a Discounted Future>Returns Approach, specifically the Discounted Cash Flow Method, was the most appropriate method to use.

We reviewed Luxell's historical financial statements and forecasted financial statements for the years 2009 through 2011. We had discussions with management regarding the overall plausibility of the projected results and adjusted the forecasted income statements to arrive at forecasted cash flows.

Based on our assessment of the Purchaser's expected debt-to-equity ratio on the acquisition, their cost of Debt and Equity and the corresponding weighted average cost of capital, we applied discount rates of between 31.80% and 40.70% to the projected cash flows for the remainder of fiscal 2009 through to the end of fiscal 2011. Thereafter, we applied discount rates of between 28.80% and 37.70% to cash flows projected in fiscal 2012 and beyond. Based on these discount rates, we arrived at a total present value of future after-tax cash flows of between \$11,920,000 and \$8,813,000. We added the present value of the future tax shield of \$728,000 to arrive at a total Enterprise Value of between \$12,648,000 and \$9,541,000.

We deducted Luxell's Debt in the amount of \$376,000 to arrive at our conclusion as to the value of the Shares. Through this methodology, based on the information and documents reviewed, the explanations provided to us and, subject to the restrictions and assumptions noted herein, our conclusion as to the Fair Market Value of the Shares is between **\$9,165,000** and **\$12,272,000**. Based on 135,378,456 Shares, the per share value is therefore between **\$0.068** and **\$0.091**.

With respect to the Notes, we discounted the expected future repayment of the Notes and concluded that, subject to the restrictions and other comments noted above, the Fair Market Value of one Note is between **\$0.031** and **\$0.040**.

3 THE MARKET FOR THE SHARES

3.1 The Open Market

There are as many *prices* for a business interest as there are purchasers. Each purchaser for a particular business interest, whether it is an investment in shares or assets, may be willing to pay a different price for the business interest because of his or her expected use of the business interest. In an open-market transaction, a purchaser will review a potential acquisition in relation to what *synergies* may be available (for example, reduced competition, cost savings, or an assured source of supply or sales). Each potential purchaser may be able to enjoy these synergies in differing degrees and therefore may be willing to pay a different price than every other potential purchaser.

3.2 Value in the Notional Market

In what is referred to as the “Notional Market” (applicable for situations in which no specific third-party purchaser has been clearly identified) business valuers base their opinion of the Fair Market Value of a business interest on the earnings, cash flows, the tangible net worth of the business, and/or information regarding comparable market transactions, if available. The Notional Market forms the basis for all Valuation Reports prepared by business valuers.

3.3 Price vs. Value

In situations where no specific third-party purchaser has been clearly identified, it is difficult to comment with precision as to the price that would be paid in an open-market transaction. It is speculative as to whether or not synergistic purchasers exist and whether such purchasers, *if they exist*, could be negotiated into a position to pay a premium for the synergies. Further, potential purchasers are generally in a far better position than the vendor to quantify the value of potential synergies. Because of the uncertainty regarding potential synergies and the potential differences between our risk and earnings assessments and those of a potential purchaser, the attainable price for a business interest can only be determined through an arm's-length negotiation.

3.4 Conclusion

Because purchasers have a greater ability to identify and quantify the potential synergies that would result from an acquisition of a business interest than would the vendors, and because under the terms of this engagement we did not expose the Shares for sale in the open market on or about the valuation date, it was not possible for us to attach any specific or finite value to the possible synergistic benefits. It follows that our conclusion does not include the recognition of a "special purchaser" premium. A "special purchaser" is defined as a purchaser who is willing to, or believes that they can, pay a higher price for a business interest than any other purchaser.

4 SCOPE OF REVIEW

To prepare this Report, we reviewed and/or relied upon, among other things, the following documents and information provided to us:

4.1 Financial and Corporate Documents

We have not audited or otherwise independently verified the accuracy or completeness of this information.

- Luxell's audited financial statements for the three years ended August 31, 2008, along with the Auditors' Reports issued by McGovern, Hurley, Cunningham, LLP Chartered Accountants (2008) and Mintz & Partners LLP Chartered Accountants (2007, 2006);
- Unaudited financial statements for the three months ended November 30, 2008;
- Management-prepared forecasted balance sheets and income statements for the three years ended August 31, 2011;
- Draft Offer Notice from Lux Acquisition Corporation, explaining the details regarding the offer to purchase the Shares, dated December 16, 2008;
- Forecasted revenue analysis including the names and other information about all projects that have been or will be bid upon, potential revenues and probabilities of success on each bid;
- Information about Luxell's success rates on bids for the 2007 and 2008 fiscal years;
- Luxell's Federal and Ontario corporate income tax returns for its 2007 fiscal year;
- Management-prepared schedule of estimated value of equipment;
- Information about top customers and suppliers for the 2007 and 2008 fiscal years;

- A listing of all common shareholders and number of shares owned by each at November 24, 2008; and
- Information about the remaining costs to complete the Black Layer™ technology.

4.2 Financial, Economic and Industry Information

Financial, economic and industry information was obtained from the following sources:

- Luxell's website;
- Bank of Canada website;
- TSX Review for November 2008;
- Betas for various competitors of Luxell from www.aol.com, finance section;
- Stocks, Bonds, Bills and Inflation – Valuation Edition, 2007 Yearbook (the “SBBI Yearbook”) issued by Morningstar Inc.; and
- Canadian Risk Premia Over Time Report 2007 (the “Morningstar Report”) issued by Morningstar Inc.

4.3 Interviews, Discussions, and Other Information

We discussed Luxell's operating results, financial position, prospects, and the outlook for both Luxell and its industry as at the valuation date with Mr. Philip Gibbs (Chief Financial Officer) and Mr. Gerry Hartley (Vice-President of Marketing).

Further, we circulated a draft copy of this Report prior to its issuance in final. We asked Mr. Gibbs, Mr. Hartley, and the members of the Special Committee to provide us with their comments along with any additional information they felt was relevant for our consideration. After consideration of any and all such comments and information, and our receipt of signed letters of representation, we issued this Report in its final form.

5 RELEVANT COMPANY INFORMATION

5.1 Luxell – Corporate Status and Brief History

Luxell is a publicly-traded corporation that trades on the Toronto Stock Exchange under the symbol “LUX” and had over 130 million outstanding Shares at the valuation date. Luxell was established in 1994 and went public in 1996. Luxell operates from a 49,000 square foot facility in Mississauga, Ontario, and currently uses 25,000 square feet and sublets the balance. We understand that management expects that from the current facility, Luxell has capacity for up to \$25-\$30 million of revenues.

In recent years, Luxell had undergone reorganizations involving Limited Partnerships, which were the subject of our prior reports. At the valuation date, all of the Limited Partnerships have been dissolved and Luxell is the operating company and holder of all assets and liabilities.

The following is an excerpt from Note 1 of Luxell’s 2008 financial statements, indicating that Luxell has successfully satisfied all obligations under a bankruptcy proceeding:

“On August 26, 2006, Luxell filed a Notice of Intention to Make a Proposal under the Bankruptcy and Insolvency Act (Canada). On October 18, 2006, the creditors voted in favour of an Amended Proposal, which was subsequently approved by the Superior Court of Justice on November 7, 2006. Luxell received its Certificate of Full Performance on January 9, 2008, signifying that all its obligations to the Trustee had been met and that only the formality of court approval of the Trustee’s report remained.”

5.2 The Business

The Business previously focused on the research and development of optical improvement technologies known as the Black Layer™ Technology. Application of this technology was in Flat Panel Display (“FPD”) devices. As a result of several barriers encountered by Organic Light Emitting Diode (“OLED”) manufacturers (the most likely customers of the Black Layer™ Technology), management does not expect that the products produced by these potential customers to be significantly commercialized for several more years. Management therefore does not expect to achieve any significant revenues from Black Layer™ Technology and, accordingly, have not included any revenues or profits from Black Layer™ in the projections used to form our conclusions herein. That being said, if market conditions change such that Black Layer™ is feasible commercially, Luxell expects that a strategic partnership could be developed and the technology could be ready to be exploited within two years for a cost of approximately \$1,000,000.

During the development phase of the Black Layer™ Technology, Luxell acquired extensive knowledge and understanding of FPD products in general, and of FPD products used in hostile environmental conditions. Luxell decided to employ its knowledge to design and produce Liquid Crystal Display (“LCD”) Ruggedized Flat Panel Displays. Providing products for Ruggedized FPDs is now Luxell’s core business and sole focus.

Ruggedized FPDs are mainly aimed at the military market, particularly the aviation and ground vehicles and systems sectors. Luxell has developed a reputation for the design and high-quality manufacture of these products. Ruggedized FPDs are designed and built to operate effectively in severe air, land and sea environmental conditions.

The LCD technology is now maturing into a stable and reliable product line. Improved features include higher contrast, better images, lower costs, lower power consumption, longer life, less mass and a thinner display. As a result, the demand for LCD Ruggedized FPDs is increasing.

5.3 Applications of Luxell's Technology

Applications of Luxell's technology, for the purposes of this report, have been separated into two core product groups. The classes have been set out based on application and future market. The ATI product group (or square FPD) is mainly used in refurbishing and replacing of older CRT (a technology similar to but pre-dating the LCD technology) units in existing aircraft. The rectangular FPD is mainly used in newer airplanes and refurbishing of older CRT units, as well as in land and sea-based vehicles and/or systems.

