

Kaboose Inc.

(KAB-TSX \$1.35)

April 21, 2006

BUY

TECHNOLOGY

This Kaboose Can Fly

- Kaboose attracts 8 million unique monthly users and is among the top 10 properties in a market niche coveted by major consumer brands.
- Revenues for Kaboose are growing 4 times faster than the online advertising industry average growth rate.
- Kaboose is uniquely positioned to acquire its way in the Top 50 websites (measured by audience) where 95% of \$12.5 billion in online ad spending is allocated.
- The company has current capacity to support 20 million users and \$20 million in advertising. At 10 million users, the company breaks even on an EBITDA basis. We forecast this to occur in Q4 2006.
- Kaboose is an increasingly valuable takeout target by large media aggregators.
- We are initiating coverage as a BUY with a 12-month target price of \$2.00. We believe that if the company is successful in acquiring complimentary properties, the potential share price could be much higher.

Note: Important disclaimer information on page 2.

Target Price	12-Month \$2.00			
52-Week Range	\$0.45-\$1.37			
Mkt. Cap. (mm)	\$76.0			
S/O Basic / Fully Diluted (mm)	56.3 / 64.0			
Enterprise Value (mm)	\$64.0			
Fiscal Y/E	Dec 31			
Ownership	% of Total			
Institutions	33			
Insiders/Directors	42			
Others	25			
Total	100			
	2004A	2005E	2006E	2007E
Revenue (mm)	\$2.3	\$6.5	\$11.2	\$17.3
SG&A (mm)	\$3.2	\$8.1	\$11.8	\$12.3
EBITDA (mm)	(\$0.9)	(\$2.8)	(\$2.9)	\$2.7
Net Income (mm)	(\$1.4)	(\$3.4)	(\$3.2)	\$2.4
FD EPS	nm	(\$0.06)	(\$0.05)	\$0.04

nm = not meaningful
 All figures in C\$ unless otherwise indicated.



Source: stockwatch.com

Company Description

Kaboose Inc. is an online media company that currently owns three properties aimed at families with young children including Kaboose.com, Funschool.com, and Zeeks.com. Combined, these properties have over 1,000 proprietary games and activities and over 12,000 pages of content. In 2005, the company acquired Birthday-In-A-Box.com, an e-commerce company that is supporting over 4,000 transactions per month.

(Website: www.kaboose.com)



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Investment Thesis	3
Company Overview	4
Competitive Landscape	8
Outlook	10
Investment Risks	11
Financial Projections	13
Recommendation	15
Appendix A – Officers and Directors	17
Appendix B – Income Statements	18
Appendix C – Balance Sheets	19
Appendix D – Cash Flow Statements	20
Appendix E – Comparable Company Analysis	21

IMPORTANT DISCLAIMER INFORMATION

LOM's analyst has visited the corporate head office of Kaboose Inc. in Toronto, Ontario and has met with key management within the past 12 months.

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INVESTMENT THESIS



With more than 8 million unique family users per month, Kaboose Inc. is the only independent property among the top ten websites in the world that caters to mothers and children.

Kaboose is serving a coveted online niche. Mothers with children directly affect \$1.7 trillion in consumer buying decisions, and spend more time online than watching television.

Advertisers should continue to aggressively transition budgets to online advertising. Although growing by 16% CAGR, online advertising still only represents 6% of total advertising budgets while consumers spend over 20% of their free time online.

Large media companies are aggressively consolidating lifestyle-oriented web properties based on the size of monthly audiences. The current economic threshold among the major media companies appears to be 5 million unique users.

As an independent media property, Kaboose is uniquely positioned to begin acquiring and integrating web properties which fall below the five million audience threshold. We estimate that the company should have nearly \$10.0 million in cash and cash equivalents, so it has the balance sheet strength to begin consolidating other smaller independent properties that cater to its market niche.

We believe that Kaboose's topline revenues will grow organically at a rate that is more than 4 times the industry average for online advertising during the next several quarters because the company:

- Is growing its audience base by 50% per year.
- Has improved audience stickiness by redesigning Kaboose in February with Funschool and Zeeks following in the spring of 2006.
- Is launching its first opt-in marketing campaigns in FY 2006 that could increase month-over-month audience growth rates dramatically.
- Is gaining a positive reputation among Fortune 500 consumer brands and could enter the ComScore's top 50 Internet sites within the next year.
- Has built an ad inventory with the capacity to generate \$20 million in annual revenues.

We believe that Kaboose is well positioned for exceptional earnings growth potential because the company operates its properties with a relatively fixed cost base that can support up to 20 million family visitors a month. At approximately 10 million visitors per month, the company believes that it will become earnings positive. With 20 million visitors, Kaboose would be among the top 30 web sites in the world.

Kaboose is the only pure-play online media property that is listed on the TSX and we believe that the company is already an attractive property for a large media enterprise. It should become more attractive as it consolidates properties that fall below 5 million users.

If valued only on a current unique user basis comparison for acquisition, we estimate that the company would be valued at \$2.00 per share.

COMPANY OVERVIEW

BACKGROUND

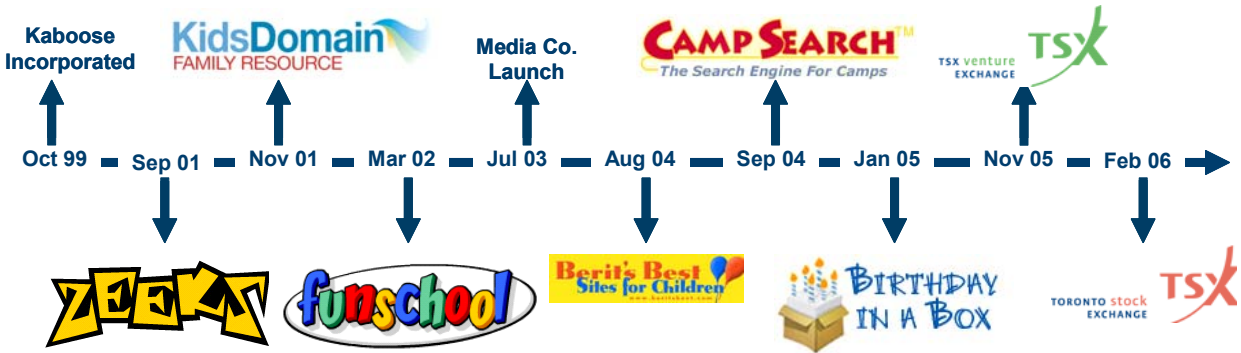
Kaboose was established in October 1999 with operations in Toronto and has since located sales offices in Los Angeles, San Francisco, Chicago, and New York. The roots of the company are in educational games and entertainment for children. To date, the company has authored over 1,200 unique games for children between the ages of two and twelve and deploys new games at the rate of one per month.

