



## **Cohesant Inc.**

23400 Commerce Park, Beachwood, Ohio 44122  
Phone: 216 910-1700

**Financial Results**  
**For twelve months ended November 30, 2008**

# COHESANT INC.

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## COHESANT INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On December 3, 2007, Cohesant Technologies announced that it had entered into definitive agreement pursuant to which Graco Inc. would acquire GlasCraft Inc, a subsidiary of Cohesant Technologies Inc., the former parent of Cohesant Inc. This disposition occurred on February 27, 2008 and was accomplished through a merger of Cohesant Technologies with a Graco Inc. subsidiary that was immediately preceded by a spin-off of Cohesant Inc. (formerly known as CIPAR Inc.) and its subsidiaries (the "Company" or "Cohesant"). The spin-off was affected by declaring a taxable dividend of one share of Cohesant for each share of Cohesant Technologies common stock, which equated to 3,460,357 shares of Cohesant stock being distributed. In connection with the GlasCraft disposition and spin-off, certain Corporate personnel, assets and liabilities of Cohesant Technologies' non-GlasCraft businesses were transferred from Cohesant Technologies to Cohesant pursuant to a Separation Agreement entered into between Cohesant Technologies and the Company.

We maintain a strategy for growth through steady organic expansion supported by select acquisitions. Our long-term strategic plan is to be a global leader providing technologies for infrastructure rehabilitation and protection in the water distribution and wastewater collection systems markets.

#### **Results of Operations**

##### **Twelve months ended November 30, 2008 as compared to the twelve months ended November 30, 2007.**

On a consolidated basis, the Company had net sales for the twelve months ended November 30, 2008 of \$11,574,854 compared to \$11,549,410 for the comparable period in fiscal 2007, an increase of \$25,444. This increase was due to an increase in revenues at CuraFlo Services (principally pipe lining revenues). This increase was partially offset by a decline in equipment and parts sales, franchisee and licensee fees and coatings sales (decreased demand of AquataPoxy products).

The Company's gross margin decreased slightly to \$5,405,303, or 46.7% of net sales, in the 2008 period from \$5,496,016, or 47.6% of net sales, in the 2007 period. The dollar and margin decrease was primarily due to decreased high margin franchisee and licensee fees and coating sales mentioned above, partially offset by improved margins on rehabilitation revenue.

Ongoing operating expenses were \$7,204,594 in fiscal 2008 compared to \$6,389,084 in the prior year period, an increase of \$815,510 or 12.8%. This increase was primarily due to higher marketing costs relating to the development of CuraFlo's national marketing campaign, increased stock-based compensation, a one-time expense occurring in the first quarter and resulting from accelerated vesting of stock options as a result of the sale of the Company's former parent, as well as higher severance costs.

## COHESANT INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management performed a periodic goodwill and intangible impairment test in the fourth quarter and concluded the carrying values of certain assets should be written down. As a result, the 2008 period included an \$8,581,509 charge for goodwill and intangible write-downs.

Other income (expense) was \$33,538 compared to \$(23,657) in the 2007 period. This increase was primarily attributable to interest earned on cash balances, finance charges and notes receivable and decreased interest expense.

The effective tax rate for fiscal 2008 and 2007 was (6.6)% and (25.8)%, respectively. The effective tax rate is less than the statutory rate due to recording of a valuation allowance for certain state and local income tax benefits which are not expected to be realized.

On a consolidated basis, the Company had a loss of (\$9,666,194) and (\$679,921) for fiscal 2008 and 2007, respectively. Excluding the goodwill and intangible write downs mentioned above, the Company had a net loss of (\$1,084,685) in fiscal 2008.

#### **Liquidity and Capital Resources**

The Company's primary sources of liquidity are its cash reserves (including the cash raised from a private placement) and working capital. The Company raised \$2.1 million in the second quarter of fiscal 2008 by issuing and selling 724,138 preferred shares at a price of \$2.90 per share in a private placement offering. The Company had net working capital of \$3,571,187, including \$2,131,242 in cash, at November 30, 2008. In fiscal 2007 the Company's primary sources of liquidity were operations, cash reserves, and Cohesant Technologies' credit facility. Income from Cohesant Technologies' GlasCraft subsidiary substantially funded the Company's negative cash flow for fiscal 2007.

In fiscal 2008, cash used in operations was \$732,774 compared to \$826,299 in the comparable period last year. The difference was primarily attributable to improved management of working capital, which was partially offset by the increased operating loss. Cash used in investing activities (property and equipment additions) decreased to \$272,685 in the current period from \$546,299 in the 2007 period. In the 2007 period, the Company purchased equipment, furnishing and leasehold improvements for its new Cleveland facility. Cash provided by financing activities was \$2,945,215 in the current period compared to \$955,402 in the prior year period. This increase was primarily due to the preferred stock private placement discussed earlier.

The Company's fully secured \$2,500,000 revolving line of credit facility expires on April 30, 2009 and all indebtedness is due on that date. Among other restrictions, the credit facility requires that the Company meet certain covenants including financial ratios. At November 30, 2008, the Company did not have a balance outstanding under this facility and was not in compliance with all covenants. The Company requested a waiver from the bank for a covenant that was out of compliance. The bank denied the Company's request and informed the

**COHESANT INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

Company it will not renew the credit facility when it expires in April. The Company is in discussions with other potential lenders to secure a new credit facility but there is no assurance a new facility will be obtained.

The Company does not have any significant commitments or guarantees, except for rental commitments.

The Company believes that its existing cash resources and working capital will be adequate to meet its capital needs for the foreseeable future.

**Forward Looking Statements**

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statement. These risks and uncertainties include, but are not limited to, a reduction in growth of markets for the Company's epoxy coating systems, the pace of acceptance by customers of pipe lining in lieu of pipe replacement or repairs in the infrastructure rehabilitation market, customer resistance to Company price increases and the Company's ability to expand its operations.

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**EXHIBIT A**

**COHESANT INC.**

***FINANCIAL  
STATAEMENTS***

***FOR THE  
YEAR ENDED  
NOVEMBER 30, 2008***

**COHESANT INC.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Cohesant Inc.  
Cleveland, Ohio

We have audited the accompanying consolidated balance sheet of Cohesant Inc. (the Company) as of November 30, 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cohesant Inc. at November 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ SS&G Financial Services, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Cleveland, Ohio  
February 25, 2009

# COHESANT INC.

## CONSOLIDATED BALANCE SHEET

AS OF NOVEMBER 30, 2008

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### ASSETS:

Cash and cash equivalents	\$ 2,131,242
Accounts receivable, net of allowance for doubtful accounts of \$110,262	1,937,840
Current portion of long-term note receivable	55,500
Inventories, net of allowance for obsolete and slow moving inventories of \$7,000	1,254,460
Costs in excess of billings and estimated earnings	39,754
Prepaid expenses and other	275,855
Deferred tax assets	7,865
Total current assets	<u>5,702,516</u>
Property, plant and equipment, net	1,767,644
License agreements and other intangibles, net of accumulated amortization of \$443,240	541,034
Goodwill	420,127
Long-term note receivable, net of current portion	117,805
Other noncurrent assets	7,394
Total assets	<u>\$ 8,556,520</u>

The accompanying notes are an integral part of these consolidated financial statements.

# COHESANT INC.

## CONSOLIDATED BALANCE SHEET

AS OF NOVEMBER 30, 2008

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### LIABILITIES AND SHAREHOLDERS' EQUITY:

Current portion of long-term note payable	\$ 135,843
Accounts payable	1,221,138
Accrued salaries, benefits and commissions	293,385
Accrued taxes	26,944
Billings in excess of costs and estimated earnings	84,974
Other current liabilities	369,045
Total liabilities	<u>2,131,329</u>

### SHAREHOLDERS' EQUITY

Preferred stock (\$.01 par value, 1,000,000 shares authorized and 724,138 shares issued and outstanding)	724
Common stock (\$.01 par value, 7,000,000 shares authorized and 3,460,357 shares issued and outstanding)	3,460
Additional paid-in capital	15,797,049
Accumulated other comprehensive income	(97,083)
Accumulated deficit	<u>(9,278,959)</u>
Total shareholders' equity	<u>6,425,191</u>

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** \$ 8,556,520

The accompanying notes are an integral part of these consolidated financial statements.

# COHESANT INC.

## CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED NOVEMBER 30, 2008

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NET SALES	\$ 11,574,854
COST OF SALES	<u>6,169,551</u>
Gross profit	5,405,303
RESEARCH AND DEVELOPMENT EXPENSES	320,136
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,884,458
GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT LOSS	<u>8,581,509</u>
TOTAL OPERATING EXPENSES	15,786,103
Loss from operations	<u>(10,380,800)</u>
OTHER INCOME (EXPENSE):	
Interest income	18,149
Interest expense	(10,471)
Foreign exchange gain, net	1,075
Other income, net	<u>24,785</u>
LOSS BEFORE TAXES	(10,347,262)
INCOME TAX BENEFIT	<u>681,068</u>
NET LOSS	<u>\$ (9,666,194)</u>
LOSS PER COMMON SHARE (Basic and Diluted):	\$ (2.79)
AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED	3,460,357
COMPREHENSIVE LOSS	
Net loss	\$ 9,666,194
Foreign currency translation adjustment	<u>(220,793)</u>
COMPREHENSIVE LOSS	<u>\$ (9,886,987)</u>

The accompanying notes are an integral part of these consolidated financial statements.

