

COHESANT INC.

***FINANCIAL
STATEMENTS***

***FOR THE
YEARS ENDED
NOVEMBER 30,
2009 AND 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 sheets of Cohesant Inc. (the Company) as of November 30, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SS&G Financial Services, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Cleveland, Ohio
January 26, 2010

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services that
bring solutions.*

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OSCPA, PCAOB, the AICPA's
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Edge Alliance.

COHESANT INC.**CONSOLIDATED BALANCE SHEETS**

	NOVEMBER 30,	
	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 1,720,708	\$ 2,131,242
Accounts receivable, net of allowance for doubtful accounts of \$146,259 and \$110,262 at November 30, 2009 and 2008, respectively	1,871,788	1,937,840
Current portion of long-term note receivable	108,720	55,500
Inventories, net of allowance for obsolete and slow moving inventories of \$12,457 and \$7,000 at November 30, 2009 and 2008, respectively	912,059	1,254,460
Costs in excess of billings and estimated earnings	-	39,754
Prepaid expenses and other	299,760	275,855
Deferred tax assets	-	7,865
Total current assets	<u>4,913,035</u>	<u>5,702,516</u>
Property, plant and equipment, net	1,314,017	1,767,644
License agreements and other intangibles, net of accumulated amortization of \$528,066 and \$443,240 at November 30, 2009 and 2008, respectively	468,817	541,034
Goodwill	420,127	420,127
Long-term note receivable, net of current portion	115,267	117,805
Other noncurrent assets	7,394	7,394
	<u>2,325,622</u>	<u>2,854,004</u>
	<u>\$ 7,238,657</u>	<u>\$ 8,556,520</u>

See accompanying notes to consolidated financial statements.

COHESANT INC.**CONSOLIDATED BALANCE SHEETS**

	<u>NOVEMBER 30,</u>	
	<u>2009</u>	<u>2008</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of long-term note payable	\$ -	\$ 135,843
Accounts payable	881,579	1,221,138
Accrued salaries, benefits and commissions	376,094	293,385
Accrued taxes	33,147	26,944
Billings in excess of costs and estimated earnings	63,471	84,974
Other current liabilities	305,234	369,045
Total current liabilities	1,659,525	2,131,329
SHAREHOLDERS' EQUITY		
Preferred stock \$.01 par value, 1,000,000 shares authorized and 724,138 shares issued and outstanding	724	724
Common stock \$.01 par value, 7,000,000 shares authorized and 3,460,457 shares issued and outstanding	3,460	3,460
Additional paid-in capital	15,861,362	15,797,049
Accumulated deficit	(10,309,319)	(9,278,959)
Treasury stock, at cost	(45,381)	-
Accumulated other comprehensive income (loss)	68,286	(97,083)
	5,579,132	6,425,191
	\$ 7,238,657	\$ 8,556,520

See accompanying notes to consolidated financial statements.

COHESANT INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**

	FOR THE YEARS ENDED NOVEMBER 30,	
	<u>2009</u>	<u>2008</u>
Net sales	\$ 10,880,739	\$ 11,574,854
Cost of goods sold	<u>5,644,918</u>	<u>6,169,551</u>
Gross profit	5,235,821	5,405,303
Research and development expenses	307,451	320,136
Selling, general, and administrative expenses	5,857,431	6,884,458
Goodwill and intangible assets impairment loss	<u>-</u>	<u>8,581,509</u>
Total operating expenses	<u>6,164,882</u>	<u>15,786,103</u>
Loss from operations	(929,061)	(10,380,800)
Other income (expense):		
Interest income	7,978	18,149
Interest expense	(2,940)	(10,471)
Foreign exchange (loss) gain, net	(2,251)	1,075
Other (expense) income, net	<u>(71,848)</u>	<u>24,785</u>
Loss before taxes	(998,122)	(10,347,262)
Income tax (expense) benefit	<u>(32,238)</u>	<u>681,068</u>
Net loss	<u>\$ (1,030,360)</u>	<u>\$ (9,666,194)</u>
LOSS PER COMMON SHARE	\$ (0.30)	\$ (2.79)
AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED	3,393,572	3,460,457
COMPREHENSIVE LOSS		
Net loss	\$ (1,030,360)	\$ (9,666,194)
Foreign currency translation adjustment	<u>165,369</u>	<u>(220,793)</u>
COMPREHENSIVE LOSS	<u>\$ (864,991)</u>	<u>\$ (9,886,987)</u>

See accompanying notes to consolidated financial statements.