Since 2002, the company has been acquiring and integrating website properties that cater to the needs and interests of children between the ages of 2 and 12, along with their mothers. Kaboose is the anchor brand that increasingly caters to mothers while Zeeks and FunSchool are sub-brands that focus on the entertainment and education of their children who are under the age of twelve. In addition to a broad suite of games, the company has accumulated over 12,000 unique pages of content that attract mothers interested in family health, education, and activities.

In the first quarter of 2005, Kaboose acquired Birthday-In-A-Box (BIAB), a Maryland-based ecommerce operation, for \$0.3 million in cash and \$0.5 million in assumed debt for a total of \$0.8 million. The company specializes in providing themed materials that support children's birthday parties. The main marketplace for BIAB is North America, although orders have come from as far away as South Korea and Finland. Strategically, BIAB caters to the same primary demographic as the rest of Kaboose properties while also becoming a source for valuable consumer purchasing data for some of its key advertisers.

In November, 2005, Kaboose executed a CPC amalgamation with Iron Springs Capital and went public on the TSXV, raising \$10 million in a \$1.00 per common share transaction. In February 2006, the listing was promoted to the TSX.

EXHIBIT I: ACQUISITIONS AND LISTINGS

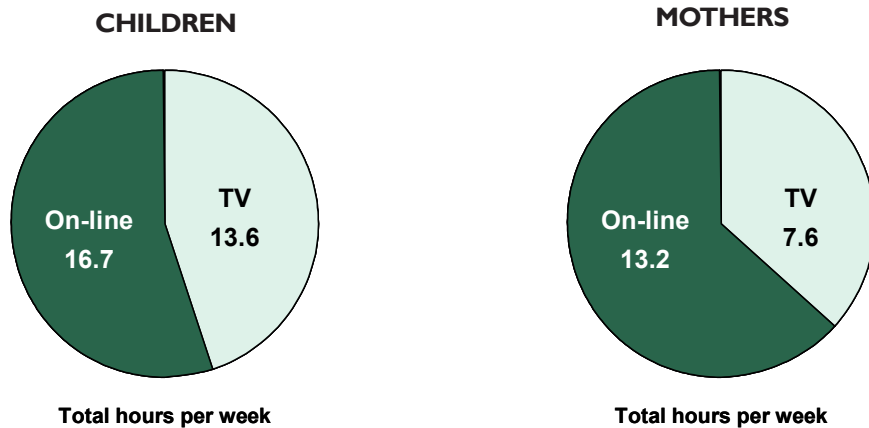


Source: Company Documents.

WHY KABOOSE IS A VALUABLE MEDIA PROPERTY

Mothers with children under 12 are key decision-makers that affect \$1.7 trillion in consumer purchasing annually. To many consumer brands, this is a coveted niche demographic segment due to its direct and indirect influence on household spending. This group is increasingly turning to the Internet for both entertainment and information and now spends more free time online than it does in front of the television.

EXHIBIT 2: FREE TIME COMPARISON (TV VS. ONLINE)



Source: Company, Harris Interactive, 2003, C&R Research for Disney, 2004.

With increasing broadband penetration in North America, and blurring between various media formats, we anticipate that internet usage will continue to increase among these groups at the expense of more passive and less measurable media such as television. Trends in advertising spending tend to support this notion. According to IDC, online advertising is growing at 16% CAGR while the entire advertising industry is growing at 4% per annum as marketers continue to transition their spending to online properties.

With approximately 8 million unique visitors per month, Kaboose is among the top ten web properties in the world in the “mothers with children” niche and it is the only remaining website that is unaffiliated with a major multimedia conglomerate [Yahoo! (YHOO-NASDAQ), Disney (DIS-NYSE), Viacom (VIA.B-NYSE), News Corp. (NWS-NYSE)] or specific toy brand [Mattel (MAT-NYSE), Hasbro (HAS-NYSE), Fisher-Price (MAT-NYSE)]. As a result, this independence offers multinational consumer brands a non-competitive, neutral property from which to launch and manage marketing campaigns. As an independent pure-play web property, Kaboose is also viewed as an attractive advertising vehicle for its larger competitors who retain properties in many media formats. There are few remaining neutral sites where, for example, Viacom can advertise without somehow paying Disney and vice versa. Among its peers in the top ten kids websites, eight are active advertisers with Kaboose.

Kaboose’s monthly visitor volumes have come largely through word-of-mouth viral marketing among mothers and kids themselves. Kaboose’s roots in games has been critical to this phenomena. According to research from Yahoo!, the top searches among kids are consistently games.

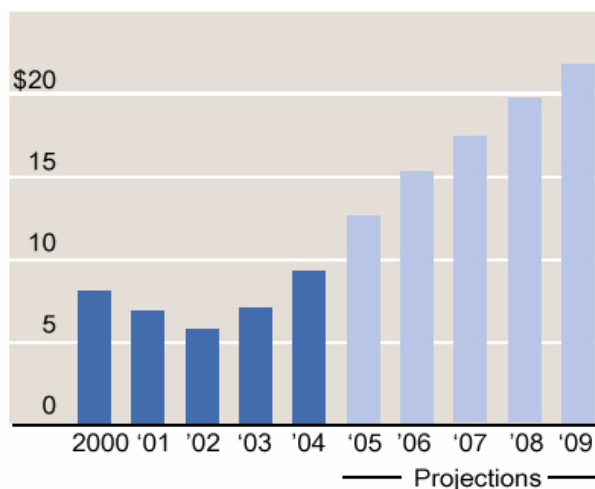
Viral awareness strengthens the perceived credibility of the property for marketers targeting this niche.