# COHESANT INC.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED NOVEMBER 30, 2008

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	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number of Shares	Par Value	Number of Shares	Par Value				
Balance at November 30, 2007	-	\$ -	100	\$ 1,000	\$ 12,349,118	\$ -	\$ 123,710	\$ 12,473,828
Issuance common stock per stock dividend (Note 1)	-	-	3,460,357	2,460	(2,460)	-	-	-
Allocated charges funded by Cohesant Technologies Inc.	-	-	-	-	182,117	-	-	182,117
Net contributions from Cohesant Technologies Inc.	-	-	-	-	1,478,094	-	-	1,478,094
Issuance of preferred stock	724,138	724	-	-	2,099,278	-	-	2,100,002
Stock based compensation	-	-	-	-	78,137	-	-	78,137
Foreign currency translation	-	-	-	-	-	-	(220,793)	(220,793)
Net loss	-	-	-	-	(387,235)	(9,278,959)	-	(9,666,194)
Balance at November 30, 2008	<u>724,138</u>	<u>\$ 724</u>	<u>3,460,357</u>	<u>\$ 3,460</u>	<u>\$15,797,049</u>	<u>\$(9,278,959)</u>	<u>\$ (97,083)</u>	<u>\$ 6,425,191</u>

The accompanying notes are an integral part of these consolidated financial statements.

# COHESANT INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED NOVEMBER 30, 2008**

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### CASH FLOWS USED IN OPERATING ACTIVITIES:

Net loss	\$ (9,666,194)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	574,863
Goodwill and intangible assets impairment loss	8,581,509
Loss on asset disposal	470
Stock-based compensation	78,137
Deferred tax provision	(661,751)
Provision for doubtful accounts	41,031
Foreign currency translation	(194,773)
Net change in assets and liabilities-	
Accounts receivable	70,923
Note receivable	(47,300)
Inventories	16,113
Costs in excess of billings and estimated earnings	(33,749)
Prepaid expenses and other	(48,688)
Accounts payable	463,030
Billings in excess of costs and estimated earnings	(1,354)
Other current liabilities	94,959
Net cash used in operating activities	<u>(732,774)</u>

### CASH FLOWS USED IN INVESTING ACTIVITIES:

Payment of patent costs	(3,706)
Purchases of property and equipment	(278,932)
Proceeds from sale of property and equipment	9,953
Net cash used in investing activities	<u>(272,685)</u>

### CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:

Net contributions by Cohesant Technologies Inc.	792,150
Proceeds for preferred stock private placement	2,100,002
Funding of allocated charges by Cohesant Technologies Inc.	182,117
Payments on Triton note payable	(129,054)
Net cash provided by financing activities	<u>2,945,215</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	1,939,756
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>191,486</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 2,131,242</u>

Cash paid for interest	<u>\$ 10,471</u>
Cash paid for income taxes	<u>\$ 136,485</u>

The accompanying notes are an integral part of these consolidated financial statements.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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### 1. SEPARATION AND BACKGROUND

#### Separation:

On December 3, 2007, Cohesant Technologies Inc. (“Cohesant Technologies”) announced that it had entered into a definitive agreement pursuant to which Graco Inc. would acquire GlasCraft Inc, a subsidiary of Cohesant Technologies, the former parent of Cohesant Inc. This disposition occurred on February 27, 2008 and was accomplished through a merger of Cohesant Technologies with a Graco Inc. subsidiary that was immediately preceded by a spin-off of Cohesant Inc. (formerly known as CIPAR Inc.) and its subsidiaries (the “Company” or “Cohesant”). The spin-off was affected by declaring a taxable dividend of one share of Cohesant for each share of Cohesant Technologies common stock, which equated to 3,460,357 shares of Cohesant stock being distributed. In connection with the GlasCraft disposition and spin-off, certain Corporate personnel, assets and liabilities of Cohesant Technologies’ non-GlasCraft businesses were transferred from Cohesant Technologies to Cohesant pursuant to a Separation Agreement entered into between Cohesant Technologies and the Company.

#### Background:

Cohesant is engaged in the protection and renewal of drinking water distribution systems and wastewater collection systems for municipal, industrial, commercial and residential infrastructure; the design, development, manufacture and sale of specialty coatings; and the sale of specialized dispense equipment systems and replacement parts and supplies used in the operation of the equipment. Included within the Company are the net assets and operations of RLS Solutions Inc. (“RLS”), CuraFlo Services Inc. (“CSI”), CuraFlo Franchising Inc. (“CFI”), and Cohesant Materials Inc. (“CMI”). CuraFlo Services Inc. has two subsidiaries: CuraFlo of British Columbia Ltd. and CuraFlo Spincast Services Inc. (“CSS”).

The Company’s executive offices are located in Cleveland, Ohio with its principal manufacturing, warehouse and distribution facilities located in Cleveland, Ohio, Tulsa, Oklahoma, and Vancouver, Canada.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its direct, wholly owned subsidiaries, RLS, CSI, CFI and CMI. Intercompany accounts and transactions have been eliminated.

The consolidated financial statements of the Company give effect to accounting and allocation policies established by Cohesant's management for purposes of these consolidated financial statements and are in accordance with the guidelines provided by Staff Accounting Bulletin 55, "Allocation of Expenses and Related Disclosures in Financial Statements of Subsidiaries, Divisions, and Lesser Business Components of Another Entity" of the Securities and Exchange Commission. Allocations include corporate overhead, taxes, and other expenses. The consolidated financial statements of the Company have been prepared on a basis that management believes to be reasonable to reflect the consolidated financial position, results of operations and cash flows of the businesses that comprise the Company, including allocated portions of Cohesant Technologies' overhead and administrative shared services.

b. Allocation Policies

Cohesant's costs and expenses include allocations from Cohesant Technologies for services provided to or the benefits received by Cohesant. The following allocation policies have been established by management. Unless otherwise noted, these policies have been consistently applied in the consolidated financial statements. In the opinion of management, the methods for allocating these costs are reasonable.

(i) *Specifically Identifiable Operating Expenses*

Costs which relate solely to the operations of the Company are allocated entirely to the Company. These expenses consist of costs of personnel who are 100% dedicated to the operations of the Company, all costs associated with locations that conduct only the business of the Company and amounts paid to third parties for services rendered to the Company. In addition, any costs incurred by Cohesant Technologies, which are specifically identifiable to the operations of the Company, are allocated to the Company.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### b. Allocation Policies

##### (ii) *Shared Operating Expenses*

Prior to the spin-off effected on February 27, 2008, Cohesant Technologies allocated the cost of certain corporate general and administrative services and shared services, including shared personnel, to each of its business units. These shared services include executive compensation, legal, and accounting costs. These costs have been allocated to the Company based on their relative percentage to consolidated Cohesant Technologies' revenues. Management believes the financial size of each of Cohesant Technologies' operating units best reflected the level of corporate service provided to each.

##### (iii) *Allocated Expenses*

Allocations of Cohesant Technologies' expenses (exclusive of stock-based compensation discussed in Note 8) as described in (i) and (ii) above have been included in the consolidated statements of operations of the Company as follows:

Corporate administrative expenses	\$ 181,686
Investment income	(294)
Interest expense	725
Allocated expenses from Cohesant Technologies Inc.	<u>\$ 182,117</u>

##### (iv) *Net Contributions from Cohesant Technologies*

Cohesant Technologies contributed \$1,478,094 of capital to the Company prior to the spin-out. The contribution included non-cash items such as property and equipment, prepaid expenses and other current liabilities. Included in the contribution was \$792,150 of transfers primarily consisting of cash and the extinguishment of inter-company payables and receivables.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

b. Allocation Policies

(v) *Taxes*

The Company's allocated share of the consolidated Cohesant Technologies' Federal and state tax provision is determined using the stand-alone method. Under the stand-alone method, tax expense or benefit is calculated as if the Company was subject to its own tax returns. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities of the Company and are measured using the enacted tax rates that are expected to be in effect in the period in which these differences are expected to reverse.

c. Foreign Currency Accounting

The financial statements of the Company's Canadian location have been translated into U.S. dollars in accordance with Financial Accounting Standards Board (FASB) Statement No. 52, "Foreign Currency Translation." Assets and liabilities have been translated using the exchange rate in effect at the balance sheet date. Sales and expenses have been translated using a weighted-average exchange rate for the period. The resulting translation adjustments are recorded in combined equity. Gains or losses resulting from foreign currency transactions are included as a component of Comprehensive Loss on the consolidated statement of operations.

d. Revenue Recognition

Revenue is recognized in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured.

For equipment, coatings, and replacement and spare part revenue, the criteria of SAB 104 are generally met upon shipment at which time title and risks of ownership are transferred to these customers. Therefore, revenue is recognized at the time of shipment. There are no rights of return, customer acceptance, installation or other post-shipment obligations with any of these products. Pricing is fixed at the time of shipment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

d. Revenue Recognition

CuraFlo Services performs protection, renewal and replacement of drinking water distribution systems and wastewater collection systems in accordance with the specifications set forth in the binding contracts with our customers. Performance under these contracts generally extends over periods of time ranging from a few months to over a year. Rehabilitation revenues are recognized on the percentage of completion method in the ratio that total incurred costs bear to total estimated costs. Excess materials are held in inventory and are not recorded as contract costs until utilized. The estimated total cost of a contract is based on management's best estimate of the remaining costs that will be required to complete a project.