Specific avionic and defense applications for both the square and rectangular FPDs include tactical displays, radar warning devices, navigational displays, maintenance, mission and instrumentation systems, and displays for global positioning systems.

Both the square and rectangular FPDs can be either customized or semi-customized according to the customers' specifications.

5.3.1 Examples of the Technology Applications

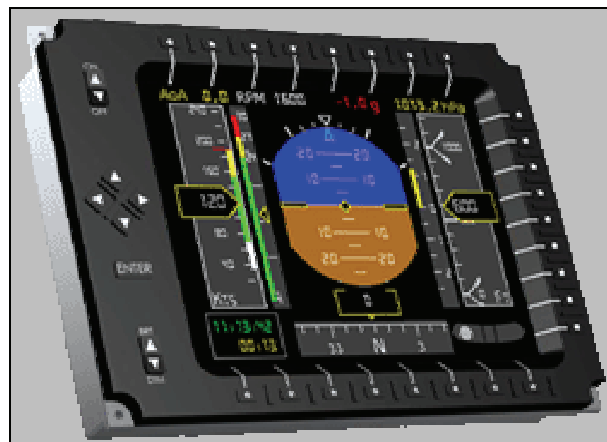
Avionics – Square:

The avionics application focuses on the ATI product group, as well as products with 10.4” FPD screens. An example of this application is shown in the picture below. These products are sunlight-legible, lightweight, small, has low power consumption, and has an LED backlight.



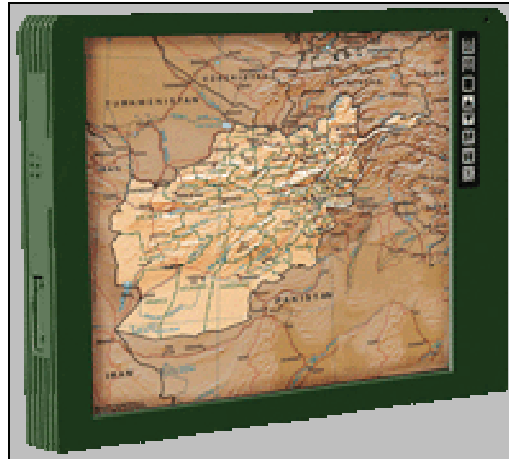
Avionics – Rectangular:

An example of this application is shown in the picture below. These products are sunlight-legible, lightweight, small, have low power consumption and an LED backlight for small LCD displays and have the capability to adapt to larger displays.



Land Army:

The land army application focuses on products with FPD screens which are 10.4” and larger. An example of this application is shown in the picture below. These products are sunlight-legible, lightweight, small and have low power consumption. They are ruggedized for rough and severe handling and feature multiple applications for vehicles and land based systems.



Navy:

An example of this application is shown in the picture below. These products are shock/vibration resistant, include brightness controls for dark-to-daylight conditions, are capable of handling large variations in voltage, and offer a touch-screen option.



5.4 The Military Industry – Core Customer Base

Luxell's main focus for sale of its ruggedized FPDs is in the military market. The military market can be divided into three main categories, consisting of:

- Aviation display
- Ground vehicles and systems display
- Shipboard display

Luxell's main focus is on aviation display, with some presence in ground vehicles. Luxell plans to pursue the shipboard display segment in the near future, possibly by way of a strategic alliance.

Military spending has been high for the several years leading up to the valuation date due to various international conflicts including the international war on terrorism. Military spending is somewhat unpredictable, due to the fact that wars are generally not projected in advance, and therefore spikes in demand can occur. Changes in government leaders and parties and the corresponding changes in philosophies and attitudes towards military spending also greatly impact military spending over time. For example, the US people elected a democratic President who will take office in early 2009 and has indicated that he will end the war in Iraq. Accordingly, many people expect military spending to decrease. That being said, there is also a minimum level of demand that can be expected in a 'normal' period.

We understand that the projected financial results take the industry demand into consideration. Note that Luxell does not sell directly to any specific military, rather, it supplies manufacturers of devices that are sold to armed forces. Luxell's expected customers are well-dispersed geographically, which may decrease the risk associated with decreased military spending in any one or group of countries.

5.5 Financial Position

Schedule 6 illustrates Luxell's balance sheets as at August 31, 2007 and 2008 and November 30, 2008. Luxell's financial position as at the valuation date is summarized as follows:

ASSETS	\$
CURRENT	
Cash	151,989
Accounts receivable	495,635
Inventory	1,080,207
Prepays and other assets	55,321
	<u>1,783,152</u>
PATENTS AND LICENCES	23,190
PROPERTY AND EQUIPMENT	270,832
	<u>2,077,174</u>
LIABILITIES	
CURRENT	
Accounts payable and accrued liabilities	2,158,877
Deferred revenue	194,608
Leasehold reconstruction obligation	113,088
Government loans	263,364
	<u>2,729,937</u>
SHAREHOLDERS' DEFICIENCY	<u><u>(652,763)</u></u>

We were not provided with a breakdown of Luxell's inventory at the valuation date, but inventory is typically highly concentrated in raw materials, with smaller amounts of work in progress and finished goods.

Patents and licence consist of a licence with the National Research Council of Canada related to the Black Layer™ technology, which expires in June 2009 and certain patents owned by Luxell.

We were not provided with details of the components of Luxell's property and equipment at the valuation date. However, Luxell's property and equipment consisted of the below assets at August 31, 2008. Luxell did not have significant additions or amortization between August 31, 2008 and the valuation date.

	Cost	Accumulated Amortization	Net
	\$	\$	\$
Computers (hardware and software)	779,232	779,232	-
Furniture and fixtures	260,109	260,109	-
Production and quality assurance	1,136,604	838,005	298,599
Research and development equipment	1,961,654	1,961,654	-
Leasehold improvements	1,736,942	1,736,942	-
	<u>5,874,541</u>	<u>5,575,942</u>	<u>298,599</u>

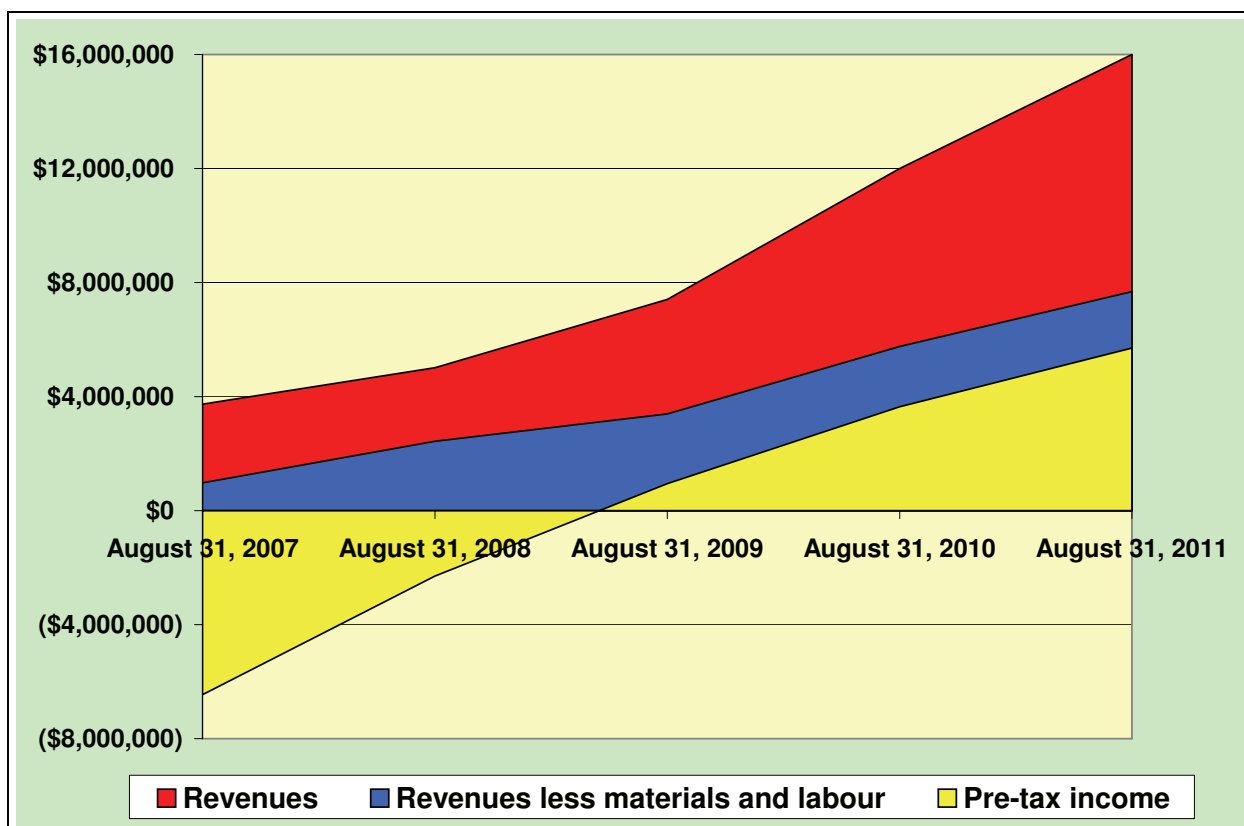
Leasehold reconstruction obligation represents the expected cost to restore its facilities in accordance with its lease agreement.