BUSINESS MODEL

Kaboose derives its revenues by selling discrete marketing campaigns to advertisers based primarily on users and page views. Typically, the duration of a campaign runs 5 weeks, and multiple campaigns can operate simultaneously within the various branded properties.

Unlike television and radio, where there are only 4 or 5 minutes of “spots” in an hour, page views on a website are only limited by the extent of content offered, and how engaged the

EXHIBIT 3: U.S. ONLINE ADVERTISING SPENDING (BILLIONS)



Source: Pricewaterhouse-Coopers.

audience is in the information. There is a direct relationship between the value of campaigns and the amount of time visitors dwell on the website during any given visit. A key revenue driver of the business is “stickiness”, which is giving visitors more reason to stay longer on the website and to view more information. To maximize “stickiness”, web properties expand both the scope and breadth of content, and also engage in interactive relationships with their visitors through opt-in collaboration such as contests, subscriptions, email newsletters, downloads and reminders. Kaboose has a stable of writers and editors that continuously update content and its games developers add on average one new game per month.

In February of 2006, the company redesigned the navigation of its anchor brand Kaboose, and in the spring of 2006, the company is launching its first opt-in campaigns and is redesigning the navigation for both Funschool and Zeeks in order to maximize stickiness and potential advertising views.

As indicated by the viral nature of Kaboose’s audience growth, we believe that there is potential within this market niche to begin incorporating aspects of “Web 2.0” social networking and community features into its properties in order to continue to drive both traffic and stickiness.

As a result of the redesigns and the continuous evolution of content, management believes that it has approximately \$20.0 million in available campaign “inventory” at any one time. We estimate that for FY 2005, the company should generate approximately \$4.5 million in advertising revenue from its combined properties. This represents about 22.5% of the available capacity. By the end of FY 2006, we estimate that the company could generate approximately \$8.1 million in advertising dollars, which represents about 41.5% of known available capacity and 90% year-over-year growth.

RECENT CATALYSTS

February 14, 2006 – Graduated from the TSXV to the TSX after only three months.

November 18, 2005 – Executed a CPC amalgamation with Iron Springs Capital and went public on the TSXV, raising \$10 million in a \$1.00 per common share transaction.

May 18, 2005 – Raised \$4.6 million through a special warrant that converted to equity when the company went public on the TSXV.

February 2005 – Acquired Birthday-In-A-Box for \$0.3 million in cash and \$0.5 million in assumed debt for a total of \$0.8 million.

SALES MODEL

An experienced direct media sales force is distributed regionally with concentration in major media centres such as New York, Los Angeles, San Francisco, Chicago, and Toronto. During the past two years, the company has concentrated on investing in this sales

distribution model. The company has more than doubled its sales force since the end of FY 2004. More importantly, the company has attracted experience, with resources coming from leading media organizations such as CBS Sportsline (CBS.A-NYSE), Disney, Discovery Networks (DISC.A-NASDAQ), Microsoft (MSFT-NASDAQ), and Yahoo!. Management believes that the current sales force has the capacity to support its \$20 million ad inventory.

COMPETITIVE LANDSCAPE

EXHIBIT 4: TOPTEN INTERNET PROPERTIES FORTARGET NICHE

Top Kids Properties		Top Family Properties	
1	Disney *	1	Disney *
2	Mattel Sites *	2	Nickelodeon *
3	Nickelodeon *	3	Women's Forum Site
4	Cartoon Network *	4	Babycenter Sites
5	NeoPets	5	Beliefnet Network
6	Hasbro *	6	Kaboose
7	Yahooligans *	7	About Parenting & Family
8	PBS Kids *	8	Family Education Network *
9	Kaboose	9	AOL Parenting
10	Scholastic *	10	GreatSchools.net

* Kaboose Client

Source: Company, comScore Media Metrix, December 2005.

MARKET CONDITIONS & OPPORTUNITY

To online advertisers, scale is important. According to The Interactive Advertising Bureau (IAB) and PricewaterhouseCoopers (PwC), estimated online advertising spending reached \$12.5 billion in 2005, a 30% increase over \$9.6 billion in 2004. Over 95% of that spending was directed towards the top 50 Internet sites with 72% garnered by the top 10 websites alone.

According to ComScore Media Metrix, the top 50 Internet sites attracted 1.6 billion unique visits in January with search sites and portals representing 5 of the top 6 sites and over 30% of available advertising budgets.

Lifestyle oriented web properties with display advertising also represent about 30% of online budgets, although spending appears to be far less concentrated. This market characteristic may hint to the current trend in consolidation among lifestyle properties. The top kids and family web properties are Time Warner (TWX-NYSE) (Cartoon Network), Viacom (Nickelodeon, Nick.com), and Disney, which are ranked 3, 10 and 12 in the top 50 list respectively.

The fastest growing lifestyle oriented web properties in 2005 were “Web 2.0” social networking sites such as MySpace (recently acquired by News Corp), Wikipedia, and Google’s (GOOG-NASDAQ) Blogger. None of these properties were in the top 50 in 2004, and are now competing for an increasing share of online advertising dollars.

Advertisers should continue to aggressively transition budgets to online advertising for two reasons. First, increasingly this is where consumers spend most of their free dwelling time. Secondly, the medium generates behavioural data in real-time, so it is easier for marketers to measure campaign effectiveness, direct sales results, and actual Return On Investment (ROI). Although growing by 16% CAGR, online advertising still only represents 6% of total advertising spending while consumers spend over 50% of their free time online.