Franchise fee and license fee revenue from an individual franchise or license sale is recognized when all material services or conditions relating to the sale, consisting predominantly of training, have been substantially performed and collectibility is assured. Revenue is deferred for franchise and license fees when there are obligations to provide training and other services to Franchisees and Licensed Dealers. Continuing franchise and license fee revenue, including royalty revenue, is recognized as the fees are earned and become receivable from the Franchisees and Licensees.

e. Advertising Costs

Advertising costs are expensed in the period incurred. Advertising costs of \$919,471 were included in selling, general and administrative expenses for 2008.

f. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash with financial institutions and at times during the year maintained deposits in excess of federally insured limits; however, management does not believe that the Company is exposed to any substantial credit risk. The Company had revenues from one customer that amounted to 12% of total revenues for the year ended November 30, 2008. This customer comprised 21% of accounts receivable as of November 30, 2008.

g. Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of one year or less to be cash. Cash equivalents are stated at cost, which approximates market value.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOVEMBER 30, 2008**

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### h. Allowance for Doubtful Accounts

The Company evaluates the allowance for doubtful accounts on a periodic basis and review any significant customers with delinquent balances to determine future collectibility. The determination includes a review of legal issues (such as bankruptcy status), past payment history, current financial information and credit reports, and the Company's experience. Allowances are established in the period in which the account is deemed uncollectable or when collection becomes uncertain.

#### i. Inventories

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method. Inventory costs include raw material, labor (including material handling) and overhead costs. An inventory reserve is provided for obsolete and slow-moving inventory to reduce the carrying amount to its estimated net realizable value. Inventories consist of the following at November 30, 2008:

Raw materials	\$ 287,775
Finished goods	195,787
Equipment, parts and supplies	739,004
Rehabilitation materials	38,894
Allowance for obsolete and slow-moving inventories	<u>(7,000)</u>
	<u>\$ 1,254,460</u>

#### j. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consisted of the following at November 30, 2008:

Costs incurred on uncompleted contracts	\$ 1,545,037
Estimated earnings to date	<u>617,671</u>
Subtotal	2,162,708
Less – Billings to date	<u>(2,207,928)</u>
Total	<u>\$ (45,220)</u>

Included in the accompanying balance sheets under the following caption:

Costs and estimated earnings in excess of billings	\$ 39,754
Billings in excess of costs and estimated earnings	<u>(84,974)</u>
Total	<u>\$ (45,220)</u>

All unbilled amounts are expected to be billed and collected within one year.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### k. Property, Plant and Equipment

Property, plant and equipment are carried at cost. Maintenance and repairs are expensed as incurred. Depreciation of property, plant and equipment is provided by use of the straight-line method over the estimated useful lives of the assets, or the lease term, if shorter, for leasehold improvements, as follows:

Office equipment/computers	3-10 years
Vehicles	5 years
Leasehold improvements	1-5 years
Machinery and equipment	3-10 years

Property, plant and equipment consist of the following at November 30, 2008:

Office equipment/computers	\$ 1,894,168
Vehicles	151,957
Leasehold improvements	165,871
Machinery and equipment	<u>1,010,670</u>
	3,222,666
Less accumulated depreciation	<u>(1,455,022)</u>
	<u>\$ 1,767,644</u>

Depreciation expense for the fiscal year ended November 30, 2008 was \$471,144.

#### 1. Goodwill and Intangible Assets

##### *Goodwill*

The changes in the carrying amount of goodwill in the fiscal year ended November 30, 2008 is as follows:

	Cohesant <u>Materials</u>	CuraFlo <u>Franchising</u>	CuraFlo <u>Services</u>	<u>Total</u>
Balance as of November 30, 2007	\$420,127	\$ 6,183,970	\$ 2,163,466	\$ 8,767,563
Impairment	-	(6,183,970)	(2,163,466)	(8,347,436)
Balance as of November 30, 2008	<u>\$420,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 420,127</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" the Company analyzes goodwill for impairment on an annual basis or more frequently if an event occurs or circumstances change that could more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company estimates fair value based upon the present value of future cash flows. In estimating the future cash flows, the Company takes into consideration the overall and industry economic conditions and trends, market risk of the Company and historical information. Due to the performance of certain businesses purchased in 2005 and 2006, the Company determined that the carrying amount of its net assets exceeded their fair value computed using the present value of expected future cash flows. Accordingly, the Company recognized an impairment loss on its goodwill of \$8,347,436 for the year ended November 30, 2008. The loss is included in operating expenses in the consolidated statement of operations.

*Intangible Assets*

License agreements acquired by the Company are being amortized over 10 years. In accordance with the provisions of SFAS No. 144 and as a result of the termination of certain agreements, license agreements with a carrying amount of \$780,242 were written down to their fair value of \$546,169 resulting in an impairment charge of \$234,073, which was reported in operating expenses in the statement of operations for the year ended November 30, 2008. The Company has other intangible assets with a net balance of \$14,486 at November 30, 2008, including contracting agreements which are fully amortized and patents that are pending approval. Amortization expense for 2008 was \$103,719 and is estimated to be \$78,492 in fiscal 2009 through 2013.

m. Research and Development

The costs associated with research and development programs for new products and significant improvements, which totaled \$320,136 in 2008, are expensed as incurred.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

n. Income Taxes

The Company files a consolidated Federal income tax return for its wholly owned U.S. subsidiaries and a Canadian tax return for its Canadian subsidiary. Income taxes are provided based on the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." The liability method measures the effective tax impact of future taxable income or deductions resulting from differences in the tax and financial reporting bases of assets and liabilities reflected in the consolidated balance sheets and the expected tax impact of carryforwards for tax purposes

o. Impairment of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets and long-lived assets to be disposed of in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Under the provisions of the statement, the Company continually evaluates its long-lived assets in light of events and circumstances that may indicate that the remaining estimated useful life may warrant revision or that the remaining carrying value may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether that asset is recoverable. To the extent an impairment has occurred, the excess of the carrying value of the long-lived assets over their estimated fair value is charged to operations.

p. Stock-Based Compensation

The Company has a long-term incentive plan to provide employees with stock options and restricted stock. Stock-based compensation includes compensation expense associated with the issuance of stock options to purchase the Company's common stock and for the issuance of restricted stock of the Company.

The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" on December 1, 2006 (SFAS No. 123R). SFAS No. 123R, which revised SFAS No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", superseded APB Opinion No. 25, "Accounting for Stock Issued to Employees", and amends SFAS No. 95, "Statement of Cash Flows." SFAS

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

p. Stock-based Compensation

No. 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based upon their fair value.

The Company has adopted SFAS No. 123R using the modified prospective method. Under this transition method, compensation cost has been recognized for all share-based payments in the consolidated financial statements in fiscal 2008 based upon the fair value of the stock or option grant. The Company uses the Black-Scholes valuation model. The Company's policy is to recognize expense for awards subject to graded vesting using the straight-line attribution method. The amount of compensation cost related to nonvested stock options and restricted stock not yet recognized was \$344,170 at November 30, 2008, for which the expense will be recognized through 2011.

In accordance with FAS 123R, a portion of awards granted to employees of the Company are reflected in these consolidated financial statements even though the stock compensation was granted in the common stock of Cohesant Technologies. Additionally, stock-based compensation costs for corporate employees have been allocated to these consolidated financial statements as discussed herein.

q. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates. These estimates also include the allocation of costs from Cohesant Technologies to the Company that occurred prior to the spin-off.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

r. New Accounting Standards

On December 1, 2007, the Company adopted the Financial Accounting Standards Board (FASB) Final Interpretation Number 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). The Company recorded no adjustment to the consolidated financial statements upon the adoption of FIN 48. The Company's policy with respect to interest and penalties associated with reserves or allowances for uncertain tax positions is to classify such interest and penalties in income tax expense in the Statement of Operations. As of December 1, 2007, the Company has no unrecognized income tax benefits. The Company foresees no significant changes to the facts and circumstances underlying its income tax positions as reasonably possible in the next twelve months. As of December 1, 2007, the Company was subject to unexpired statutes of limitation for U.S. Federal income taxes for the years 2004–2007. The Company was also subject to unexpired statutes of limitation for various state income taxes for the years 2004-2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The Statement provides guidance for using fair value to measure assets and liabilities and only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurement. In February 2008, the FASB agreed to defer the effective date to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. For these financial and nonfinancial assets and liabilities that are remeasured at least annually, this statement is effective for fiscal years beginning after November 15, 2007. The adoption of this Statement had no impact to the consolidated financial statements in 2008. The Company is evaluating the impact that this Statement will have on the Company's financial position, results of operations or cash flows for the portion of the Statement that was deferred.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**3. ACQUISITIONS**

On September 5, 2006, the Company completed the purchase of the operations and substantially all of the assets of Triton Insitutech, LLC, of Orlando, Florida; such assets were then contributed to CuraFlo Spincast Services Inc., the results of which are included with those of the Company. The CuraFlo Spincast System utilizes epoxy and other polymer linings to rehabilitate aging medium and large diameter water, wastewater and other pipelines, including public and private water mains. The purchase price included an initial cash payment of \$400,000, direct legal costs related to the acquisition of \$30,285, and an unsecured, \$387,500 three-year promissory note, bearing interest at 5.16% per annum and payable in quarterly installments, for a total purchase price of \$817,785. Further, up to \$387,500 of additional consideration is contingent on certain performance achievements occurring on or before September 30, 2009, and is payable as each performance measure is attained and each contingency is resolved. The contingent consideration has not been included as part of the purchase price. The contingent consideration will be recorded and the amount included as part of the purchase price if and when the contingency is resolved. No contingent consideration was earned in the period ending November 30, 2008.