Government loans include a loan from Technologies Partnerships Canada, which was obtained through a program where 30% of the cost of development of flat panel display technologies was provided and deemed to be a loan, repayable at 3.5% of gross annual revenues generated from 2008 through 2014. The loan was reduced to \$957,533 in accordance with the creditor proposal. The amounts are due in equal monthly installments for the 24 months from September 2008 to August 2010.

Shareholders' deficiency includes the accumulated deficit, the Shares, shares to be issued, contributed surplus and warrants. The warrants are exercisable at prices, which range in weighted average exercise prices from \$0.10 to \$0.22.

5.6 Operating Results

Schedule 7 and Schedule 9 outline Luxell's actual results of operations for the two years ended August 31, 2008 and for the three months ended November 30, 2008, and for the forecasted years ending August 31, 2009 through 2011. Note that this chart is based on the initial forecasts provided to us, which management later lowered due to economic conditions at the valuation date. The fluctuations in historical and projected revenues, revenues less materials and labour and pre-tax income are illustrated in the following graph:



6 VALUATION METHODOLOGY

6.1 General

The value of a business interest, or any financial investment for that matter, is based on the expected cash that the investment will generate in the future. An investor will consider the value of an investment to be either the present value of the future cash flow stream that will be generated or the expected cash that can be derived from the sale of the investment. When assessing the present value of future cash flows, an investor will select a required rate of return on his or her investment.

There is no standard mathematical formula used to value business interests. The particular approach used and the factors to consider vary in each case. In the valuation of a privately owned or closely held business, there are three types of approaches that may be adopted: (i) discounted future-returns approaches, (ii) net-asset approaches, or (iii) the comparable-transactions approach.

6.2 Discounted Future>Returns Approaches

Discounted future-returns approaches are appropriate if the business being valued is earning a fair return on investment and therefore the investor would want to acquire the future cash flows expected to be generated by the business.

The investor's required rate of return depends on the risk perceived to be inherent in the investment. The higher the expected risk, the higher the rate of return that the investor will require in order to put his or her capital at risk. A business valuator makes an independent assessment of the likely return on investment and the level of risk that an investor will likely attach to the expected cash flows.

Except for situations such as those described in Section 6.3 below, it is generally accepted that the earning power of a business is greater than the value of the individual tangible assets and identifiable intangible assets owned by it. Assets used in connection with business know-how are productive beyond their stand-alone value. In other words, there is usually some unidentifiable intangible asset (referred to as Goodwill). The Goodwill of a business is the difference between the Fair Market Value of a business interest and the market value of its net tangible and identifiable intangible assets.

6.3 Net-Asset Approaches

Net-asset approaches are used for situations such as those in which:

- (a) asset values are the prime determinant of value (i.e., the nature of the business is such that an investor would look strictly to the company's underlying tangible assets, for example vacant land, a portfolio of marketable securities, plant capacity, etc.);
- (b) the business is a going concern but is not earning an adequate return on its invested capital;
- (c) the business depends on tendering bids on contracts and no solid customer or referral base exists;
- (d) there are so few barriers to entry that it is easy for other investors to replicate the operations;
- (e) any indicated Goodwill is attributable only to the personal involvement of one or more of the principals; or
- (f) liquidation is advised because the business is not viable as an on-going operation.

In such situations, investors will attach little or no value beyond the net tangible and identifiable intangible assets of the business. In other words, no Goodwill (the residual value or unidentifiable intangible asset) will be perceived.

6.4 Comparable-Transactions Approach

The comparable-transactions approach is based on the premise that similar business interests sell at similar prices. This approach requires the analysis of recent purchase and sale transactions involving businesses of a similar size, management style and ability, financial structure, and location that operate in the same or a similar industry with similar products, services, customers and suppliers. The approach can also be used as an aid in the determination of appropriate discount rates under one of the discounted future-returns approaches and as a test of the reasonability of the results of applying other valuation approaches.

The comparable-transactions approach is used by real estate appraisers who compare a property with similar properties that have recently sold or are listed for sale. The approach is more common in the valuation of residential real estate than commercial or investment properties.

There are significant difficulties in applying this approach to valuing business interests, including:

1. The complexities of business generally make it impossible to find businesses that are similar enough in all significant characteristics to the entity being valued;
2. It is rare that comparable public-market transactions can be found. Public-market transactions involve larger and more diversified companies than most private business interests, and public-market disclosure often lacks details that are required for a meaningful comparison;

3. There is no requirement to publicly disclose information pertaining to the purchase and sale of private companies. As such, relevant details that would be needed to make a meaningful comparison to any relevant private company transactions are often not available; and
4. Even if certain relevant details are available, unless the valuator was intimately involved in the negotiation of the specific transaction, it is impossible to understand what specific purchaser or vendor motives, financial considerations, or hidden trade-offs influenced the terms, conditions, and structure of the sale.

For these reasons, it is rare that the comparable-transactions approach can be used as the primary methodology in determining the Fair Market Value of a privately held business. Most often, the information gathered is used to provide guidance as to the market's perception of an industry at a point in time relative to the overall investment market.

7 VALUATION APPROACHES AND METHODS CONSIDERED

7.1 Comparable-Transactions Approach

In accordance with the scope of our mandate, we were not provided with, nor did we independently obtain, information with respect to comparable transactions. As explained in Section 6.4 (Comparable-Transactions Approach), such information is difficult to obtain. Further, the transactions found (if any) require extensive analysis to determine if any meaningful conclusions can be drawn. Accordingly, we did not use the comparable-transactions approach to assess the Fair Market Value of the Shares.

7.2 Method Adopted for the Valuation of the Shares

In order to assess the most appropriate valuation approach, we performed an analysis of Luxell's forecasted financial information for the years following the valuation date and the financial statements leading up to the valuation date. Our analysis included a review of Luxell's forecasted and historical balance sheets and results of operations.

We reviewed Luxell's results of operations leading up to the valuation date. During that time, Luxell did not report consistent or adequate profitability to provide an adequate return to the Purchaser on the required investment in net tangible assets. However, Luxell's current forecasted financial information indicates that Luxell's management expects future results to be adequate. As valuers, we do not accept Management's expectations and business plan without skepticism given that future events are not predicable with certainty. Valuers factor this uncertainty into the risk-adjusted discount rates which are explained in detail later in this report. This information, however, did lead us to the conclusion that an assessment of value using a discounted future-returns approach was necessary. In the event that using the discounted future-returns approach does not yield an indicated value above tangible net worth, we would revert to a net-assets approach.

7.3 Discounted Future>Returns Approaches

Once the relevant facts establish that a discounted future-returns approach is required, it must be decided whether the particular method should be the capitalized cash flow, capitalized earnings, discounted cash flow, or some other method.

7.3.1 Capitalized Cash-Flow

The capitalized cash-flow method involves estimating the indicated after-tax discretionary cash flows that the business will generate in the future. Discretionary cash flows are the ultimate determinant of an investor's return on investment. In applying this method, the future indicated cash flows are converted into a lump sum by capitalizing the cash flows at the rate of return that the Purchaser would require based on the risk inherent in generating the expected cash flows and the expected capital structure to be used by the Purchaser.

Because this method uses a constant stream of future returns, its use is appropriate if the business is expected to generate a consistent level of cash flows in the future.

7.3.2 Capitalized Earnings

The capitalized-earnings method may be used as an estimate of the same results that would be obtained using the capitalized cash flow method. Because the discretionary cash flows generated by a business determine an investor's real return, this method is appropriate if the earnings generated by the business are a reasonable approximation of its cash flows. Earnings will approximate cash flows for a business that does not have a large investment in property and equipment, does not have a large investment in intangible depreciable assets, or does not have a significant amount of other non-cash items in its results of operations.

7.3.3 *Discounted Cash-Flow*

The discounted cash flow method is a detailed version of the capitalized cash flow method. The method involves estimating the future cash flows on a year-by-year basis and discounting the cash flows to a present value at the valuation date. This method is appropriate where the future cash flows are not expected to be consistent from year to year. This method is most often used for businesses that are in the early stages of development, have undergone or are undergoing significant operational changes, or for businesses whose cash flows, for any other reason, are not expected to be consistent in the future.

7.3.4 *Conclusion*

We concluded that the discounted cash-flow method is the most appropriate method to use. We selected this method over the capitalized cash flow or earnings methods because the historical results are not indicative of future expectations. Rather, the Purchaser would review the forecasted financial information and assess the present value of expected future cash flows with due consideration to the risks involved.

As outlined further in Sections 8, 9 and 10 and illustrated in the attached schedules, our application of the discounted cash-flow method involved:

- (a) analyzing the expected future cash flows;
- (b) selecting an appropriate range of discount rates. The selection of appropriate discount rates must have regard to the expected capital structure available to the Purchaser, the cost of debt financing and the Purchaser's expected (desired) rate of return on Equity ("ROE"). The cash flows to which the discount rates are applied are based on a debt-free capital structure. Therefore, the appropriate rate to apply is referred to as the weighted-average cost of capital (see Section 9.1 for further explanation of the weighted-average cost of capital);
- (c) applying the discount factors (present values based on the amount of time until the cash flows are realized and the indicated discount rate arrived at in (b) above) to the free cash flows arrived at in (a) to arrive at a range of values;
- (d) adding the present value of the future income-tax savings related to Luxell's present undepreciated capital cost balances to arrive at Enterprise Value; and
- (e) to arrive at a range of Share values, Luxell's actual Debt on the valuation date is deducted.