OPPORTUNITY

According to a recent article in the New York Times (NYT-NYSE), large media companies have been concentrating on acquiring proven, mid-level niche properties with the potential for broader appeal. Examples in Kaboose’s own niche are NeoPets and iVillage (IVIL-NASDAQ). It appears that 5 million unique visitors per month may be a threshold that defines proven mid-level properties. Large media companies are often reluctant to spend the time and effort to acquire smaller niche properties unless they are highly strategic.

There are several properties in Kaboose’s market niche that have between 1 and 5 million unique monthly visitors but do not qualify for the unofficial consolidation threshold for major media conglomerates. As an independent media property, Kaboose is uniquely positioned to begin acquiring these properties. We estimate that the company has nearly \$10.0 million in cash and cash equivalents, so it has the balance sheet strength to begin consolidating other smaller independent properties that cater to its market niche.

The company has a track record of successfully acquiring and integrating 6 properties and we are confident that the management team has the capabilities to continue to acquire and integrate additional media properties as it attempts to consolidate the market.

Due to more aggressive opt-in marketing plans, along with planned interface redesigns for Zeeks and Funschool, we estimate that organic audience growth could reach 12 million unique monthly visitors by Q4 FY 2006, a 50% increase over Q4 2006. Combined with potential acquisitions, we believe that Kaboose could possibly enter the top 50 internet sites by this time next year. In January 2006, BestBuy (BBY-NYSE) was ranked 50th in the ComScore MediaMetrix survey with 13.3 million unique visitors.

Currently, according to management, average Cost Per Thousand (CPM) is approximately \$9, which is 44% less than the \$16 average of its larger peers. We believe that this gap is due to its competitors having stronger brands and greater audience scale. As Kaboose grows organically and through acquisition, we believe that it will gain further leverage and begin to close the gap in CPM value as it begins to appear among the top 50 internet sites.

Kaboose advertisers are currently more oriented towards products that appeal to kids with emphasis on packaged goods, entertainment, games, and toys. According to management, 60% of its advertising revenues are related to kids and 40% are related to mothers. Over time, we expect that this ratio will flip even as campaign revenues grow. With the redesign of the Kaboose website and an increasing advertising sales emphasis on mothers, management has an opportunity to begin attracting new advertisers in broader categories including automotive, pharmaceutical, fashion, financial services, and telecommunications.

OUTLOOK

We believe that there are eight reasons why Kaboose is an attractive property right now:

Online advertising has matured and is attracting spending from other less measurable media. Spending growth rates may actually accelerate over the next few years as Internet Protocol(IP)-based media continues to drive convergence, and Kaboose obviously is in a strong position to benefit from that growth.

Kaboose caters to a highly coveted demographic worth \$1.7 trillion in buying power. From the beginning of 2005, we estimate that in only two years the size of marketing campaigns could double and the number of campaigns could triple. As well, the top sites in this niche (Disney and Viacom) are the second and third most visited pure lifestyle properties behind MySpace (Time Warner is ranked third but also benefits from AOL portal traffic). As consumer brands seek better ROI on their ad spends, lifestyle properties like Kaboose should increase in value.

Management continues to focus on the honey. They understand that revenue growth will accelerate because mothers and their children are compelled to dwell at Kaboose. As a result, the company has invested in ongoing redesigns to create and maintain stickiness.

The company has highly referencable repeat customers. A small sample of referencable customers in packaged goods, retailing, toys, video and entertainment includes – P&G (PG-NYSE), Heinz (HNZ-NYSE), Kellogg Company (K-NYSE), Disney, Wal-Mart (WMT-NYSE), Target (TGT-NYSE), Nintendo (SNE-NYSE), Hasbro, Mattel, Time Warner, ABC, Nickelodeon, Corus (CJR-NYSE), NHL, NBA and several more clients of equivalent brand power.

Kaboose has recently enhanced its appeal to mothers...with new tag-a-long advertisers. Kaboose's recent redesign appeals more directly to adult needs and concerns. As a result, the company is starting to expand its client categories including pharmaceuticals, telecommunications, automotive and financial services.

Kaboose is only a few quarters away from being a top 50 internet site. Top 50 websites attract over 95% of all online advertising dollars and premium CPM rates in comparison to all other properties.

The company is in an excellent position to consolidate smaller players in the niche. There are several properties with between 1 and 5 million monthly visitors than can help Kaboose accelerate into the top 50 internet sites. With six acquisitions under its belt to date, the company has the management capabilities to execute.

The business model is highly leverageable. A well designed online media property is like a magazine with a nearly infinite number of pages. The size, themes and knowledge derived from that magazine is driven entirely by the user. As a result, there are potentially millions of different magazines being created at any given time. Each magazine generates potentially thousands of highly relevant pageviews for advertisers. In this model, a single ad image could be viewed hundreds of thousands of times, generating revenue each time.

The cost structure is also highly leverageable. The expenses associated with operating the website are inconsequential. Most people costs are currently stable with an editorial staff, games designers, and marketing support staff maintaining the "physical plant". The current sales force should be able to operate without new hires until the first half of FY2007. With the exception of commissions, marketing spending, and retention strategies, the company has the capacity to serve 20 million monthly visitors, with \$20 million in ad inventory without adding to its headcount.

INVESTMENT RISKS

Downturn in the U.S. consumer market. Advertising in general is highly sensitive to economic cycles, and has just only recently recovered from the Tech Bubble and 9/11. Increasing consumer debt, rising commodity prices, and potential inflation risks may give rise to future recessionary trends. During corporate cost-cutting, advertising is often an early victim. As long as Kaboose gets into the range of the top 50 internet sites prior to this, we believe that the revenue risks are fairly minimal. As budgets tighten, ROI will increase in importance, so we see a concentration of spending on IP-based media over more traditional media such as TV, print, and radio. Also, advertisers will focus more on audience size, so being a top property during an economic downturn is important.