**4. SHAREHOLDERS' EQUITY**

During the second quarter of fiscal 2008 the Company issued and sold 724,138 shares of Series A 8% Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") at a purchase price of \$2.90 per share in a private placement transaction. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder. The proceeds of the offering have been and are being used for general corporate and working capital purposes.

Under the terms of the Certificate of Designations, Voting Powers, Preferences, Limitations, Restrictions, and Relative Rights of Series A 8% Cumulative Convertible Preferred Stock (the "Certificate of Designations"), which has been filed with the Secretary of State of the State of Delaware, the Series A Preferred Stock is convertible into the Company's shares of common stock at a price of \$1.45 per share, as may be adjusted (the "Conversion Price") in accordance with the Certificate of Designations. Upon conversion, all accrued and unpaid dividends shall also be converted into shares of Common Stock at the same Conversion Price. A holder of Series A Preferred Stock may convert its shares at any time. The Company has the right to cause the Series A Preferred Stock, in whole but not in part, to convert into shares of Common Stock in the event of a public or private offering of the Company's Common Stock at a per share price of \$2.25 or more, with the gross proceeds of such offering exceeding \$5,000,000.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOVEMBER 30, 2008**

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### **4. SHAREHOLDERS' EQUITY**

The Series A Preferred Stock is subject to redemption, at the option of the Company, (a) on or after May 1, 2011 or (b)(i) in the event of a merger, capital reorganization or reclassification of the Company's shares, (ii) the liquidation, dissolution or winding-up of the Company, or (iii) a tender offer for the Company's common stock that has been recommended to the stockholders by the Board of Directors.

The Series A Preferred Stock ranks in priority senior to the Company's common stock with respect to preferences as to dividends, distributions, and payments upon liquidation. The Series A Preferred Stock are entitled to vote with the Common Stock on all matters submitted to a vote of the stockholders of the Company. Each share of Series A Preferred Stock shall, initially, have two votes, equal to the number of shares of common stock into which one share of Series A Preferred Stock may convert.

The Company had undeclared, cumulative dividends of \$89,139 as of November 30, 2008.

### **5. LOSS PER SHARE**

The calculation of basic and diluted net loss per share for the twelve months ended November 30, 2008, presented are based on the Company's weighted-average shares of common stock outstanding. The preferred stock (Note 4) and outstanding stock options did not have a dilutive impact on the Company's fiscal 2008 results. The dilutive effect of the outstanding stock options and preferred stock issued by the Company will be included in the computation of diluted earnings per share in future periods when dilutive.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOVEMBER 30, 2008**

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### **6. STOCK-BASED COMPENSATION**

#### *Description of the Plan*

On April 16, 2008, the Board of Directors adopted the “Cohesant Inc. Long-Term Incentive Plan” (the “Plan”), which was subsequently approved by a majority of shareholders on October 8, 2008. The Plan is intended as an incentive to further the growth and profitability of the Company and to encourage stock ownership on the part of (a) employees of the Company, (b) consultants and advisers who provide significant services to the Company, and (c) directors of the Company who are not employees of the Company. The Plan includes stock options, stock appreciation rights and restricted stock. The Plan authorizes the issuance of 610,000 shares. As of November 30, 2008, options for 385,000 shares were outstanding and there remained an additional 225,000 shares available for issuance or reserved for stock option or stock appreciation rights grants.

Cohesant accounts for the Plan according to the Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (FAS 123R) using the modified prospective method. This Statement requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based upon their fair value.

In accordance with FAS 123R, awards granted by Cohesant are reflected in the consolidated statements.

#### *Stock Option Grants*

On April 16, 2008, the Company granted 345,000 options to its employees and directors at an exercise price of \$1.31 with a vesting period of three years and a term of seven years. On November 30, 2008, the Company immediately vested 60,000 options from the April 16, 2008 grant to three directors, who retired from the Board, as appreciation for their past service. These options will expire on November 30, 2010.

On October 8, 2008, the Company granted 60,000 options to the Company’s marketing communications firm at an exercise price of \$2.00 with a vesting period determined by the completion of a one year Service Agreement which started on June 30, 2008. These options have a term of seven years.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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### 6. STOCK-BASED COMPENSATION

Using the Black-Scholes option valuation model, the weighted average estimated fair value of options granted during fiscal 2008 was \$0.59 per option. Expected volatility is based on comparable companies. Principal assumptions used in applying the Black-Scholes valuation model were as follows:

	<u>2008</u>
Risk-free interest rate	3.2%
Expected term - years	6.5
Expected dividend yield	0.0%
Expected volatility	46.8%

Stock option activity under the Plan is as follows:

<u>Options</u>	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at November 30, 2007	-	-		
Granted	405,000	\$1.41		
Forfeited	<u>(20,000)</u>	<u>\$1.31</u>		
Options outstanding at November 30, 2008	<u>385,000</u>	<u>\$1.42</u>	<u>4.8</u>	<u>\$ -</u>
Options exercisable at November 30, 2008	<u>60,000</u>	<u>\$1.31</u>	<u>2.0</u>	<u>\$ -</u>

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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### 6. STOCK-BASED COMPENSATION

At November 30, 2008

Exercise Prices	Options Outstanding		Exercise Price	Options Exercisable	
	Number of Options Outstanding	Remaining Contractual Life		Number of Options Exercisable	Exercise Price
\$1.31	265,000	6.4	\$1.31	-	\$1.31
\$1.31	60,000	2.0	\$1.31	60,000	\$1.31
\$2.00	60,000	0.6	\$2.00	-	\$2.00
\$1.31-\$2.00	385,000	4.8	\$1.42	60,000	\$1.31

#### *Cohesant Technologies Long-Term Incentive Plan*

Cohesant Technologies had a long-term incentive plan to provide employees with stock options and restricted stock. Stock-based compensation includes compensation expense associated with the issuance of stock options to purchase Cohesant Technologies common stock and for the issuance of restricted stock of Cohesant Technologies.

In December 2007, Cohesant Technologies accelerated the vesting for all outstanding employee stock options to December 2007. The Board of Directors approved the acceleration, which was contingent upon the signing of the Graco merger agreement which occurred in early December 2007. The acceleration of vesting was accounted for as a modification under the provisions of FAS 123R and resulted in the recording of all remaining unamortized stock-based compensation expense during the first quarter. The modification did not result in any change in fair value of the award as only the vesting of the stock options was accelerated.

Total stock-based compensation cost recognized by Cohesant during the twelve months ended November 30, 2008 was \$344,170 (\$266,033 relates to options from Cohesant Technologies and \$78,137 relates to options from the Company) and has been included in the consolidated statements of operations.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOVEMBER 30, 2008**

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### **7. REVOLVING LINE OF CREDIT**

On February 26, 2008, the Company entered into a fully secured \$2,500,000 revolving line of credit facility which is set to expire on April 30, 2009 and all indebtedness is due on that date. Among other restrictions, the credit facility required that the Company meet certain covenants including financial ratios. At November 30, 2008, the Company did not have a balance outstanding under this facility and was not in compliance with all covenants. The Company requested a waiver from the bank for a covenant that was out of compliance. The bank denied the Company's request and informed the Company it will not renew the credit facility when it expires in April. The Company is in discussions with other potential lenders to secure a new credit facility but there is no assurance a new facility will be obtained.

### **8. RETIREMENT PLANS**

The Company has a defined contribution profit sharing and savings plan for all United States employees meeting minimum eligibility requirements. It is the Company's policy to contribute up to 3% of total wages for each employee who makes certain minimum contributions. The amount contributed during 2008 was \$56,144.

### **9. INCOME TAXES**

The provision for income taxes consists of the following at November 30, 2008:

CURRENT	
State	\$ 40,436
Canadian	74,534
Total current	<u>114,970</u>
DEFERRED	
U.S. Federal/State/Canadian	(4,174,942)
State NOL	(218,966)
Valuation Allowance	3,597,870
Total deferred	<u>(796,038)</u>
INCOME TAX BENEFIT	<u>\$ (681,068)</u>

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2008

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### 9. INCOME TAXES

A reconciliation of the statutory U.S. Federal income tax rate to the Company's effective income tax rate is as follows:

Federal statutory rate	(34.0)%
State taxes, net of federal benefit	(3.9)
State valuation allowance	34.9
Other	<u>(3.6)</u>
Effective tax rate	<u>(6.6)%</u>

Temporary differences which give rise to the net deferred tax liability at November 30, 2008 are as follows:

#### Deferred tax assets:

Federal net operating loss	\$ 965,825
State net operating loss	316,998
Goodwill	2,689,872
Stock based compensation	<u>31,669</u>
	4,004,363

#### Deferred tax liabilities:

Property, plant and equipment	(159,187)
Financial reporting reserves not yet deductible	(78,698)
Prepays	<u>(7,276)</u>
	(245,161)

Valuation allowance - Federal	(3,442,204)
Valuation allowance - State	<u>(309,132)</u>
	(3,751,337)

NET DEFERRED TAX ASSET	<u>\$ 7,865</u>
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2008**

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**9. INCOME TAXES**

The Company has a state and local tax net operating loss carryforwards of approximately \$1.9 million available to offset future taxable income, which will expire in various years though 2026, if unused, and which may be subject to other limitations under IRS rules. Under SFAS No. 109, "Accounting for Income Taxes," deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has determined that a valuation allowance is necessary and, accordingly, has recorded a valuation allowance for certain deferred tax assets as of November 30, 2008. In future periods, the Company will evaluate the deferred income tax asset valuation allowance and adjust the allowance when management has determined that impairment to future realizability of the related deferred tax assets, or a portion thereof, has been removed as provided in the criteria set forth in SFAS No. 109.