**IN THE NEXT SEVERAL SECTIONS OF THIS REPORT, WE
OUTLINE OUR DETERMINATION OF THE SPECIFIC
VALUATION METRICS USED, INCLUDING EXPECTED FUTURE
CASH FLOWS AND THE DISCOUNT RATES**

8 EXPECTED FUTURE CASH FLOWS

8.1 Projected Income Statements

A summary of the projected income statements prepared by Luxell’s management is illustrated in Schedule 9. A summary of Luxell’s historical results is illustrated in Schedule 7. A comparison of the results for the two full years prior to the valuation date and the three forecasted years following the valuation date are set out as follows:

	August 31, 2007	August 31, 2008	August 31, 2009	August 31, 2010	August 31, 2011
	\$	\$	\$	\$	\$
REVENUES	3,736,933	5,007,612	7,410,000	12,000,000	16,000,000
EXPENSES					
Direct labour and materials	2,765,977	2,577,149	4,021,800	6,240,000	8,320,000
Research and development, net of govt. assistance	2,314,502	1,204,242	445,000	280,000	180,000
General and administrative (including rent)	3,054,632	2,116,961	1,555,000	1,340,000	1,340,000
Sales, marketing and royalty	476,850	396,137	325,000	300,000	300,000
Production support and quality assurance	135,342	100,900	-	-	-
Foreign exchange (gain)	(32,940)	(53,414)	(50,000)	-	-
Loss on sale of property and equipment	158,715	-	-	-	-
Interest expense	1,099,434	837,520	46,700	80,000	80,000
Amortization of property and equipment	203,898	111,817	109,652	109,652	79,295
Amortization of licence	15,508	15,508	15,508	11,421	-
	10,191,918	7,306,820	6,468,660	8,361,073	10,299,295
NET PROFIT (LOSS) (before debt compromise)	(6,454,985)	(2,299,208)	941,340	3,638,927	5,700,705

As can be seen above, Luxell has forecasted significant increases in revenues, significant decreases in expenses (in total for 2009 and as a percentage of revenues thereafter) and an overall \$12,000,000 swing from a loss position to annual profits going from 2007 and 2011. Because of the significant improvements in operational results forecasted over the next three years, the Purchaser would spend a considerable amount of time reviewing the plausibility of the projected results. Accordingly, we also reviewed the projected results in detail in comparison to historical results. Notable items are as follows:

Revenues – we were provided with a detailed listing of the various projects that Luxell has bid or plans to bid on in the near future. The total potential revenue if Luxell won every job would be over \$100,000,000. Management considered the likelihood of winning each particular bid based on its knowledge of the project, relationship with the potential customer, and other such factors. Likelihoods ranged from 0% to 83% and generally were higher on additional work for existing customers and/or projects, and were lower for new projects.

The total revenue expected once all the various likelihoods were applied to the total potential revenue was approximately \$38,000,000. This amount exceeds the \$35,410,000 of revenue projected for fiscal 2009 through 2011, therefore indicating that management is confident that all projected revenues are supported by actual projects. This fact would give the Purchaser comfort regarding the likelihood of generating the forecasted revenues as opposed to scenarios where forecasted revenues are not, or only partially, attributable to actual, known projects.

We reviewed the actual results from the first quarter of fiscal 2009 (September to November 2008) and noted that revenue had decreased significantly from any quarter in 2008. We discussed this issue with management and were informed that management noticed a delay in many projects given the economic downturn in the several months leading up to the valuation date, and that management was confident that the larger orders were coming soon.

We also reviewed historical bid success rates to assess if the 37% success rate forecasted in the future was reasonable. Management provided details that indicated that the success rates on bids in 2007 and 2008 were 55% and 71%, respectively (not weighted for project size). As a further note, the forecasted revenues are generated by a broader base of customers when compared to actual revenues generated in 2007 and 2008, which were highly reliant on two specific customers. Based on all of this information, we concluded that the forecasted revenues were reasonable for use in our valuation calculations. We did not accept these forecasts as certain and therefore include the risk that forecasts may not be achieved in the future in our risk assessment and related discount-rate conclusions.

Direct Labour and Materials – this item has been forecasted at approximately 45-48% of revenues over the forecasted period, which is in line with the fiscal 2008 results.

Research and Development – as a result of the Transaction, Luxell will be a private company in the forecasted years and therefore will have additional tax credit recovery ability related to research and development. Accordingly, tax refunds of between \$500,000 and \$700,000 have been factored into the net research and development forecasted expenses, resulting in the decrease from previous years. Note that Luxell's management expects that various costs included in materials and labour to qualify for research and development tax credits and not just the expenses included in the gross research and development budgeted expense, which amount to between \$880,000 and \$945,000 (before tax recovery reductions).

General and Administrative – in fiscal 2007, Luxell experienced significant professional fees related to past reorganizations. Further, as a private corporation, professional fees will decrease due to the much less stringent reporting requirements. Further still, the operating facilities are now reduced as the upstairs facilities at Luxell's premises are being subletted to other companies. Staff has been reduced from over 80 in prior years to about 40 at the valuation date. Accordingly, the forecasted decrease in general and administrative expenses appears reasonable.

Sales, Marketing and Royalty – this item includes an annual \$75,000 royalty payment that has been made in recent years to the National Research Council of Canada, related to the Black Layer™ technology. The annual \$75,000 requirement is set to cease June 2009. Luxell expects other marketing and sales expenses to maintain the overall account at the same level at the end of the royalty payment requirements. As such, the forecasted sales, marketing and royalty expense account appears reasonable, although lower than historical results.

Production Support and Quality Assurance – these costs were included in the general and administrative costs in the forecasted years.

Interest Expense – this expense relates to expected interest on the expected debt to be raised from the Business Development Bank of Canada (BDC). The expectation is that \$1,000,000 of debt can be obtained in the second quarter of fiscal 2009 at an 8% interest rate and interest-only repayments.

8.2 Projected Cash Flows

To make the projected operating results suitable for our value calculations, we made the following adjustments to Management's projected earnings before income taxes:

- (a) We first decreased the overall profitability of Luxell, based on information provided after the forecasts were prepared. Management indicated that due to deteriorating economic conditions in the period leading up to the valuation date, which is evidenced by the poor performance in Quarter 1, 2009, the forecasts no longer represented the most expected course of events. Instead, management indicated that 2009 income will be 50% of the initially forecasted amount, and that 2010 income will be 75%, with 2011 and beyond remaining in line with projections;

- (b) We deducted an estimate of corporate income taxes in the model because our valuation methodology uses after-tax cash flows. We selected an income tax rate of 30.50%, which is the expected rate that the Purchaser would incur in future periods. We only calculated income taxes after the projected earnings exceeded Luxell's accumulated income tax loss carryforwards. Because we were not provided with Luxell's 2008 income tax return, we assumed that the 2008 accounting loss, after adjusting for amortization and eliminating the gain on comprise of debt, would represent the taxable loss. We therefore increased the 2007 loss carryforwards by this amount, which is approximately \$2,400,000, to arrive at total loss carryforwards in the amount of approximately \$8,600,000;
- (c) We eliminated the projected interest expense because it is the earnings under an assumed debt-free capital structure that is relevant at this stage in the calculations;
- (d) We eliminated the projected amortization of property and equipment and licence because amortization is a non-cash charge to earnings related to Canadian Generally Accepted Accounting Principles rather than cash flows;
- (e) We adjusted cash flows to incorporate forecasted future working capital requirements, including fluctuations in accounts receivable, inventory, prepaid expenses and accounts payable;
- (f) We deducted an estimate of future equipment purchases of a recurring \$50,000 per year plus an additional \$50,000 in fiscal 2009 related to the purchase of a glass cutting machine; and
- (g) We eliminated the pre-interest, pre-amortization losses incurred from September 1 to November 30, 2008, because these amounts are included in the total 2009 forecast.

The adjusted cash flows are set out Schedule 4. We next assessed the appropriate discount rate to be used in calculating the present value of the future cash flows.

9 THE DISCOUNT RATE

9.1 Weighted Average Cost of Capital

The rate of return required on an investment in the assets of an active, operating business is determined by the Weighted Average Cost of Capital (“WACC”). The use of WACC is appropriate for situations in which the earnings or cash flows are determined assuming a debt-free capital structure. The WACC is determined based on the following:

- (a) the cost of Debt;
- (b) the cost of Equity; and
- (c) the proportions of Debt and Equity available to the Purchaser to finance the acquisition.

“Equity” refers to the portion of the purchase price that cannot be financed through the use of Debt and therefore must be financed with the Purchaser’s own capital.

9.1.1 The Cost of Debt

In order to determine the cost of Debt, we used rates of between 5.00% and 6.00% (prime plus 1 and prime plus 2, respectively) as the pre-tax cost of debt and rates of between 3.48% and 4.17% after tax savings of 30.50% have been deducted.

9.1.2 Required Rate of Return on Equity

The Purchaser’s required rate of return on Equity (“ROE”) is analogous to the price/earnings ratio on a publicly traded stock. Price/earnings multiples indicate the rate at which investors capitalize earnings per share at a given time and is a concept widely used by financial advisors, securities analysts, stock brokers and others who analyze prices and values of publicly owned securities.