RSS feeds. Microsoft, Yahoo and others are working to make Really Simple Syndication (RSS) easier for consumers to use. This means that web users can build their own custom websites from pieces of data assembled or *syndicated* from other sites. Microsoft describes it as Tivo for the web. This has implications for all destination websites including all of the top ten properties in Kaboose's niche because the audience may be able to skip display ads. The display advertising model will need to be adjusted in order to facilitate this new technology and we are unsure of the implications on current online models. This will also put pressure on content providers to maximize the relevance of their content.

“Web 2.0”. Typically “Web 2.0” concepts are about integrated social networks and communities where people exchange information in an associative manner. Obvious examples are MySpace, Flickr, and Blogger. We believe that destination lifestyle sites that do not incorporate Web 2.0 features will probably suffer declines in monthly users over time, and ultimately a reduction in advertising revenue. We believe that as a natural demographic pre-cursor to MySpace, Kaboose is well-positioned to benefit if it incorporates some social networking features into its future plans.

Ad Networks. Typically ad networks are an automated broker for ads to a multitude of web properties. These operations attempt to allocate ads to niche properties that fall outside of the top 50 Internet sites. Increasingly, major brands are opting for these services because less effort is required to target and deploy web advertising. Ad networks could disintermediate Kaboose's discrete advertising sales model unless the company begins to foster relationships with leading ad networks such as Gorilla Nation and ContextWeb. As ad networks become more popular, we expect that they will change the economics of online advertising, possibly resulting in future margin compression.

Integration Effort. As a potential consolidator in the space, challenges associated with integration could arise. Due to increased standardization in both applied technology and in processes associated with web technology, we actually believe that technical and operational integration should be fairly straightforward. We expect that the primary integration risk would be in sales, marketing, and management. However, the company has previous acquisition and integration experience, so we believe that it can manage through these challenges effectively.

Media Consolidation May Slowdown. After 12 months of frantic M&A, during which time no less than 20 deals were completed, we believe that there will be a pause among the consolidators to evaluate their acquisitions. If the market deems that there are more failures than successes, then there could be a slowdown in future consolidation and a decline in relative takeout value. As an acquirer, this trend is beneficial to Kaboose. As long as Kaboose grows into the top 50 websites, we believe that its value as a potential takeout is at least maintained.

Scale and liquidity: As typically with most Canadian Small Caps, Kaboose stock is fairly illiquid, trading on average 83,000 shares daily for the past month. Notwithstanding, the company is a high growth story where the liquidity risks will decline as more investors become aware of the investment opportunity.

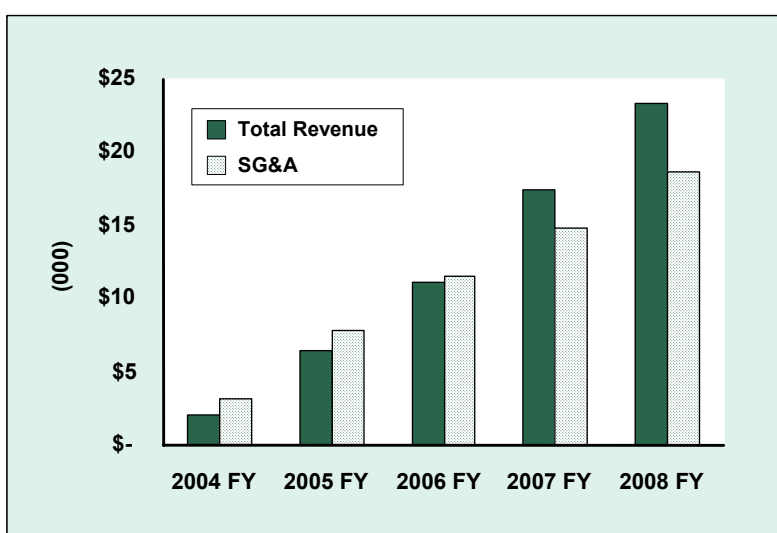
FINANCIAL PROJECTIONS

REVENUE GROWTH

We forecast that Kaboose will generate \$6.5 million in revenue for FY 2005, a 181% increase over FY 2004. We believe that strong year-over-year growth is directly attributed to an expanded sales force and the acquisition of Birthday-in-a-Box in February 2005. For FY 2006, we estimate total sales will increase by 72% to approximately \$11.2 million. We anticipate that the drivers behind this growth include an approximate 50% increase in monthly audience, improved brand awareness among advertisers, a larger advertiser base, and more page views driven by the redesign of all three major destinations.

Our revenue estimates do not include the impact of potential acquisitions during FY2006, although we believe that any future acquisitions that increase the monthly audience into the top 50 websites should substantially increase its brand leverage.

EXHIBIT 5: TOTAL REVENUE GROWTH (2004-2008)

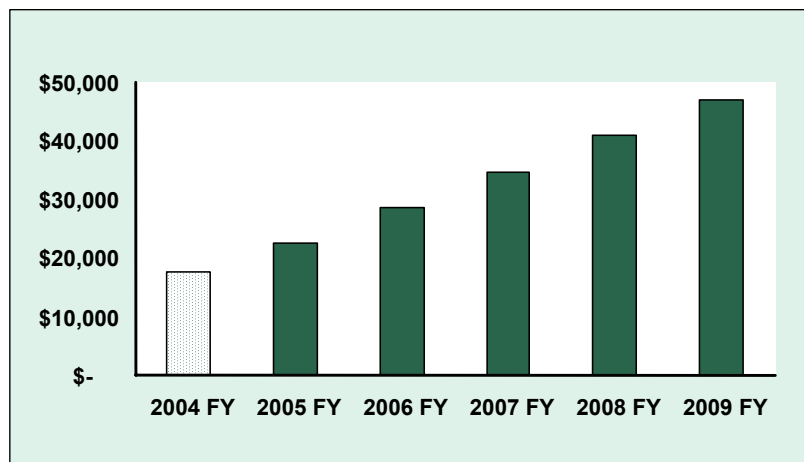


Source: Company Documents, LOM.