Prior to February 29, 2008, the Company's allocated share of the consolidated Cohesant federal and state tax provision was determined using the stand-alone method. Under the stand-alone method, tax expense or benefit is calculated as if the Company were subject to their own tax returns. Due to the respective legal structures of the Company, U.S Federal income taxes were generally not paid by the Company, but were included in the amounts paid by Cohesant Technologies Inc. on a consolidated basis. The U.S. Federal tax benefit recognized in the statement of operations for the period from December 1, 2007 through February 29, 2008 is included in shareholders equity, within net contributions from Cohesant Technologies Inc.

**10. RELATED PARTY TRANSACTIONS**

Prior to the spin-off discussed in note 2b the Company received and provided services to its former parent and its subsidiaries. Since the spin-off the Company has received and provided services to its former parent, however these services are not deemed related party transactions.

# COHESANT INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOVEMBER 30, 2008**

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### **11. COMMITMENTS**

The Company leases office and manufacturing space and equipment under operating leases. The Company has renewal options at all of their office and manufacturing facilities ranging from 3 to 10 years. Future minimum lease payments required under these lease commitments as of November 30, 2008 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2009	250,248
2010	214,067
2011	148,751
2012	78,007

Rent expense totaled \$254,878 for the year ended November 30, 2008.

### **12. CONTINGENCIES**

From time to time, the Company is party to certain legal matters arising in the ordinary course of business. Management believes the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position or results of operations.

### **13. SUBSEQUENT EVENT**

On November 20, 2008 the Company announced that its Board of Directors approved a share repurchase program of up to 100,000 of its issued and outstanding shares of common stock. The Company did not repurchase any shares under this program during fiscal 2008; however, the Company has repurchased 35,000 shares under this program as of January 31, 2009, at a aggregate cost of \$17,100.

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**INDEX TO COMBINED FINANCIAL STATEMENTS**

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## Report of Independent Registered Public Accounting Firm

The Board of Directors  
Cohesant Technologies Inc.

We have audited the accompanying combined balance sheets of CIPAR Inc., CuraFlo of British Columbia Ltd., and Cohesant Materials Inc., all of which are direct subsidiaries of Cohesant Technologies Inc., (collectively the “Carved-Out Subsidiaries” or the “CIPAR Business”) as of November 30, 2007 and 2006, and the related combined statements of operations, changes in combined equity, and cash flows for each of the two years in the period ended November 30, 2007. These financial statements are the responsibility of the management of Cohesant Technologies Inc., of which the Carved-Out Subsidiaries are a part. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Carved-Out Subsidiaries’ internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Carved-Out Subsidiaries’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Carved-Out Subsidiaries at November 30, 2007 and 2006, and the combined results of their operations and their cash flows for each of the two years in the period ended November 30, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the Combined Financial Statements, the Carved-Out Subsidiaries adopted Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment” in 2007.

ERNST & YOUNG LLP

Indianapolis, Indiana  
January 4, 2008

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**COMBINED BALANCE SHEETS**  
**AS OF NOVEMBER 30, 2007 AND 2006**

<b>ASSETS:</b>	2007	2006
Cash and cash equivalents	\$ 191,486	\$ 608,682
Accounts receivable, net of allowance for doubtful accounts of \$130,797 and \$114,682, respectively	2,029,601	1,919,646
Income tax receivable	19,148	41,195
Current portion of long-term note receivable	21,935	-
Inventories, net of allowance for obsolete and slow moving inventories of \$11,000 and \$25,809, respectively.	1,270,573	699,300
Costs in excess of billings and estimated earnings	6,005	52,805
Prepaid expenses and other	190,908	232,409
Deferred tax assets	159,298	111,454
Total current assets	3,888,954	3,665,491
Property, plant and equipment, net	1,078,172	671,866
License agreements and other intangibles, net of accumulated amortization of \$349,035 and \$230,886, respectively	875,120	976,469
Goodwill	8,767,563	8,767,563
Long-term note receivable, net of current portion	104,070	-
Other noncurrent assets	7,394	7,394
Total assets	\$ 14,721,273	\$ 14,088,783

The accompanying notes are an integral part of these combined financial statements.

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**COMBINED BALANCE SHEETS**

**AS OF NOVEMBER 30, 2007 AND 2006**

<b>LIABILITIES:</b>	2007	2006
Accounts payable	\$ 758,108	\$ 753,196
Current portion of long-term note payable	129,054	122,604
Accrued salaries, benefits and commissions	322,733	332,784
Accrued taxes	26,207	192,280
Billings in excess of costs and estimated earnings	86,328	49,224
Other current liabilities	138,965	172,179
Total current liabilities	1,461,395	1,622,267
Long-term note payable, net of current portion	135,843	264,896
Deferred tax liabilities	650,207	413,048
Total liabilities	2,247,445	2,300,211
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes 9 and 10)		
<b>COMBINED EQUITY</b> (Note 4)	12,473,828	11,788,572
Total liabilities and combined equity	\$ 14,721,273	\$14,088,783

The accompanying notes are an integral part of these combined financial statements.

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**COMBINED STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006**

	2007	2006
<b>NET SALES</b>	\$ 11,549,410	\$ 11,966,139
<b>COST OF SALES</b>	6,053,394	6,458,289
Gross profit	5,496,016	5,507,850
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	266,941	162,095
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	6,122,143	4,538,126
<b>TOTAL OPERATING EXPENSES</b>	6,389,084	4,700,221
 (Loss) income from operations	(893,068)	807,629
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	361	7,167
Interest expense	(28,544)	(4,999)
Foreign exchange loss, net	(12,787)	-
Other income, net	17,313	21,119
<b>(LOSS) INCOME BEFORE TAXES</b>	(916,725)	830,916
<b>INCOME TAX BENEFIT (PROVISION)</b>	236,804	(357,968)
<b>NET (LOSS) INCOME</b>	\$ (679,921)	\$ 472,948
<b>COMPREHENSIVE (LOSS) INCOME</b>		
Net (loss) income	\$ (679,921)	\$ 472,948
Foreign currency translation adjustment	99,408	12,918
<b>COMPREHENSIVE (LOSS) INCOME</b>	\$ (580,513)	\$ 485,866

The accompanying notes are an integral part of these combined financial statements.

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**COMBINED STATEMENTS OF CHANGES IN COMBINED EQUITY**  
**FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006**

	Total Combined Equity
<b>BALANCE</b> , November 30, 2005	<u>\$ 10,839,815</u>
Allocated charges funded by Cohesant Technologies Inc.	729,576
Net distributions to Cohesant Technologies Inc.	(678,791)
Stock-based compensation funded by Cohesant Technologies Inc.	55,906
Triton acquisition	430,825
Stock returned in connection with the CuraFlo acquisition	(74,625)
Foreign currency translation	12,918
Net income	472,948
<b>BALANCE</b> , November 30, 2006	<u>\$ 11,788,572</u>
Allocated charges funded by Cohesant Technologies Inc.	781,695
Net contributions from Cohesant Technologies Inc.	296,310
Stock-based compensation funded by Cohesant Technologies Inc.	187,764
Foreign currency translation	99,408
Net loss	(679,921)
<b>BALANCE</b> , November 30, 2007	<u><u>\$ 12,473,828</u></u>

The accompanying notes are an integral part of these combined financial statements.

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**COMBINED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006**

	2007	2006
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (679,921)	\$ 472,948
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	349,892	243,967
Stock-based compensation	187,764	55,906
Loss on asset disposal	-	242
Deferred tax provision	214,929	202,732
Provision for doubtful accounts	61,067	20,344
Net change in assets and liabilities-		
Accounts receivable	(148,975)	(64,282)
Note receivable	(126,005)	-
Inventories	(660,575)	(186,584)
Costs in excess of billings and estimated earnings	46,800	(52,805)
Prepaid expenses and other	41,501	(140,343)
Accounts payable	4,912	230,280
Billings in excess of costs and estimated earnings	37,104	(84,620)
Other current liabilities	(234,952)	127,213
Other noncurrent assets	80,160	4,973
Net cash (used in) provided by operating activities	(826,299)	829,971
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>		
Patent and trademark additions	(10,780)	-
Property and equipment additions	(535,519)	(212,160)
Proceeds from sales of property and equipment	-	1,500
Return of cash paid for acquisition of CuraFlo	-	77,250
Payment to former owners of acquired CuraFlo business	-	(342,136)
Net cash used in investing activities	(546,299)	(475,546)
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Net contributions (distributions) from/to Cohesant Technologies Inc.	296,310	(678,791)
Funding of allocated charges by Cohesant Technologies Inc.	781,695	729,576
Payments on Triton note payable	(122,603)	-
Net cash provided by financing activities	955,402	50,785
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(417,196)	405,210
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	608,682	203,472
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 191,486	\$ 608,682
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid during the year for-		
Interest	\$ 28,544	\$ 4,999
Income taxes	\$ 325,000	\$ 138,795

The accompanying notes are an integral part of these combined financial statements.