Selecting the ROE requires consideration of a number of internal and external factors relating to Luxell. While an acceptable ROE will change with time and situation, the factors to be considered in the determination thereof are constant and are outlined below.

9.2 Rates of Return and Price/Earnings Ratios on Alternative Investments

The following rates of return and price/earnings ratios prevailed on or around the valuation date:

Yield on long-term Government of Canada Bonds	3.90%
Bank of Canada Bank Rate	2.50%
Chartered Bank lending rate for prime business loans	4.00%
Chartered Bank guaranteed investment certificates, 5 years	3.08%
Conventional mortgage lending rates, 5 years	6.95%
<hr/>	
SOURCE:	Bank of Canada – November 30, 2008

TSX 300 Composite	10.85
Aerospace/Defence	9.91
Technology Hardware & Equipment	51.71
<hr/>	
SOURCE:	The Toronto Stock Exchange Review – November 30, 2008

The interest rates noted above represent the return on investments that are considered to be low-risk. An Equity investment in a private business is significantly riskier and therefore dictates a substantial premium above these rates of return.

Public company and industry price/earnings ratios typically translate into indicated rates of return that are far less than investors actually require on investments in public-company shares. This discrepancy is due to the fact that price/earnings ratios are calculated on historical earnings and not future cash flows. The calculation therefore fails to consider the expected growth in future earnings and any earnings vs. cash flow discrepancies.

9.3 Risk Premiums and Adjustments

The Purchaser's required ROE in Luxell is a function of five factors:

1. The risk-free rate at a point in time, which is usually considered to be the rate of return on long-term government bonds. As noted above, this rate was approximately 3.90% at the valuation date.
2. The equity risk premium, which is defined as the difference between the realized return on public stock markets and the risk-free rate of return.
3. The micro-capitalization risk premium, which is defined as the difference between the realized return on a basket of stocks with small market capitalizations and the realized return on public stock markets as a whole.
4. The application of beta, which accounts for industry-specific risk.
5. Other adjustments for Luxell's specific characteristics which we discussed in Section 9.3.4 (Luxell-Specific Adjustments).

We consider the above five factors to fully account for all market, macroeconomic, industry-specific and other risks. Accordingly, we did not adjust these risk factors with specific additional research regarding Canadian or North American GDP growth, expected future revenue growth in Luxell's specific industry, or any other such statistics.

9.3.1 The Equity Risk Premium

As indicated in the SBBI Yearbook using data up to the end of 2007, the realized annual long-horizon equity risk premium in the US has averaged 5.50% since 1955. The same study indicates that the premium has averaged 5.70% over the past ten years and -0.70% over the past five years. Long-term trends are the best indicator of the expected future risk because all short-term fluctuations are eliminated. In Canada, the equity risk premium has been historically lower, averaging 4.00% since 1955, as indicated in the Morningstar Report. Our assessment of equity risk is therefore between 4.00% and 5.50%.

Up to this stage of the build-up calculation, the aggregate rate of return represents an investment in a diversified portfolio of publicly-traded companies.

9.3.2 The Micro-Cap Risk Premium

The SBBI Yearbook indicates that micro-cap corporations are companies with a market capitalization less than \$363,000,000 US. Such companies are the smallest 10% of public companies in all industries. The micro-cap grouping (i.e., the 10th decile) can be further broken down into two categories. Category “10a” represents companies with a market capitalization of between \$212,000,000 US and \$363,000,000 US. Category “10b” represents companies with a market capitalization of between \$1,922,000 US and \$212,000,000 US. Luxell would fit into the “10b” category. For this reason and other reasons, we therefore considered further risk premiums as explained in the following subsections.

As indicated in the SBBI Yearbook, the micro-cap risk premium for the “10b” companies is 9.73%. Our selected micro-cap risk premium for Luxell is therefore 9.73%. Accordingly, at this stage of the build-up calculation, the aggregate rate of return represents an investment in the smallest 5% of public companies in all industries.

9.3.3 Beta

Beta is a statistic used to measure the volatility of an investment or group of investments against the market as a whole. A beta of less than 1.0 indicates that the industry is less volatile, and therefore less risky, than the market as a whole. A beta of greater than 1.0 indicates the opposite.

The equity risk premium and the micro-cap risk premium are based on risk in the overall market. We therefore adjusted the equity risk premium and the micro-cap risk premium discussed above to represent the specific industry in which Luxell operates. To do so, we multiplied the risk premiums by the average beta of three large companies in the Aerospace/Defence industry – namely General Dynamics Corp. (1.20), L3 Communications Holdings Inc. (1.00) and BAE Systems PLC (1.04). The average of these betas is 1.08, or an 8% increase, which we multiplied by the equity risk and micro-cap premiums to arrive at the adjusted premiums. That is, we added 1.22 to the High column and 1.10 to the low column, which are the additional premiums when increasing the equity risk and micro-cap premiums by 8%.

Accordingly, at this stage of the build-up calculation, the aggregate rate of return represents an investment in small public companies in Luxell's industry.

9.3.4 Luxell-Specific Adjustments

As noted above, the Purchaser's ROE would exceed the returns given by micro-cap companies in the same industry. The reasons for the additional required return relate to the internal and external risk factors specific to Luxell. Any industry-specific risk factors are inherently incorporated into the ROE by our use of the industry risk premium noted above.

We considered various company-specific internal and external risk modifiers. We indicate the most significant risk modifiers as follows, in no particular order:

- Poor results of the quarter immediately preceding the valuation date. The Purchaser would be concerned with the fact that revenue was significantly lower in Quarter 1, 2009 than any quarter in fiscal 2008, which may indicate lowered expectations regarding the near-term projected results, and would adjust the risk premium accordingly;
- Lack of historically profitable operating results;
- Reliance upon debt not yet obtained at the valuation date. Should the BDC \$1,000,000 debt not be obtained, Luxell would likely have to rely on much more expensive sources of cash throughout fiscal 2009, such as accounts receivable factoring. At the valuation date, management feels very strongly that the BDC debt will be obtained in February or March 2009;
- The degree of present-valued future cash flows that occur in the terminal period (discussed in Section 10.3 below);
- The life cycle of Luxell's products;
- Foreign exchange risk;
- The degree of leverage available in WACC and corresponding low level of tangible asset backing;
- Existence of additional intellectual property (Black Layer™) of which no revenue or profits are included in the forecasted results – a Purchaser may lower its risk premium as a result of potential unexpected revenues and profits;
- Risk of competition developing better technologies;
- Expected diversity in future customer base;
- Strong competitive advantage;

- Recent political events including the election of a democrat US president and the potential impact on US and worldwide military spending;
- Detailed revenue plans in terms of specific jobs being bid upon and a projected success rate which is lower than historical success rates; and
- Experience, depth and strength of management and the recent degree of management turnover.

Based on the above risk modifiers, other risk modifiers and using our experience and professional judgment, we assessed the additional return on investment that would be required by the Purchaser on the Equity portion of the total investment in Luxell’s Enterprise Value to be between 16.00% and 25.00%.

9.4 ROE Conclusion

Having considered the factors outlined above, we concluded that, on or around the valuation date, the Purchaser’s ROE would have been between 35.00% to 45.00% based on an optimal available degree of leverage. The components of the ROE range are detailed as follows:

	HIGH	LOW
	%	%
Risk-free rate of return (Government of Canada Bonds) - see Section 9.3	3.90	3.90
Equity risk premium - US (high) and Canadian (low) - see Section 9.3.1	5.50	4.00
Micro-cap premium - see Section 9.3.2	9.73	9.73
Increase related to beta - 8% multiplied by the sum of equity and micro-cap	1.22	1.10
Company-specific adjustments - see Section 9.3.4	<u>25.00</u>	<u>16.00</u>
Total rate of return on equity - rounded	<u><u>45.00</u></u>	<u><u>35.00</u></u>

9.5 Capital Structure Analysis – Available Debt

The WACC is a combination of the cost of debt and the required rate of return on equity. An acquisition of the Shares would be financed by a mix of Debt and Equity, which determines the weights to be applied to the cost of Debt and the required return on Equity.

In order to determine the proportions to use, we discussed the availability of financing with management. We understand that management is very confident that Luxell will be able to obtain \$1,000,000 of debt from the BDC in early calendar 2009. It is reasonable to assume that Luxell would still have access to this debt after an acquisition by the Purchaser. We also understand that there are various government programs that make funds available to companies engaging in technical research and development. These programs include the following:

- Technology Partnerships Canada;
- Defense Research and Development Canada;
- Industrial Research Assistance Program; and
- National Research Council.

Based on our understanding of the aforementioned programs, we cannot determine exactly how much debt would be available through these the programs to the Purchaser. However, it is not likely that any one company could receive debt of a significant amount in comparison to its total enterprise value. For these reasons, we did not select a significant weighting as our assessment of the available debt.

We reviewed the debt-to-equity ratios of various of Luxell's competitors, including L3 Communications Holdings Inc., General Dynamics Corp, Raytheon Co., Rockwell Collins Inc. and Honeywell International. These companies had debt structures such that debt as a percentage of total share value ranged from 14% to 49%. However, these companies are all significantly larger than Luxell, and are profitable or have recently been profitable. Further, the market has priced these companies at very high earnings multiples and therefore it is more favourable for such companies to obtain equity financing. Accordingly, it is not likely that Luxell would be able to achieve such high debt levels, considering the above information about a lack of financing alternatives if the BDC loan is not successfully obtained.