KEY DRIVERS

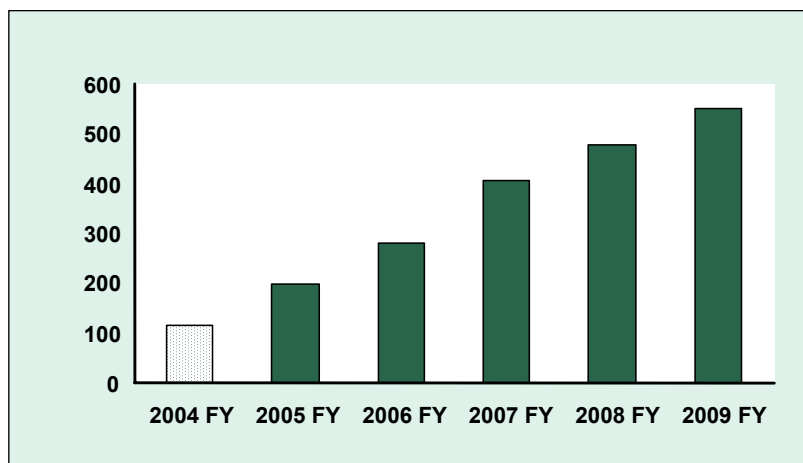
The key drivers behind total revenue growth are the size and frequency of marketing campaigns. We estimate that by Q4 2006, the average campaign size should increase to approximately \$31,000, a 38% increase over the average campaign size in FY 2005. We believe that the drivers behind this increase are two-fold. First, we anticipate that page views should increase due to the interface redesigns which creates more placement opportunities and more stickiness on the site. Secondly, based on anecdotal evidence presented by management, we believe that current advertisers will continue to expand their campaigns as they continue to measure returns.

EXHIBIT 6: GROWTH IN CAMPAIGN SIZE (2004-2009)



Source: Company Documents, LOM.

We believe that the total number of campaigns will increase by approximately 41% in FY 2006 due mostly to the maturing of the experienced sales team along with increasing brand awareness among advertisers.

EXHIBIT 7: TOTAL CAMPAIGNS ANNUALLY (2004-2009)

Source: Company Documents, LOM.

We estimate that revenue contribution from Birthday-In-A-Box should be approximately \$2.0 million in FY 2005, which would be a 100% improvement over sales prior to the acquisition. We forecast sales to increase approximately 53% to \$3.1 million in FY 2006 and then to \$3.4 million in FY 2007.

EBITDA PERFORMANCE

We estimate that by Q4 2006, Kaboose should begin to exhibit the leverage associated with the business model and become EBITDA positive. We forecast that EBITDA margins should normalize at approximately 15.0% for FY 2007, and EPS should increase to \$0.04 per share.

RECOMMENDATION

We believe that Kaboose is a unique Canadian investment opportunity. Kaboose is the only pure-play online media property that is listed on the TSX and we believe that the company already exhibits key attributes that are attractive to large media consolidators. Kaboose has built an audience that validates the value of the property to a coveted niche, and the company is also demonstrating strong revenue growth derived from a compelling list of advertising clients.

Kaboose will only become more attractive to large media aggregators should the company successfully consolidate properties within its niche that fall between 1 and 5 million visitors.

We have valued the company based on a comparison basis to a select group of similar media companies that have been acquired during the past 18 months. We believe that the most straightforward way to value the company is via its potential takeout value.

Takeout value is an appropriate measurement because large media companies continue to be focused on aggregating audiences. Audience size is a primary metric for valuation of an online media property. Secondly, it appears that companies are also valued on the amount of revenue generated per user.

We believe that if a takeout were to occur, the event would probably not happen until the end of FY 2006. At this time, we forecast that sales would be approximately \$11.2 million. Management has guided that it expects that the total monthly user audience should be approaching 10 million.

Based on our forecast, we estimate that Kaboose properties should be generating \$1.13 per monthly user in revenue. The average tracking price-to-sales multiple among its peers is approximately 10.8x last twelve month sales. Based on that multiple, we estimate that the takeout value of Kaboose could be \$122.2 million or \$1.91 per fully diluted share. The company should have nearly \$10 million in cash and cash equivalents on its balance sheet to use for near-term acquisitions. If the company successfully executes future acquisitions as we expect, then the fully diluted share price would probably be much higher.

As a result, we are initiating coverage on Kaboose Inc. with a **BUY** recommendation and a 12-month target of \$2.00, which implies a return of 48%.

APPENDIX A

OFFICERS AND DIRECTORS

JASON DEZWIREK

Chairman, CEO and Director

Mr. DeZwirek has approximately 12 years of experience in the new media industry and is considered a leader in the development of children's and family multimedia products. In 1999, Mr. DeZwirek co-founded Kaboose of which he is currently the Chairman, Chief Executive Officer and a director. Mr. DeZwirek is also currently a director of CECO Environmental Corp. (CECE-NASDAQ), an air pollution control company, and API Electronics Group (AEGCF-OTCBB), a manufacturer of circuits for the military, aerospace and commercial markets

JONATHAN GRAFF

President and Director

Mr. Graff joined Kaboose as President in 2003. As President, Mr. Graff is responsible for all of Kaboose's sales and marketing, personnel and strategic partnership decisions. From 1998 to 2001, Mr. Graff was Director of Business Development with Homestore.com (HOMS-NASDAQ), an online real estate provider of listings in North America. Mr. Graff also managed Homestore's Canadian national sales force from 2000 to 2001. Mr. Graff holds an MBA from the Richard Ivey School of Business at the University of Western Ontario.

JONATHAN POLLACK

Chief Financial Officer

Mr. Pollack joined Kaboose as Chief Financial Officer in March 2005. From 2000 to 2005, Mr. Pollack was President of The JMP Group, a strategic and financial advisory firm to numerous private and public companies based in Toronto, Ontario. From 1996 to 2000, he was a Vice President and founding member of Violy, Byorum & Partners, LLC, a New York based investment bank. Mr. Pollack is currently a director of Lifebank Cryogenics Corp. (LBK-TSXV). Mr. Pollack received a Masters of Science in Finance from the London School of Economics and a Bachelors of Commerce from McGill University. He is involved in several philanthropic organizations and is the Vice Chair of Leadership Sinai at the Mt. Sinai Hospital and is Chair of the Crescent School Foundation..