COHESANT INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	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 of 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	724,138	724	3,460,457	3,460	15,797,049	(9,278,959)	-	(97,083)	6,425,191
Stock based compensation	-	-	-	-	64,313	-	-	-	64,313
Foreign currency translation	-	-	-	-	-	-	-	165,369	165,369
Repurchase of common stock	-	-	-	-	-	-	(45,381)	-	(45,381)
Net loss	-	-	-	-	-	(1,030,360)	-	-	(1,030,360)
Balance at November 30, 2009	724,138	\$ 724	3,460,457	\$ 3,460	\$ 15,861,362	\$ (10,309,319)	\$ (45,381)	\$ 68,286	\$ 5,579,132

See accompanying notes to consolidated financial statements.

COHESANT INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED NOVEMBER 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,030,360)	\$ (9,666,194)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	573,652	574,863
Goodwill and intangible assets impairment loss	-	8,581,509
Loss on asset disposal	102,644	470
Stock-based compensation	64,313	78,137
Deferred tax provision	7,865	(661,751)
Provision for doubtful accounts	52,604	41,031
Foreign currency translation	212,461	(194,773)
Cancellation of long-term note payable	(70,126)	-
Net change in		
Accounts receivable	13,448	70,923
Notes receivable	(50,682)	(47,300)
Inventories	192,489	16,113
Costs in excess of billings and estimated earnings	39,754	(33,749)
Prepaid expenses and other	(23,905)	(48,688)
Accounts payable	(339,559)	463,030
Billings in excess of costs and estimated earnings	(21,503)	(1,354)
Other current liabilities	<u>25,101</u>	<u>94,959</u>
Net cash used in operating activities	<u>(251,804)</u>	<u>(732,774)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of patent costs	(6,276)	(3,706)
Purchases of property and equipment	(45,356)	(278,932)
Proceeds from sale of property and equipment	<u>4,000</u>	<u>9,953</u>
Net cash used in investing activities	<u>(47,632)</u>	<u>(272,685)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net contributions by Cohesant Technologies Inc.	-	792,150
Proceeds from preferred stock private placement	-	2,100,002
Funding of allocated charges by Cohesant Technologies Inc.	-	182,117
Repurchase of common stock	(45,381)	-
Payments on Triton note payable	<u>(65,717)</u>	<u>(129,054)</u>
Net cash (used in) provided by financing activities	<u>(111,098)</u>	<u>2,945,215</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(410,534)	1,939,756
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,131,242</u>	<u>191,486</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,720,708</u>	<u>\$ 2,131,242</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 2,939</u>	<u>\$ 10,471</u>
Cash paid for income taxes	<u>\$ 98,281</u>	<u>\$ 136,485</u>

See accompanying notes to consolidated financial statements.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

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 Inc (“CFI”) and Cohesant Materials Inc. (“CMI”). CuraFlo Inc. has two subsidiaries CuraFlo Services Inc. and CuraFlo Franchising Inc. CuraFlo Services Inc. has two subsidiaries: CuraFlo of British Columbia Ltd. and CuraFlo Services USA Inc.

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.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FASB Accounting Standards Codification™

During June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (the Codification) was established as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification is effective for interim and annual periods ending after September 15, 2009. As such, the Company updated all existing GAAP references to the new codification references.

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its direct, wholly owned subsidiaries, RLS, 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

Prior to the spin-off effected on February 27, 2008, Cohesant's costs and expenses include allocations from Cohesant Technologies for services provided to or the benefits received by Cohesant. The allocations were made based on policies established by management. In the opinion of management, the methods for allocating these costs are reasonable.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. Allocation Policies

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 November 30, 2008 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>

c. Foreign Currency Accounting

The financial statements of the Company's Canadian location have been translated into U.S. dollars in accordance with FASB Accounting Standard Codification (ASC) No. 830, "Foreign Currency Matters." 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 consolidated 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 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.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

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 \$488,345 and \$919,471 were included in selling, general and administrative expenses for 2009 and 2008, respectively.

f. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents 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. The Company had revenues from one customer that amounted to 9% and 12% of total revenues for the years ended November 30, 2009 and 2008, respectively. This customer comprised 20% and 21% of accounts receivable as of November 30, 2009 and 2008, respectively.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

g. Cash and Cash Equivalents

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

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 allowance 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Raw materials	\$ 209,380	\$ 287,775
Finished goods	120,790	195,787
Equipment, parts and supplies	564,535	739,004
Rehabilitation materials	29,811	38,894
Allowance for obsolete and slow-moving inventories	<u>(12,457)</u>	<u>(7,000)</u>
	<u>\$ 912,059</u>	<u>\$ 1,254,460</u>