We assessed that between 5% and 10% of Enterprise Value could be financed with Debt.

9.6 Conclusion – Discount Rate

We applied the after-tax cost of Debt (between 3.48% and 4.17%) and the ROE (35.00% to 45.00%) to the ratio of Debt and required Equity. These costs of Debt and Equity result in a WACC ranging from 31.80% to 40.70% for the three forecasted years ended August 31, 2011. Management expects continued growth after this point in the terminal period, so we decreased WACC by 3.00% to account for such growth. Accordingly, WACC in the terminal period ranges from 28.80% to 37.70%. In Schedule 5, we outline detailed calculations of these figures.

10 CONCLUSION AND VALUATION OF THE SHARES

In Schedule 1 we outline our conclusion as to the Fair Market Value of the Shares. The Value components are discussed below:

10.1 Present Value of Discounted Cash Flows – 2009 to 2011

We used the discount rates of between 31.80% and 40.70% as noted in Section 9.6 to calculate the present value of the future cash flows projected to be generated by Luxell over the remainder of the 2009 through 2011 years. The present value of the cash flows from the remainder of Fiscal 2009 to 2011 is between approximately \$4,365,000 and \$4,924,000, which is the sum of the Present-Valued Cash Flows in Schedule 4 for the remainder of 2009 (\$-214,000 and \$-219,000), 2010 (\$2,200,000 and \$2,387,000) and 2011 (\$2,379,000 and \$2,756,000).

10.2 Present Value of Terminal Period Cash Flows (2012 and Beyond)

In the application of the discounted cash-flow method, the expected future cash flows beyond the specific year-by-year projections are converted into a terminal value. We obtained additional information from Management about the growth rate expected for years beyond 2011 and calculated the terminal values using that information. We used the same discount rate as above, except we reduced the rate by the expected rate of perpetual growth.

Based on discussions with Management and our own professional judgment and experience in such matters, we concluded that a reasonable level of growth subsequent to 2011 is 3.00%. Accordingly, discount rates for the terminal period are between 28.80% and 37.70%, which are the initial discount rates of between 31.80% and 40.70%, each less 3.00%. The range of present values of the terminal period cash flows is between \$4,447,000 and \$6,996,000 (see Schedule 4).

10.3 Present Value of Total Cash Flows

The present value of the total forecasted cash flows is between \$8,813,000 and \$11,920,000, which are the sums of the above-noted figures. Approximately 37% and 79% of the total present value of cash flows is derived from the terminal period for the high and low ends of the range.

10.4 Present Value of the Tax Shield

Part of the Fair Market Value of the Shares is attributable to the ability of the Purchaser of the Shares to reduce annual taxable income by making annual deductions for capital cost allowance based on the undepreciated capital cost of the assets. The Purchaser would realize future tax savings, present-valued, of \$728,000, based on the assets and calculations set out in Schedule 4. Note that we were not provided with Luxell's 2008 corporate income tax return as it had not yet been prepared when we completed our work. We were informed that, as was the case in fiscal 2007, Luxell would not be claiming Capital Cost Allowance on its assets, and accordingly we based the tax values of the assets on the 2007 values plus 2008 additions.

10.5 Enterprise Value

Enterprise Value is the sum of the total present value of future cash flows and the present value of the tax shield. Based on the information in the two preceding sections, Luxell's Enterprise Value at the valuation date is \$12,648,000 (see Schedule 4). In our Enterprise Value calculation, we adjusted property and equipment to the indicated market values provided by management.

10.6 Debt

We calculated Luxell's Debt (see definition in Section 12.4) to be assumed by the Purchaser. The components of Debt are outlined in Schedule 3 and total \$376,000 at the valuation date.

10.7 Conclusion

We summed the above value components to arrive at the Fair Market Value of the Shares. Based on the information and documents reviewed, the explanations provided to us and, subject to the restrictions and assumptions noted herein, our conclusion as to the Fair Market Value of the Shares was between \$9,165,000 and \$12,272,000 at November 30, 2008, as outlined in Schedule 1 and explained above. Given that there are 135,378,456 Shares, the Fair Market Value per share is therefore between **\$0.068** and **\$0.091**.

11 FAIR MARKET VALUE OF THE NOTES

11.1 Introduction

As part of the Transaction, the Notes will be issued to current shareholders in exchange for their Shares. We understand that the Notes will be non-interest bearing, unsecured and will be repayable on the third anniversary of their issuance, subject to the funds being available from Luxell's operations. The offer prices the Notes at \$0.10 each, and indicates that the Notes will not likely have an active market for trading, thereby eliminating any liquidity in the Notes before the end of the three year period, unless the offeror opts to make an early payment on the Notes.

11.2 Risk Assessment

In valuing the Notes, we considered the risk associated with Luxell not generating adequate cash to repay the Notes in full or at all, the nature of the Notes as unsecured, the time value of money and the lack of liquidity or marketability in the Notes during the three year period. Ultimately, because the Notes are not secured, whether or not they will be repaid will be entirely dependant on whether or not Luxell is successful in achieving its forecasted results addressed earlier in this Report. Accordingly, the appropriate measure of risk would be the same required ROE on a Purchaser's investment in Luxell Shares. We did not use WACC (the discount rate) because we assumed that owners of the Notes would not have any available debt financing with which to finance the Notes.

11.3 Present Value of Note Repayment – Application of ROE

Based on the ROE rates of between 31.80% and 40.70%, the indicated present value of one Note would be between \$0.036 and \$0.044.

We also considered the fact that the forecasted balance sheets (see Schedule 8) indicate that the expected cash at August 31, 2011 is only \$10,668,900. Given that there are 135,378,456 Shares (assuming no warrants or other options would be exercised), approximately \$13,537,846 would be required to repay the \$0.10 Notes in full. This implies that between September 1, 2011 and the date of repayment (likely to be early in January 2012), Luxell would need to generate approximately \$2,869,000 of additional cash in order to repay the Notes, assuming that it would continue to be cash flow positive following the repayment and therefore would not need to retain any cash for operations.

Luxell is forecasted to have positive cash flow of approximately \$1,300,000 in the fourth quarter of fiscal 2011 and approximately \$3,200,000 in the combined third and fourth quarters of fiscal 2011, which implies that it is possible that the full \$2,869,000 could be generated by the repayment date. Further, additional funds could possibly be generated from other sources of financing given the projected strength of Luxell at the time, or a portion of the repayment could be delayed (with interest) for an additional period of time. Accordingly, we did not add an extra risk premium to account for any potential unavailability of funds at the required repayment date.

11.4 Marketability Discount

We assessed a discount to the value of the Notes to account for the lack of marketability or liquidity during the three year holding period.

For situations in which an investment is illiquid, it is worth less than it would be if it were capable of being rapidly converted to cash. There are added risks associated with investments in illiquid securities. The risk relates to the lack of flexibility. All investments have some degree of risk. Risk can be mitigated if the investment can be sold and the capital used in an alternative investment. If an investment is illiquid, an investor does not have such flexibility.

Marketability discounts have been studied at length. The studies tend to look at the difference between the stock market price of a security and the prices used in private transactions involving securities that are identical except for the fact that they are not freely tradable due to some sort of restriction. The most common type of restriction used in such studies is the two-year restriction created on many Initial Public Offerings.

In one such study, William L. Silber found that “on average, a discount of more than 30% was seen on shares ineligible for trading for a two year holding period relative to the same shares without restrictions.”¹ Shannon Pratt is of the opinion that the long-term average discount is “35 percent for transactions in restricted stocks compared with the prices of their freely tradable counterparts.”² In general “studies have shown that a two year restriction period reduces the fair market value of a security, on average, between 25% and 35%”³

In order to determine the quantum of the required discount to be applied to the Options for lack of marketability, we considered the indicated repayment terms.

¹ A. Scott Davidson, “The Valuation of Employee Stock Options and Restricted Shares” Emerging Valuation Issues, Federated Press, 1997, p. 9

² Shannon Pratt, Valuing a Business: The Analysis and Appraisal of Closely Held Companies, Second Edition, Business One Irwin, Homewood, Illinois, 1989, p. 247

³ Steve Ranot, “Valuing Employee Stock Options” Business Valuations for CFOs Companion CD, Federated Press, 1999

We considered the length of time until the repayment will occur, being three years. “Whenever the restriction period on restricted shares lengthens, then the liquidity of those shares is reduced and therefore the discount applicable to those shares increases.”⁴ On restricted stocks, the discount increases because of added risk that the price will decline before the restriction ends.

Few empirical studies of the discounts applicable to shares with restrictions beyond two years have been done. Theoretical calculations using Option Pricing Theory were made by David Chaffe in 1993. “He found marketability discounts, estimated using the Black-Scholes put formula, to be in the range of 28-41% where marketability was constrained for a period of two years and 32-49% where marketability was constrained for a period of four years. After four years, the discounts seemed to flatten out and not increase with additional time.”⁵ Since no market will likely exist for the Notes during the three year holding period, the illiquidity discount must be at least as high as these figures observed in our research.