A. MURRAY SINCLAIR

Director

Mr. Sinclair is currently the Managing Director of Quest Capital Corp. (formerly, Quest Investment Corp.) ("Quest"). Quest trades on the TSX and is a merchant bank that provides financial services to small and mid-cap companies operating primarily in North America. From July 2002 to June 2003, Mr. Sinclair was the President of Quest Investment Corporation, a publicly listed merchant bank based in Vancouver, Canada. Previously, Mr. Sinclair was the managing director of Quest Oil & Gas Inc. from May 1993 to April 1997. Mr. Sinclair is currently a director and officer of a number of public companies. Mr. Sinclair obtained a Bachelors of Arts from Queens University.

MICHAEL WINTON

Director

Michael Winton is one of Kaboose's early investors and is currently the Vice President of The Equity Group and is President of Global Vending Corp., both private companies located in Dallas, Texas. Prior to joining The Equity Group and Global Vending Corp., Mr. Winton practiced as a lawyer with a boutique corporate law firm in Toronto, Ontario specializing in franchising, licensing and distribution law. He received his Bachelor of Arts degree from the University of Western Ontario and a J. D. from Touro Law School, Huntington, New York.

BERNARD KRAFT

Director

Bernard Kraft is a Senior Partner with the chartered accounting firm of Kraft, Berger, Grill, Schwartz, Cohen & March LLP. In 1992, he co-founded and remains a Principal of Kraft, Yabrov Valuations Inc., a company specializing in the areas of litigation support, mergers and acquisitions, business valuations, corporate finance and managing consulting. Mr. Kraft serves on the boards and audit committees of Agnico-Eagle Mines Limited, a TSX and New York Stock Exchange listed gold mining company and Sterling Centrecorp Inc., a TSX listed company involved in real estate in Canada and the United States. In addition to being a Chartered Accountant and a Specialist in Investigative and Forensic Accounting, Mr. Kraft has also obtained designations from The Canadian Institute of Chartered Business Valuations, Association of Certified Fraud Examiners and the American Society of Appraisers.

APPENDIX B

HISTORIC & PROJECTED INCOME STATEMENTS

	<i>Projected Income Statements</i>										
	2004 FY	2005 (9mo.)	2005 Q4	2005 FY	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006 FY	2007 FY	2008 FY
Sales	2.32	4.14	2.36	6.50	1.96	2.28	3.07	3.85	11.16	17.34	22.93
Cost of Sales	-	0.71	0.47	1.18	0.57	0.57	0.57	0.54	2.25	2.36	2.41
Gross Profit	2.32	3.43	1.89	5.32	1.39	1.71	2.50	3.31	8.91	14.98	20.52
	100%	83%	80%	82%	71%	75%	81%	86%	80%	86%	89%
Expenses											
Sales, General and Administrative	3.17	5.24	2.83	8.07	2.85	2.78	3.07	3.08	11.78	12.31	16.51
Interest on Convertible Debt	0.13	-	0.00	0.00	-	-	-	-	-	-	-
Interest on convertible Preferred shares	0.21	0.31	0.00	0.31	-	-	-	-	-	-	-
Other Interest	-	0.01	0.00	0.01	-	-	-	-	-	-	-
Amortization	0.15	0.29	0.09	0.37	0.09	0.09	0.08	0.09	0.34	0.32	0.30
	3.66	5.85	2.91	8.76	2.93	2.87	3.15	3.17	12.12	12.63	16.81
Net (Loss) Income For the Period	(1.35)	(2.42)	(1.02)	(\$3.44)	(1.54)	(1.16)	(0.65)	0.14	(3.21)	2.35	3.71
Other Income	-	-	-	-	-	-	-	-	-	-	-
Future Tax Recovery	-	-	-	-	-	-	-	-	-	-	-
Tax	-	-	-	-	-	-	-	-	-	-	-
Net (loss) income for the period	(1.35)	(2.42)	(1.02)	(3.44)	(1.54)	(1.16)	(0.65)	0.14	(3.21)	2.35	3.71
Deficit, Beginning of Period	(2.13)	(3.48)	(5.90)	(3.48)	(6.92)	(8.46)	(9.62)	(10.27)	(6.92)	(10.13)	(7.78)
Deficit, End of Period	(3.48)	(5.90)	(6.92)	(6.92)	(8.46)	(9.62)	(10.27)	(10.13)	(10.13)	(7.78)	(4.07)
Basic (Loss) Earnings Per Share	(0.02)	(0.04)	(0.02)	(0.06)	(0.03)	(0.02)	(0.01)	0.00	(0.06)	0.04	0.07
Diluted (Loss) Earnings Per Share	(0.02)	(0.04)	(0.02)	(0.06)	(0.02)	(0.02)	(0.01)	0.00	(0.05)	0.04	0.06
Weighted Average Common Shares Outstanding for Basic	56.30	56.30	56.30	56.30	56.30	56.30	56.30	56.30	56.30	56.30	56.30
Diluted Shares Outstanding	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00
EBITDA	(0.86)	(1.81)	(0.94)	(2.75)	(1.46)	(1.07)	(0.57)	0.23	(2.87)	2.67	4.01
EBIT	(1.22)	(2.42)	(1.02)	(3.44)	(1.54)	(1.16)	(0.65)	0.14	(3.21)	2.35	3.71
EBITDA Margins	(37.02%)	(43.69%)	(39.80%)	(42.28%)	(74.10%)	(47.08%)	(18.59%)	6.05%	(25.69%)	15.37%	17.48%
EBIT Margins	(52.63%)	(58.39%)	(43.45%)	(52.97%)	(78.48%)	(50.96%)	(21.22%)	3.73%	(28.77%)	13.55%	16.18%
Net Income Margins	(58.17%)	(58.39%)	(43.45%)	(52.97%)	(78.48%)	(50.96%)	(21.22%)	3.73%	(28.77%)	13.55%	16.18%

Sources: Company Reports, LOM Estimates.