**THE CIPAR BUSINESS**  
**(CIPAR INC., CURAFLO OF BRITISH COLUMBIA LTD. AND COHESANT MATERIALS INC. --**  
**CARVED-OUT SUBSIDIARIES OF COHESANT TECHNOLOGIES INC.)**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOVEMBER 30, 2007 AND 2006**

**1. NATURE OF BUSINESS**

Cohesant Technologies Inc. and its subsidiaries (the “Company” or “Cohesant”) are engaged in the protection and renewal of drinking water distribution systems and wastewater collection systems for municipal, industrial, commercial and residential infrastructure; the design, development, manufacture and sale of specialized dispense equipment systems, replacement parts and supplies used in the operation of the equipment; and the design, development, manufacture and sale of specialty coatings. Included within the Company are the net assets and operations of CIPAR Inc., CuraFlo of British Columbia Ltd., and Cohesant Materials Inc. (“CMI”) (collectively the “Carved-Out Subsidiaries” or the “CIPAR Business”). CIPAR Inc. itself is comprised of three subsidiaries; CuraFlo Services Inc., CuraFlo Spincast Services Inc., and CuraFlo Franchising Inc. The CIPAR Business has four revenue categories – Equipment and Parts, Coatings, Franchisee and Licensee, and Protection and Renewal Services (Rehabilitation).

Cohesant reports results for four segments; CIPAR Franchising and Licensing, CIPAR Rehabilitation, Cohesant Materials Inc., and GlasCraft Inc. As defined here, the CIPAR Business consists only of the CIPAR Franchising and Licensing, CIPAR Rehabilitation, and Cohesant Materials segments. CIPAR Franchising and Licensing (i) franchises and licenses systems for the protection and renewal of drinking water distribution systems and wastewater collection systems for municipal, industrial, commercial and residential infrastructure; (ii) exclusively sells its Raven and CuraPoxy branded coatings (manufactured by CMI) as well as other products to its Certified Applicators, Franchisees and Licensed Dealers and (iii) sells equipment to its Certified Applicators, Franchisees and Licensed Dealers used for the application of its Raven and CuraPoxy coatings. In 2007 and 2006, CIPAR Rehabilitation operated (i) three “company-owned” franchises and (ii) CuraFlo Spincast Services (CIPAR added CuraFlo Spincast Services to its offerings through the acquisition of the assets of Triton Insitutech LLC in September 2006) which perform protection, renewal and replacement of drinking water distribution systems and wastewater collection systems in Western Canada and the United States.

CMI manufactures, markets and sells corrosion protection and other specialty coatings used in the protection and renewal of infrastructure. Currently, substantially all of CMI’s Coating sales are to CIPAR.

The CIPAR Business’ executive offices are located in Cleveland, Ohio with its principal manufacturing, warehouse and distribution facilities located in Cleveland, Ohio, Tulsa, Oklahoma, and Vancouver, Canada.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a. Basis of Presentation**

The combined financial statements include the accounts of Carved-Out Subsidiaries and their direct, wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated.

The combined financial statements of the Carved-Out Subsidiaries give effect to accounting and allocation policies established by Cohesant's management for purposes of these combined financial statements and are in accordance with the guidelines provided by Staff Accounting Bulletin 55, "Allocation of Expenses and Related Disclosures in Financial Statements of Subsidiaries, Divisions, and Lesser Business Components of Another Entity" of the Securities and Exchange Commission. Allocations include corporate overhead, taxes, and other expenses. The combined financial statements of the Carved-Out Subsidiaries have been prepared on a basis that management believes to be reasonable to reflect the combined financial position, results of operations and cash flows of the businesses that comprise the Carved-Out Subsidiaries, including allocated portions of Cohesant's overhead and administrative shared services.

### **b. Allocation Policies**

The following allocation policies have been established by management of Cohesant. Unless otherwise noted, these policies have been consistently applied in the historical financial statements. In the opinion of management, the methods for allocating these costs are reasonable. It is not practicable to estimate the costs that would have been incurred by the Carved-Out Subsidiaries if they had been operated on a stand-alone basis.

#### *(i) Specifically Identifiable Operating Expenses*

Costs which relate solely to the operations of the Carved-Out Subsidiaries are allocated entirely to the Carved-Out Subsidiaries. These expenses consist of costs of personnel who are 100% dedicated to the operations of the Carved-Out Subsidiaries, all costs associated with locations that conduct only the business of the Carved-Out Subsidiaries and amounts paid to third parties for services rendered to the Carved-Out Subsidiaries. In addition, any costs incurred by Cohesant, which are specifically identifiable to the operations of the Carved-Out Subsidiaries, are allocated to the Carved-Out Subsidiaries.

#### *(ii) Shared Operating Expenses*

Cohesant allocates the cost of certain corporate general and administrative services and shared services, including shared personnel, to each location. These shared services include executive compensation, legal, and accounting costs. These costs have been allocated to the Carved-Out Subsidiaries based on their relative percentage to consolidated Cohesant revenues. Cohesant believes the financial size of each of Cohesant's operating units best reflects the level of corporate service provided to each.

(iii) *Allocated Expenses*

Allocations of Cohesant's expenses as described in (i) and (ii) above have been included in the combined statements of operations of the Carved-Out Subsidiaries as follows:

	<u>2007</u>	<u>2006</u>
Corporate administrative expenses	\$769,578	\$736,743
Investment income	(361)	(7,167)
Interest expense	12,478	-
Allocated charges from Cohesant	<u>\$781,695</u>	<u>\$729,576</u>

(iv) *Taxes*

The Carved-Out Subsidiaries' allocated share of the consolidated Cohesant Federal and state tax provision is determined using the stand-alone method. Under the stand-alone method, tax expense or benefit is calculated as if the Carved-Out Subsidiaries were subject to their own tax returns. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities of the Carved-Out Subsidiaries and are measured using the enacted tax rates that are expected to be in effect in the period in which these differences are expected to reverse.

c. Foreign Currency Accounting

The financial statements of the Carved-Out Subsidiaries' Canadian location have been translated into U.S. dollars in accordance with Financial Accounting Standards Board (FASB) Statement No. 52, "Foreign Currency Translation." Assets and liabilities have been translated using the exchange rate in effect at the balance sheet date. Sales and expenses have been translated using a weighted-average exchange rate for the period. The resulting translation adjustments are recorded in combined equity. Gains or losses resulting from foreign currency transactions are included in Foreign Exchange Loss, net on the combined statements of operations.

d. Revenue Recognition

Revenue is recognized in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

For equipment, coatings, and replacement and spare part revenue, the criteria of SAB 104 are generally met upon shipment at which time title and risks of ownership are transferred to these customers. Therefore, revenue is recognized at the time of shipment. There are no rights of return, customer acceptance, installation or other post-shipment obligations with any of these products. Pricing is fixed at the time of shipment.

The CIPAR Rehabilitation segment performs protection, renewal and replacement of drinking water distribution systems and wastewater collection systems in accordance with the specifications set forth in the binding contracts with our customers. Performance under these contracts generally extends over periods of time ranging from a few months to over a year. Rehabilitation revenues are recognized on the percentage of completion method in the ratio that

total incurred costs bear to total estimated costs. Excess materials are held in inventory and are not recorded as contract costs until utilized. The estimated total cost of a contract is based on management's best estimate of the remaining costs that will be required to complete a project.

Franchise fee and license fee revenue from an individual franchise or license sale is recognized when all material services or conditions relating to the sale, consisting predominantly of training, have been substantially performed and collectibility is assured. Revenue is deferred for franchise and license fees when there are obligations to provide training and other services to Franchisees and Licensed Dealers. Continuing franchise and license fee revenue, including royalty revenue, is recognized as the fees are earned and become receivable from the Franchisees and Licensees.

e. Statements of Cash Flows

Certain noncash investing activities are described below:

During 2007 and 2006, the Carved-Out Subsidiaries transferred \$89,302 and \$54,585 of inventory to property and equipment, respectively.

f. Advertising Costs

Advertising costs are expensed in the period incurred. Advertising costs in the amounts of \$498,275 and \$316,854 were included in selling, general and administrative expenses for 2007 and 2006, respectively.

g. Cash and Cash Equivalents

The Carved-Out Subsidiaries consider all highly liquid investments purchased with a maturity of three months or less to be cash. Cash equivalents are stated at cost, which approximates market value.

h. Allowance for Doubtful Accounts

The Carved-Out Subsidiaries evaluate the allowance for doubtful accounts on a periodic basis and review any significant customers with delinquent balances to determine future collectibility. The determination includes a review of legal issues (such as bankruptcy status), past payment history, current financial information and credit reports, and the Carved-Out Subsidiaries' experience. Allowances are established in the period in which the account is deemed uncollectable or when collection becomes uncertain.

i. Inventories

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method. Inventory costs include raw material, labor (including material handling) and overhead costs. An inventory reserve is provided for obsolete and slow-moving inventory to reduce the carrying amount to its estimated net realizable value. Inventories consist of the following:

	November 30,	
	<u>2007</u>	<u>2006</u>
Raw materials	\$ 233,587	\$ 215,104
Finished goods	209,599	145,452
Equipment, parts and supplies	672,618	273,475
Rehabilitation materials	154,769	65,269
	<u>\$1,270,573</u>	<u>\$ 699,300</u>

j. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consisted of the following at November 30:

	<u>2007</u>	<u>2006</u>
Costs incurred on uncompleted contracts	\$ 547,380	\$ 719,209
Estimated earnings to date	250,751	386,199
Subtotal	<u>798,131</u>	<u>1,105,408</u>
Less – Billings to date	<u>(878,454)</u>	<u>(1,101,827)</u>
Total	<u>\$ (80,323)</u>	<u>\$ 3,581</u>

Included in the accompanying balance sheets under the following caption:

Costs and estimated earnings in excess of billings	\$ 6,005	\$ 52,805
Billings in excess of costs and estimated earnings	<u>(86,328)</u>	<u>(49,224)</u>
Total	<u>\$ (80,323)</u>	<u>\$ 3,581</u>

All unbilled amounts are expected to be billed and collected within one year.

k. Property, Plant and Equipment

Property, plant and equipment are carried at cost. Maintenance and repairs are expensed as incurred. Depreciation of property, plant and equipment is provided by use of the straight-line method over the estimated useful lives of the assets, or the lease term, if shorter, for leasehold improvements, as follows:

Leasehold improvements	1-5 years
Machinery and equipment	3-10 years

Property, plant and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 119,943	\$ 61,765
Machinery and equipment	<u>1,574,793</u>	<u>976,970</u>
	1,694,736	1,038,735
Less accumulated depreciation	<u>(616,564)</u>	<u>(366,869)</u>
	<u>\$ 1,078,172</u>	<u>\$ 671,866</u>

Depreciation expense for the fiscal years ended November 30, 2007 and 2006 was \$237,763 and \$127,391, respectively.