In their article “Illiquidity Considerations on the Valuation of Stock Options,” Lawrence Levine, Carl Luft and Jon Howe studied “the decrement in the value of a stock option which is not traded in an efficient market” and found “that the decrease in the actual price of an illiquid stock option’s value vs. its theoretical price ranges from 22 to 45 percent.” The midpoint is 33.5%.

⁴ Davidson, p. 9

⁵ William C. Weaver, “Discounts and Other Adjustments to Fair Market Value Estimates” [The University of Central Florida Web Site](#), 1999

The studies and articles noted above are based on comparisons between fully liquid stocks and restricted stocks. The significant discount results. For the purposes at hand, the liquidity of the Notes (no liquidity for three years) should be compared to the liquidity of shares of a private company (often thought of as liquid in between three and 12 months). Accordingly, we used approximately one third of the above-indicate range of discounts. Considering all of the circumstances surrounding the Notes, we concluded that an illiquidity discount of between 7.5% and 15% should be applied to the otherwise indicated value of the Notes.

11.5 Conclusion

Based on the information and documents reviewed, the explanations provided to us and, subject to the restrictions and assumptions noted herein, our conclusion as to the Fair Market Value of one Note was between **\$0.031** and **\$0.040** at November 30, 2008, as explained above.

12 DEFINITIONS

12.1 Enterprise Value

Enterprise Value is defined as the value of all assets required in order to produce the expected cash flows or earnings stream. It includes all working capital items (see Section 12.2), property and equipment and any intangible assets employed in the active business, including Goodwill. Enterprise Value does not include Redundant Assets (see Section 12.3) or Debt (see Section 12.4).

12.2 Working Capital

Working Capital is defined as the current assets required for Luxell's day-to-day operations, net of applicable current liabilities. Typically, Working Capital includes accounts receivable, inventory, prepaid expenses, and accounts payables and accrued liabilities. For the purposes of this Report, Working Capital does not include cash, unless the other current assets are not sufficient for operations. Further, we do not include bank indebtedness in the calculation of Working Capital since bank indebtedness is a means of financing Working Capital and is therefore included in Debt (see Section 12.4).

12.3 Redundant Assets

Redundant Assets are assets that are not required for operations and accordingly are valued above and beyond Luxell's Enterprise Value.

12.4 Debt

Debt is comprised of all liabilities not included in the calculation of working capital and represents the items that the Purchaser must assume as a result of the theoretical share acquisition. Following the acquisition, the Purchaser would likely discharge or reorganize certain Debt to arrive at the optimal available capital structure discussed earlier in this Report.

12.5 Tangible Net Worth

Tangible Net Worth represents the “hard” assets, such as working capital and property, plant and equipment that are employed in active operations, without deducting Debt. An investment in Tangible Net Worth is considered to be less risky than an investment in Intangible Assets. If the investment in Luxell were to become unprofitable, the Tangible Net Worth could be recovered through liquidation. Accordingly, Tangible Net Worth demands a lower required rate of return than Intangible Assets.

12.6 Intangible Assets

Intangible assets represent the difference between Enterprise Value and Tangible Net Worth. Intangible assets are items that have value, but do not hold a physical form. Intangible Assets can be identifiable, such as brand name recognition, trademarks, intellectual property, recipes, and so on, or can be non-identifiable (general business Goodwill). With respect to the purpose for which this Report has been prepared, the distinction of intangible assets into various categories is not vital.

13 RESTRICTIONS AND DISCLAIMERS

This Estimate Valuation Report setting out our conclusion as to Fair Market Value should not be construed as a Comprehensive Valuation Report. Rather, this report provides an indication of the Fair Market Value of the Shares for the purposes outlined in Section 1. Rendering a Comprehensive Valuation Report would require more detailed analysis than has been undertaken for the purposes of providing this Estimate Valuation Report. For instance, additional research into the trends in Luxell's industry and the plausibility of the forecasted financial statements, including further investigation into the indicated upcoming bids and expected success rates, would have been undertaken. The conclusion expressed as to Fair Market Value may have been different had a Comprehensive Valuation Report been provided. Further, the Scope of Review in Section 4 is inherently limited by the nature of the Report provided.

This Report is not intended for general circulation or publication. It is not to be reproduced or used for any purpose other than that outlined in Section 1 hereof unless we specifically provide our written permission in each specific instance. We do not assume responsibility or liability for losses occasioned to any parties as a result of the circulation, publication, reproduction or use of this Report contrary to the provisions of this paragraph. We reserve the right (but will be under no obligation) to review the contents of this Report (including all analyses and conclusions contained herein) and, if we consider it necessary, to revise the Report in light of any facts, trends or changing conditions existing at the date hereof that subsequently become known to us.

Reading selected portions of this Report, without considering all Sections and Schedules together, could result in the misinterpretation of comments and analysis concerning the value of Luxell, or the Shares. The preparation of an Estimate Valuation Report is a complex process and components cannot be viewed in isolation.

14 ASSUMPTIONS

In forming our conclusion as to Fair Market Value, we assumed, in addition to the assumptions noted throughout this Report, that:

- Luxell had no significant contingent liabilities, unusual contractual obligations or substantial commitments, other than in the ordinary course of business, or litigation pending or threatened, other than as disclosed in its financial statements or in this Report at the valuation date;
- Luxell had no environmental liability exposure;
- There were no contracts being negotiated at the valuation date which would have a material effect on Luxell's future operating results that have not been noted in this Report;
- There were no material changes in Luxell's financial position, the operating results, or the state of, and outlook for, the industry as at the valuation date;
- Luxell had good and valid title to its assets; and
- There are no significant factors that bear on the Fair Market Value of the Shares at the valuation date that we have not considered in reaching our conclusions as noted herein.

Respectfully submitted,
TAYLOR LEIBOW LLP
CHARTERED ACCOUNTANTS

Per:
Michael R. Carnegie, BComm, CA•CBV
Partner

LUXELL TECHNOLOGIES INC. ESTIMATE VALUATION REPORT AS AT NOVEMBER 30, 2008		
SHARE VALUE COMPONENTS		
	HIGH	LOW
	\$	\$
ENTERPRISE VALUE - Schedule 2	12,648,000	9,541,000
DEBT - Schedule 3	(376,000)	(376,000)
FAIR MARKET VALUE OF THE SHARES	12,272,000	9,165,000
FAIR MARKET VALUE OF EACH SHARE	\$ 0.091	\$ 0.068
<u>ALTERNATE RECONCILIATION</u>	\$	\$
Shareholders' equity per valuation date balance sheet - Schedule 6	(653,000)	(653,000)
Intangible assets at book value (patents and licences) - Schedule 6	(23,000)	(23,000)
Intangible assets per valuation conclusions - Schedule 2	12,858,000	9,751,000
Incremental value of property and equipment	90,000	90,000
FAIR MARKET VALUE OF THE SHARES	12,272,000	9,165,000

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

**LUXELL TECHNOLOGIES INC.
ESTIMATE VALUATION REPORT
AS AT NOVEMBER 30, 2008**

ENTERPRISE VALUE COMPONENTS

	HIGH	LOW
WORKING CAPITAL	\$	\$
Cash - Schedule 6	151,989	151,989
Accounts receivable - Schedule 6	495,635	495,635
Inventory - Schedule 6	1,080,207	1,080,207
Prepaid expenses - Schedule 6	55,321	55,321
Less: Accounts payable - Schedule 6	(2,158,877)	(2,158,877)
Less: Deferred revenue - Schedule 6	(194,608)	(194,608)
	<u>(570,333)</u>	<u>(570,333) *</u>
PROPERTY AND EQUIPMENT AT MARKET VALUE	360,000	360,000 *
INTANGIBLE ASSETS	<u>12,858,333</u>	<u>9,751,333</u>
TOTAL - ROUNDED - see also Schedule 4	<u>12,648,000</u>	<u>9,541,000</u>
* - Sum represents Tangible Net Worth	165,000	165,000

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

**LUXELL TECHNOLOGIES INC.
ESTIMATE VALUATION REPORT
AS AT NOVEMBER 30, 2008**

DEBT COMPONENTS

	\$
Leasehold reconstruction obligation	113,088
Government loans	<u>263,364</u>
Total - rounded	<u><u>376,000</u></u>