APPENDIX C

HISTORIC & PROJECTED BALANCE SHEETS

	<i>Projected Balance Sheet</i>				
	2004 FY	2005 FY	2006 FY	2007 FY	2008 FY
ASSETS					
Current Assets					
Cash & cash equivalents	1.58	11.46	6.57	7.41	10.31
Accounts receivable	0.90	1.96	3.19	4.94	6.31
Inventory	-	0.36	0.33	0.43	0.50
Prepaid Expenses and other Current Assets	0.08	0.10	0.15	0.12	0.14
	2.56	13.89	10.24	12.91	17.25
Equipment & Software	0.37	0.08	0.08	0.07	-
Development Costs	0.26	0.59	0.25	0.24	-
Goodwill	-	0.53	0.53	0.53	0.45
Other Assets	0.14	-	0.05	0.05	-
	3.33	15.08	11.15	13.79	17.70
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	0.27	1.30	0.54	0.84	1.03
Dividends Payable	-	-	-	-	-
Notes Payable	0.12	-	-	-	-
Deferred Revenue	0.08	0.01	0.05	0.05	0.05
	0.47	1.30	0.58	0.88	1.08
Long-term Liabilities					
Retractable Preferred Shares	2.58	-	-	-	-
Notes Payable	0.08	-	-	-	-
	2.66	-	-	0.88	1.08
SHAREHOLDER'S EQUITY					
Share Capital	3.68	20.69	20.69	20.69	20.69
Special Warrants	-	-	-	-	-
Deficit	(3.48)	(6.92)	(10.13)	(7.78)	(4.07)
Shareholder's Equity	0.20	13.77	10.56	12.91	16.62
Total Liabilities and Shareholders Equity	3.33	15.08	11.15	13.79	17.70

Sources: Company Reports, LOM Estimates.

APPENDIX D

HISTORIC & PROJECTED CASH FLOW STATEMENTS

	<i>Projected Cash Flow Statement</i>				
	2004 FY	2005 FY	2006 FY	2007 FY	2008 FY
Operating Activities					
Net Earnings (loss)	(1.35)	(3.44)	(3.21)	2.35	3.71
		-			
Items not affecting cash	0.45	0.84	0.54	0.52	0.30
Amortization	0.15	0.37	0.34	0.32	0.30
Unrealized foreign exchange gain (loss)	(0.02)	(0.00)	-	-	-
Stock Compensation Expense	0.10	0.20	0.20	0.20	-
Interest on convertible debentures	0.13	-	-	-	-
Imputed Interest on preferred shares	0.09	0.27	-	-	-
Future Tax Recovery	-	-	-	-	-
Changes in non-cash working capital items	(0.46)	(3.64)	(2.02)	(2.15)	(1.11)
Cash flow from Operating Activities	(1.36)	(6.24)	(4.69)	0.71	2.90
Investing Activities					
Equipment & Software	(0.15)	(0.22)	-	0.07	-
Development Costs	(0.26)	(0.57)	(0.20)	-	-
Other Assets	(0.05)	(0.11)	-	-	-
Business Combination		(0.27)	-	0.05	-
Cash flows from Investing Activities	(0.46)	(1.17)	(0.20)	0.12	-
Financing Activities					
Notes Payable	(0.04)	(0.03)	-	-	-
Convertible retractable preference shares	3.35	-	-	-	-
Common Shares	-	17.02	-	-	-
Special Warrants	-	-	-	-	-
Convertible debentures	0.06	-	-	-	-
Cash flows from financing activities	3.37	16.9926	-	-	-
Net (decrease) Increase in cash	1.54	9.58	(4.89)	0.83	2.90
Cash and Cash Equivalents, beginning of period	0.34	1.88	11.46	6.57	7.41
Cash at end of period	1.88	11.46	6.57	7.41	10.31

Sources: Company Reports, LOM Estimates.

APPENDIX E COMPARABLE COMPANY ANALYSIS

Date	Seller	Buyer	Price	TTM Estimated Sales at Purchase	Unique Users at Purchase	P/Sales	Price/User	Revenue per User
Jul-05	MySpace	News Corp	\$ 568.00	\$ 78.89	27.3	7.2	\$ 20.81	\$ 2.89
Jun-05	NeoPets	ViaCom	\$ 160.00	\$ 10.00	10.0	16.0	\$ 16.00	\$ 1.00
Mar-06	iVillage	NBC Universal	\$ 600.00	\$ 66.90	13.6	9.0	\$ 44.12	\$ 4.92
Sep-05	IGN	News Corp	\$ 650.00	\$ 54.62	15.9	11.9	\$ 40.80	\$ 3.43
Feb-05	About.com	New York Times	\$ 410.00	\$ 41.00	27.9	10.0	\$ 14.70	\$ 1.47
Average			\$ 477.60		18.95	10.8	\$ 27.28	\$ 2.74
Adjusted							\$ 27.05	\$ 2.60

Sales Multiple

Kaboose	\$ 122.2	\$ 11.3	10.0	10.8	\$ 12.22	\$ 1.13
Price/basic	\$ 2.17					
Price/FD	\$ 1.91					

Price Per User Multiple

Kaboose	\$ 216.4	\$ 11.3	10.0	19.2	\$ 27.05	\$ 1.13
Price/basic	\$ 3.84					
Price/FD	\$ 3.38					

Simple Average

Kaboose	\$ 194.3	\$ 11.3	10.0	17.2	\$ 19.43	\$ 1.13
Price/basic	\$ 3.45					
Price/FD	\$ 3.04					

Sources: WSJ, Globe & Mail, Business Week, iMedia, Company Reports, LOM estimates.