## 1. Goodwill and Intangible Assets

### *Goodwill*

The changes in the carrying amount of goodwill in each of the fiscal years ended November 30, 2007 and 2006 are as follows:

	<u>CMI</u>	<u>CIPAR Licensing</u>	<u>CIPAR Rehabilitation</u>	<u>Total</u>
Balance as of November 30, 2005	\$420,127	\$6,243,028	\$ 1,560,758	\$ 8,223,913
CuraFlo acquisition	-	(59,058)	(14,765)	(73,823)
Triton acquisition (Note 3)	-	-	617,473	617,473
Balance as of November 30, 2006 and 2007	<u>\$420,127</u>	<u>\$6,183,970</u>	<u>\$ 2,163,466</u>	<u>\$ 8,767,563</u>

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" the Carved-Out Subsidiaries test goodwill for impairment on an annual basis or more frequently if an event occurs or circumstances change that could more likely than not reduce the fair value of a reporting unit below its carrying amount. The Carved-Out Subsidiaries estimate fair value based upon the present value of future cash flows. In estimating the future cash flows, the Carved-Out Subsidiaries take into consideration the overall and industry economic conditions and trends, market risk of the Carved-Out Subsidiaries and historical information. The Carved-Out Subsidiaries have conducted annual impairment tests as of September 1, 2007 and 2006 and determined that no impairment of goodwill existed.

### *Intangible Assets*

License agreements had a gross balance of \$1,121,303 (\$864,340 net of amortization) and \$1,121,303 (\$976,469 net of amortization) at November 30, 2007 and 2006, respectively, and are being amortized over 10 years. The Carved-Out Subsidiaries have other intangible assets including contracting agreements and patents with a net balance of \$10,780 and \$0 at November 30, 2007 and 2006, respectively. Amortization expense for 2007 and 2006 was \$112,129 and \$116,576, respectively, and is estimated to be \$112,128 in fiscal 2008 through 2012.

#### m. Research and Development

The costs associated with research and development programs for new products and significant improvements, which totaled \$266,941, and \$162,095 in 2007 and 2006, respectively, are expensed as incurred.

#### n. Impairment of Long-Lived Assets

The Carved-Out Subsidiaries evaluate the carrying value of long-lived assets and long-lived assets to be disposed of in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Under the provisions of the statement, the Carved-Out Subsidiaries continually evaluate their long-lived assets in light of events and circumstances that may indicate that the remaining estimated useful life may warrant revision or that the remaining carrying value may not be recoverable. When factors indicate that long-lived assets should be

evaluated for possible impairment, the Carved-Out Subsidiaries use an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether that asset is recoverable. To the extent an impairment has occurred, the excess of the carrying value of the long-lived assets over their estimated fair value will be charged to operations.

o. Stock-based Compensation

Cohesant has a long-term incentive plan to provide employees with stock options and restricted stock. Stock-based compensation includes compensation expense associated with the issuance of stock options to purchase Cohesant common stock and for the issuance of restricted stock of Cohesant.

The Carved-Out Subsidiaries adopted SFAS No. 123 (revised 2004), "Share-Based Payment" on December 1, 2006 (SFAS No. 123R). SFAS No. 123R, which revised SFAS No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", superseded APB Opinion No. 25, "Accounting for Stock Issued to Employees", and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based upon their fair value. The Carved-Out Subsidiaries had previously followed APB No. 25 in accounting for its stock options and accordingly, no stock-based compensation cost had been previously expensed other than for restricted stock.

The Carved-Out Subsidiaries have adopted SFAS No. 123R using the modified prospective method. Under this transition method, compensation cost has been recognized for all share-based payments in the combined financial statements in fiscal 2007 based upon the fair value of the stock or option grant. Prior period results have not been restated. The Carved-Out Subsidiaries use the Black-Scholes valuation model. The Carved-Out Subsidiaries' policy is to recognize expense for awards subject to graded vesting using the straight-line attribution method. The amount of after-tax compensation cost related to nonvested stock options and restricted stock not yet recognized was \$159,023 at November 30, 2007, for which the expense will be recognized through 2011.

As a result of adopting SFAS No. 123R on December 1, 2006, the Carved-Out Subsidiaries have incurred additional stock-based compensation expense of \$166,626 (\$106,509 after tax) for the year ended November 30, 2007.

SFAS No. 123, as amended, required pro forma presentation as if compensation costs had been expensed under the fair value method. For purpose of pro forma disclosure, the estimated fair value of stock options at the grant date is amortized to expense over the vesting period. The following table illustrates the effect on net income if compensation expense had been recognized in the year ended November 30, 2006:

**Twelve Months  
Ended  
November 30, 2006**

---

Net income, as reported	\$ 472,948
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	34,662
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(154,461)</u>
Pro forma net income	<u>\$ 353,149</u>

In accordance with FAS 123R, awards granted to employees of the Carved-out Subsidiaries are reflected in these combined financial statements even though the stock compensation was granted in the common stock of Cohesant. Additionally, stock-based compensation costs for corporate employees have been allocated to these combined financial statements as discussed herein.

p. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. These estimates also include the allocation of costs from Cohesant to the Carved-Out Subsidiaries. Actual results could differ from those estimates.

q. New Accounting Standards

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the recognition threshold and measurement principles for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 (fiscal year 2008). The Carved-Out Subsidiaries are currently evaluating the provisions of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements". The Statement provides guidance for using fair value to measure assets and liabilities and only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurement. This Statement is effective for fiscal years beginning after November 15, 2007. The FASB is currently proposing to delay the effective date of the Statement to fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities except those that are recognized or disclosed at fair value in the financial statements on a reoccurring basis (that is, at least annually). The Carved-Out Subsidiaries are evaluating the impact that this Statement will have on the Carved-Out Subsidiaries' financial position, results of operations, and cash flows.

### **3. ACQUISITIONS**

#### **CURAFLO**

On August 12, 2005, Cohesant acquired substantially all of the assets and assumed certain liabilities of 4279 Investments Ltd., a British Columbia corporation, and its subsidiaries, CuraFlo Technologies Inc., a Canadian federal company, Curalease Ltd., a British Columbia corporation, CuraFlo Technologies (Canada) Inc., a British Columbia corporation, CuraFlo of BC Inc. (dba West Coast Pipe Restoration Ltd.), a British Columbia corporation, CuraFlo Technologies (USA) Inc., a Nevada corporation, and CuraFlo of the Silicon Valley, Inc., a California corporation (collectively "CuraFlo"). CuraFlo, formerly based in Vancouver, Canada, and now part of the operations of the CIPAR Subsidiary, licenses technology for the protection and renewal of small diameter water pipes. The process is used to rehabilitate aging water pipes in apartment buildings, private homes and other commercial, industrial and residential buildings. This process is an alternative to the process of tearing out and replacing the old pipes. CuraFlo also provides equipment, epoxy (supplied by CMI) and other supplies to its Franchisees and Licensees. In addition CuraFlo performs protection, renewal and replacement of plumbing lines in Western Canada and the United States.

#### **TRITON**

On September 5, 2006, Cohesant completed the purchase of the operations and substantially all of the assets of Triton Insitutech, LLC, of Orlando Florida; such assets were then contributed to CuraFlo Spincast Services Inc., the results of which are included with those of the Carved-Out Subsidiaries. The CuraFlo Spincast System utilizes epoxy and other polymer linings to rehabilitate aging medium and large diameter water, wastewater and other pipelines, including public and private water mains. The purchase price included an initial cash payment of \$400,000, direct legal costs related to the acquisition of \$30,285, and an unsecured, \$387,500 three-year promissory note, bearing interest at 5.16% per annum and payable in quarterly installments, for a total purchase price of \$817,785. Further, up to \$387,500 of additional consideration is contingent on certain performance achievements occurring on or before September 30, 2009, and is payable as each performance measure is attained and each contingency is resolved. The contingent consideration has not been included as part of the purchase price. The contingent consideration will be recorded and the amount included as part of the purchase price if and when the contingency is resolved. No contingent consideration was earned in the period ending November 30, 2007.

### **4. COMBINED EQUITY**

Combined equity includes Cohesant's historical investment in the Carved-Out Subsidiaries, retained earnings of the Carved-Out Subsidiaries, the funding of allocated expenses from Cohesant, the U.S. Federal tax benefit recognized using the stand-alone method, and the intercompany accounts between the Carved-Out Subsidiaries and Cohesant.

## 5. RETIREMENT PLANS

Cohesant has a defined contribution profit sharing and savings plan for all United States employees meeting minimum eligibility requirements. It is Cohesant's policy to contribute up to 3% of total wages for each employee who makes certain minimum contributions. The amounts contributed for the Carved-Out Subsidiaries' employees during 2007 and 2006 were \$36,880 and \$32,652, respectively.