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

LUXELL TECHNOLOGIES INC.				
ESTIMATE VALUATION REPORT				
FORECASTED CASH FLOWS AND ENTERPRISE VALUE				
	August 31, 2009	August 31, 2010	August 31, 2011	Terminal Period (2012 and beyond)
	\$	\$	\$	\$
Net income for the year per forecasted financial statements - Schedule 9	941,340	3,638,927	5,700,705	5,700,705
After adjustment - rounded	470,000	2,729,000	5,700,000	5,700,000
Add (Deduct):				
Income taxes on above at 30.5%	-	-	(86,263)	(1,738,715)
Interest expense	46,700	80,000	80,000	80,000
Amortization of property and equipment	109,652	109,652	79,295	-
Amortization of licence	15,508	11,421	-	-
Changes in accounts receivable	(1,229,365)	350,000	(625,000)	-
Changes in inventory investment	(28,017)	90,706	(367,762)	-
Changes in prepaid expenses	5,321	(50,000)	-	-
Changes in accounts payable	(358,877)	100,000	400,000	-
Property and equipment purchases	(100,000)	(50,000)	(50,000)	-
Losses to November 30, 2008	825,891	-	-	-
	(713,187)	641,779	(569,730)	(1,658,715)
Projected cash flows (A)	(243,187)	3,370,779	5,130,270	4,041,285
Discount factor * (high) (B)	0.9016	0.7081	0.5373	1.7312
Discount factor ** (low) (C)	0.8798	0.6526	0.4638	1.1005
Present-valued cash flows (high) (A X B)	(219,266)	2,386,910	2,756,326	6,996,138
Present-valued cash flows (low) (A X C)	(213,959)	2,199,696	2,379,460	4,447,437
Total Present Value (high, low)	11,920,000	8,813,000		
Add: Present value of tax shield ***	728,000	728,000		
Enterprise Value (high, low)	12,648,000	9,541,000		
* - Discount factor - first, discount rate	31.80%	31.80%	31.80%	28.80%
Average number of years to Nov. 30, 2008	0.375	1.250	2.250	2.750
Discount factor (1/(1+discount rate)^years)	0.9016	0.7081	0.5373	0.4986
	0.4986 is then divided by 28.8% to arrive at the terminal multiplier			1.7312
** - Low factor is calculated as above, but using discount rates of 40.7% to 2011 and 37.7% thereafter.				
*** - Tax shield	Tax Basis	CCA Rate	Disc. Rate	Tax Shield
	\$ (A)	% (B)	% (C)	\$ (below)
Class 8	473,504	20%	36.25%	51,349
Class 10	431,893	30%	36.25%	59,650
Class 43	2,909,600	30%	36.25%	401,854
Class 12	194,216	100%	36.25%	43,476
Class 13	1,582,116	20%	36.25%	171,572
Totals - rounded	5,591,000			728,000
Tax shield calculation = (A X B X 30.5% tax rate) / (C + B)				

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

**LUXELL TECHNOLOGIES INC.
ESTIMATE VALUATION REPORT
AS AT NOVEMBER 30, 2008**

WEIGHTED AVERAGE COST OF CAPITAL ASSESSMENT

STEP 1 - COST OF CAPITAL CALCULATIONS:

	LOW	HIGH
Cost of Debt at 5% to 6% less tax @ 30.5%	3.48%	4.17%
Cost of Equity - see Section 9.4	35.00%	45.00%

STEP 2 - WEIGHTING DETERMINATION USING MODEL CAPITAL STRUCTURE:

	WEIGHT	RATE	RESULT (A X B)
Calculation of the discount rate for the high end of the cash flows range:			
DEBT	10.00%	3.48%	0.35%
EQUITY	90.00%	35.00%	31.50%
TOTAL	100.00%		31.80%
Calculation of the discount rate for the low end of the cash flows range:			
DEBT	5.00%	4.17%	0.21%
EQUITY	90.00%	45.00%	40.50%
TOTAL	100.00%		40.70%

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

LUXELL TECHNOLOGIES INC.			
ESTIMATE VALUATION REPORT			
COMPARATIVE BALANCE SHEETS			
AS AT AUGUST 31, 2007 AND 2008 AND NOVEMBER 30, 2008			
	November 30, 2008	August 31, 2008	August 31, 2007
	\$	\$	\$
ASSETS			
CURRENT			
Cash	151,989	175,800	-
Accounts receivable	495,635	1,661,485	1,651,908
Inventory	1,080,207	996,375	1,440,742
Prepays and other assets	55,321	30,386	166,548
	<u>1,783,152</u>	<u>2,864,046</u>	<u>3,259,198</u>
PATENTS AND LICENCES	23,190	26,929	28,432
PROPERTY AND EQUIPMENT	270,832	298,599	390,951
	<u>2,077,174</u>	<u>3,189,574</u>	<u>3,678,581</u>
LIABILITIES			
CURRENT			
Bank indebtedness	-	-	99,106
Accounts payable and accrued liabilities	2,158,877	2,411,507	2,513,166
Class A Notes	-	-	3,750,000
Due to shareholders	-	-	330,161
Deferred revenue	194,608	193,295	1,252,633
Leasehold reconstruction obligation	113,088	113,088	113,088
Government loans	263,364	263,364	-
	<u>2,729,937</u>	<u>2,981,254</u>	<u>8,058,154</u>
PROMISSORY NOTES	-	-	1,381,947
GOVERNMENT LOANS	-	-	957,761
	<u>2,729,937</u>	<u>2,981,254</u>	<u>10,397,862</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
SHARE CAPITAL	55,261,432	55,261,432	49,083,765
SHARES TO BE ISSUED	1,553,946	1,553,946	-
CONTRIBUTED SURPLUS	5,299,825	5,299,825	5,160,026
WARRANTS	1,082,887	1,082,887	421,887
DEFICIT	(63,850,853)	(62,989,770)	(61,384,959)
	<u>(652,763)</u>	<u>208,320</u>	<u>(6,719,281)</u>
	<u>2,077,174</u>	<u>3,189,574</u>	<u>3,678,581</u>

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

LUXELL TECHNOLOGIES INC.			
ESTIMATE VALUATION REPORT			
COMPARATIVE STATEMENTS OF INCOME			
FOR THE TWO YEARS ENDED AUGUST 31, 2008 AND THE THREE MONTHS ENDED			
NOVEMBER 30, 2008			
	November	August 31,	August 31,
	30, 2008	2008	2007
	\$	\$	\$
REVENUES	318,315	5,007,612	3,736,933
EXPENSES			
Direct labour and materials	329,515	2,577,149	2,765,977
Research and development, net of government assistance	330,829	1,204,242	2,314,502
General and administrative	398,263	2,116,961	3,054,632
Sales, marketing and royalty	90,947	396,137	476,850
Production support and quality assurance	43,707	100,900	135,342
Foreign exchange (gain)	(49,055)	(53,414)	(32,940)
Loss on sale of property and equipment	-	-	158,715
Interest expense	2,900	837,520	1,099,434
Amortization of property and equipment	28,415	111,817	203,898
Amortization of licence	3,877	15,508	15,508
	<u>1,179,398</u>	<u>7,306,820</u>	<u>10,191,918</u>
Loss before the undernoted	(861,083)	(2,299,208)	(6,454,985)
Gain on compromise of debt	-	694,397	2,160,452
NET LOSS FOR THE YEAR	<u>(861,083)</u>	<u>(1,604,811)</u>	<u>(4,294,533)</u>

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

LUXELL TECHNOLOGIES INC.			
ESTIMATE VALUATION REPORT			
COMPARATIVE FORECASTED BALANCE SHEETS			
AS AT AUGUST 31, 2009 THROUGH 2011			
	August 31,	August 31,	August 31,
	2009	2010	2011
	\$	\$	\$
ASSETS			
CURRENT			
Cash and cash equivalents	1,330,619	5,491,493	10,668,900
Accounts receivable	1,725,000	1,375,000	2,000,000
Inventory	1,108,224	1,017,518	1,385,280
Prepays and other assets	50,000	100,000	100,000
	<u>4,213,843</u>	<u>7,984,011</u>	<u>14,154,180</u>
PATENTS AND LICENCES	11,421	-	-
PROPERTY AND EQUIPMENT	188,947	79,295	-
	<u>4,414,211</u>	<u>8,063,306</u>	<u>14,154,180</u>
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	1,800,000	1,900,000	2,300,000
Deferred revenue	145,000	145,000	145,000
	<u>1,945,000</u>	<u>2,045,000</u>	<u>2,445,000</u>
NEW DEBT (BDC)	1,000,000	1,000,000	1,000,000
LEASEHOLD RECONSTRUCTION OBLIGATION	113,088	113,088	113,088
GOVERNMENT LOANS	206,463	116,631	26,800
	<u>3,264,551</u>	<u>3,274,719</u>	<u>3,584,888</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
SHARE CAPITAL	56,815,378	56,815,378	56,815,378
CONTRIBUTED SURPLUS	5,299,825	5,299,825	5,299,825
WARRANTS	1,082,887	1,082,887	1,082,887
DEFICIT	(62,048,430)	(58,409,503)	(52,628,798)
	<u>1,149,660</u>	<u>4,788,587</u>	<u>10,569,292</u>
	<u>4,414,211</u>	<u>8,063,306</u>	<u>14,154,180</u>

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

LUXELL TECHNOLOGIES INC.			
ESTIMATE VALUATION REPORT			
COMPARATIVE FORECASTED STATEMENTS OF INCOME			
FOR THE THREE YEARS ENDED AUGUST 31, 2011			
	August 31,	August 31,	August 31,
	2009	2010	2011
	\$	\$	\$
REVENUES	7,410,000	12,000,000	16,000,000
EXPENSES			
Direct labour and materials	4,021,800	6,240,000	8,320,000
Research and development, net of government assistance	445,000	280,000	180,000
General and administrative (including rent)	1,555,000	1,340,000	1,340,000
Sales, marketing and royalty	325,000	300,000	300,000
Production support and quality assurance	-	-	-
Foreign exchange (gain)	(50,000)	-	-
Loss on sale of property and equipment	-	-	-
Interest expense	46,700	80,000	80,000
Amortization of property and equipment	109,652	109,652	79,295
Amortization of licence	15,508	11,421	-
	<u>6,468,660</u>	<u>8,361,073</u>	<u>10,299,295</u>
NET PROFIT	<u>941,340</u>	<u>3,638,927</u>	<u>5,700,705</u>

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying Report.