## 6. INCOME TAXES

The provision for income taxes consists of the following at November 30:

	<u>2007</u>	<u>2006</u>
<b>CURRENT</b>		
U.S. Federal	\$ (555,843)	\$ (126,199)
State	(6,244)	30,588
Canadian	110,354	250,847
Total current	<u>(451,733)</u>	<u>155,236</u>
Deferred	<u>214,929</u>	<u>202,732</u>
<b>INCOME TAX (BENEFIT) PROVISION</b>	<u><u>\$ (236,804)</u></u>	<u><u>\$ 357,968</u></u>

A reconciliation of the statutory U.S. Federal income tax rate to the Company's effective income tax rate is as follows:

	<u>2007</u>	<u>2006</u>
Federal statutory rate	(34.0)%	34.0%
State taxes, net of federal benefit	(5.9)	5.3
State valuation allowance	13.0	3.1
Other	1.1	0.7
Effective tax rate	<u>(25.8)%</u>	<u>43.1%</u>

Temporary differences which give rise to the net deferred tax liability at November 30 are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
State net operating loss	127,667	18,237
Financial reporting reserves not yet deductible	100,370	118,907
Stock based compensation	<u>76,101</u>	<u>-</u>
	304,138	137,144
Deferred tax liabilities:		
Goodwill	(600,598)	(391,459)
Property, plant and equipment	(27,301)	(14,937)
Other	<u>(22,308)</u>	<u>(6,652)</u>
	(650,207)	(413,048)
Valuation allowance	<u>(144,840)</u>	<u>(25,690)</u>
<b>NET DEFERRED TAX LIABILITY</b>	<u>\$ (490,909)</u>	<u>\$ (301,594)</u>

The Carved-Out Subsidiaries have a state tax net operating loss carryforward of approximately \$2.1 million, which will expire beginning in 2028, if unused, and which may be subject to other limitations under IRS rules. Under SFAS No. 109, "Accounting for Income Taxes," deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Carved-Out Subsidiaries have determined that a valuation allowance is necessary and, accordingly, has recorded a valuation allowance for certain deferred tax assets as of November 30, 2007 and 2006. In future periods, the Carved-Out Subsidiaries will evaluate the deferred income tax asset valuation allowance and adjust the allowance when management has determined that impairment to future realizability of the related deferred tax assets, or a portion thereof, has been removed as provided in the criteria set forth in SFAS No. 109.

The Carved-Out Subsidiaries' allocated share of the consolidated Cohesant Federal and state tax provision was determined using the stand-alone method. Under the stand-alone method, tax expense or benefit is calculated as if the Carved-Out Subsidiaries were subject to their own tax returns. Due to the respective legal structures of the Carved-Out Subsidiaries, U.S. Federal income taxes are generally not paid by the Carved-Out Subsidiaries, but are included in the amounts paid by Cohesant Technologies Inc. on a consolidated basis. The U.S. Federal tax benefit recognized in the statement of operations is included in combined equity, within net distributions/contributions to/from Cohesant Technologies Inc.

## **7. RELATED PARTY TRANSACTIONS**

The Carved-Out Subsidiaries are party to a number of transactions with their parent, Cohesant. Such transactions primarily involve the provision for certain corporate services, which have been allocated to the Carved-Out Subsidiaries as described in Note 2 and are reflected in the combined financial statements.

## 8. SEGMENT INFORMATION

Under the provisions of SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, the Carved-Out Subsidiaries have reportable segments of CIPAR Franchising and Licensing, CIPAR Rehabilitation, and CMI. CIPAR Franchising and Licensing is a franchisor and licensor of its technology and sells epoxy coatings, supplied by CMI, and equipment used to apply its technology to its Certified Applicators, Franchisees and Licensed Dealers. CIPAR’s franchisee and licensee revenue includes franchise and license fees, royalty revenues, equipment rental as well as other value added services. CIPAR Rehabilitation performs protection, renewal and replacement of drinking water distribution and wastewater collection systems (“Rehabilitation” revenue). CMI sells corrosion protection and other specialty coatings used in the protection and renewal of infrastructure. CMI’s sales and marketing focus is on developing new markets for its AquataPoxy products, although substantially all of its sales currently are internal sales to the CIPAR Franchising and Licensing segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Carved-Out Subsidiaries account for intersegment sales and transfers at cost plus a specified mark-up. Reportable segment information is as follows:

	CIPAR Franchising & Licensing	CIPAR Rehabilitation	CMI	Corporate	Eliminations	Consolidated
Net Sales:						
2007						
External customers	\$ 6,843,605	\$ 4,115,453	\$ 590,352	\$ -	\$ -	\$11,549,410
Intersegment sales	175,577	-	3,430,624	-	(3,606,201)	-
Total net sales	<u>\$ 7,019,182</u>	<u>\$ 4,115,453</u>	<u>\$ 4,020,976</u>	<u>\$ -</u>	<u>\$ (3,606,201)</u>	<u>\$11,549,410</u>
Net Sales:						
2006						
External customers	7,112,389	4,279,859	573,891	-	-	11,966,139
Intersegment sales	55,504	-	3,390,286	-	(3,445,790)	-
Total net sales	<u>7,167,893</u>	<u>4,279,859</u>	<u>3,964,177</u>	<u>-</u>	<u>(3,445,790)</u>	<u>11,966,139</u>
Depreciation and amortization:						
2007	172,624	134,180	43,088	-		349,892
2006	118,946	89,686	35,335	-		243,967
Net income (loss):						
2007	(319,249)	(371,377)	503,729	(493,024)		(679,921)
2006	271,211	264,897	406,217	(469,377)		472,948
Identifiable assets:						
2007	9,520,388	3,960,262	1,062,177	178,446		14,721,273
2006	9,424,075	3,540,908	971,151	152,649		14,088,783
Capital expenditures:						
2007	313,350	210,842	11,327	-		535,519
2006	21,198	58,417	132,545	-		212,160

In 2007 and 2006, CIPAR Franchising and Licensing had a Certified Applicator, F&L Concrete Services, which accounted for approximately 19% and 21%, respectively of CIPAR Franchising and Licensing's total net sales and 28% and 26% of CIPAR Franchising and Licensing's accounts receivable for the fiscal years ended November 30, 2007 and 2006, respectively. On a combined basis, this customer accounted for 11% and 12% of the Carved-Out Subsidiaries' net sales and 17% and 20% of the Carved-Out Subsidiaries' accounts receivable for the fiscal years ended November 30, 2007 and 2006, respectively.

The following table presents percentage of total revenues by region.

<u>Region</u>	<u>2007</u>	<u>2006</u>
United States	67%	67%
Canada	33	33
Total	100%	100%

At November 30, 2007 and 2006, property, plant and equipment, net of accumulated depreciation related to the Company's Canadian Subsidiary was \$145,577 and \$145,835, respectively.

The Carved-Out Subsidiaries recognize revenues primarily in four general categories of equipment and parts, coatings, licensee and rehabilitation revenue. The following table sets forth the product category sales and their percentage of consolidated net sales:

	<u>2007</u>		<u>2006</u>	
Coatings	\$ 6,413,600	55.6%	\$ 6,428,330	53.7%
Rehabilitation	4,115,453	35.6	4,279,859	35.8
Equipment and Parts	566,517	4.9	981,811	8.2
Franchisee & Licensee	453,840	3.9	276,139	2.3
Total	\$11,549,410	100%	\$11,966,139	100%

## **9. COMMITMENTS**

The Carved-Out Subsidiaries lease office and manufacturing space and equipment under operating leases. The Carved-Out Subsidiaries have renewal options at all of their office and manufacturing facilities ranging from 3 to 10 years. Future minimum lease payments required under these lease commitments as of November 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2008	260,785
2009	252,020
2010	212,956
2011	148,088
2012	67,299
Thereafter	0

Rent expense totaled \$242,675 and \$137,805 for the years ended November 30, 2007 and 2006, respectively.

## **10. CONTINGENCIES**

From time to time, the Carved-Out Subsidiaries are a party to certain legal matters arising in the ordinary course of business. Management believes the ultimate disposition of these matters will not have a material adverse effect on the Carved-Out Subsidiaries' financial position or results of operations.

## **11. SUBSEQUENT EVENT**

On December 3, 2007, Cohesant announced that it has entered into a definitive agreement pursuant to which Graco Inc. would acquire Cohesant's GlasCraft Inc. subsidiary. The acquisition will be accomplished through a merger with Cohesant, and a spin off of all the non-GlasCraft business operations (i.e. Carved-Out Subsidiaries).

Cohesant recently consolidated all of its infrastructure protection and renewal operations, including CMI, under the umbrella of its CIPAR subsidiary. As part of the sale of GlasCraft, Cohesant will spin-off its CIPAR subsidiary by declaring a taxable dividend of one share of CIPAR for each share of Cohesant common stock outstanding. The resulting company, which will initially be registered under the Securities Exchange Act and will be quoted on the over-the-counter market, will be known as Cohesant Inc. and will be based in Cleveland, Ohio.

The acquisition by Graco Inc., which is expected to be completed in the first quarter of 2008, is conditioned upon customary closing conditions for a transaction of this nature, including the approval of Cohesant's shareholders. The merger agreement contains a customary provision allowing the Board of Directors to terminate the agreement in the event it receives another offer to purchase the Company or GlasCraft on terms more favorable to its shareholders than those contained in the merger agreement.