During 2009, inventories totaling \$149,912 were transferred to property, plant and equipment and were put in service.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

j. Costs and Estimated Earnings on Uncompleted Contracts

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

	<u>2009</u>	<u>2008</u>
Costs incurred on uncompleted contracts	\$ 974,924	\$ 1,545,037
Estimated earnings to date	514,306	617,671
Subtotal	<u>1,489,230</u>	<u>2,162,708</u>
Less – Billings to date	<u>(1,552,701)</u>	<u>(2,207,928)</u>
Total	<u>\$ (63,471)</u>	<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>(63,471)</u>	<u>(84,974)</u>
Total	<u>\$ (63,471)</u>	<u>\$ (45,220)</u>

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

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Office equipment/computers	\$ 1,858,124	\$ 1,894,168
Vehicles	156,393	151,957
Leasehold improvements	165,871	165,871
Machinery and equipment	918,876	1,010,670
	<u>3,099,264</u>	<u>3,222,666</u>
Less accumulated depreciation	(1,785,247)	(1,455,022)
	<u>\$ 1,314,017</u>	<u>\$ 1,767,644</u>

Depreciation expense for the fiscal years ended November 30, 2009 and 2008 were \$495,161 and \$471,144, respectively.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Goodwill and Intangible Assets

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 and November 30, 2009	<u>\$420,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 420,127</u>

In accordance with FASB ASC No. 350, "Intangibles – Goodwill and Other" (ASC 350) 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. There were no impairment losses in 2009.

Intangible Assets

License agreements acquired by the Company are being amortized over 10 years. In accordance with the provisions of ASC No. 350 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 \$20,762 and \$14,486 at November 30, 2009 and 2008, respectively, including contracting agreements which are fully amortized and patents that are pending approval. Amortization expense for 2009 and 2008 was \$78,491 and \$103,719, respectively and is estimated to be \$78,492 in fiscal 2010 through 2014 and \$55,595 in fiscal 2015.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

m. Research and Development

The costs associated with research and development programs for new products and significant improvements, which totaled \$307,451 in 2009 and \$320,136 in 2008, are expensed as incurred.

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 FASB ASC No. 740, "Income Taxes" (ASC 740). 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.

Under the provisions of ASC 740, the requirement for additional clarification of the accounting for uncertainty in income taxes is effective for nonpublic companies. 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 November 30, 2009, 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 2005–2008. The Company was also subject to unexpired statutes of limitation for various state income taxes for the years 2005-2008.

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 ASC 350. 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 impairment has occurred, the excess of the carrying value of the long-lived assets over their estimated fair value is charged to operations.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 has adopted FASB ASC No. 718 "Compensation – Stock Compensation", (ASC 718) using the modified prospective method. Under this transition method, compensation cost has been recognized for all share-based payments in the consolidated financial statements 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 \$100,050 at November 30, 2009 and \$146,563 at November 30, 2008, for which the expense will be recognized through 2012.

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.

r. Reclassifications

Certain amounts in 2008 have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on net loss.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

s. Subsequent Events

The Company has evaluated subsequent events through January 26, 2010 which is the date the financial statements were available to be issued, and has determined that there were no subsequent events to recognize or disclose in these consolidated financial statements.

3. ASSET SALE

On June 11, 2009, the Company sold the assets of its CuraFlo Spincast operations, and granted a perpetual non-exclusive license to use its Spincast Technology to Triton Lining Systems LLC, a entity formed by CuraFlo Spincast's former Manager. The Company will receive commissions on future projects derived from Triton's work for the Company and its franchisee/licensees customers. Simultaneously with the sale, the former Manager released the Company from payment of the remaining obligations due his former business, a total of \$70,126, in exchange for a release of the former Manager from his non-competition obligations under the 2006 asset purchase agreement and his employment agreement. At the time of the sale, the Spincast assets had a book value of \$153,655. The net effect of this transaction is reported in other expenses in the consolidated statement of operations.

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.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

4. SHAREHOLDERS' EQUITY

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.

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 \$269,594 and \$89,139 as of November 30, 2009 and 2008, respectively.

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 Board increased the share repurchase program by 25,000 shares for a total of 125,000 shares at its December 2009 meeting. The Company has repurchased 95,179 shares under this program as of November 30, 2009, at an aggregate cost of \$45,381 or \$0.48 per share, including commissions.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

5. LOSS PER SHARE

The calculation of basic and diluted net loss per share for the year ended November 30, 2009 and 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 2009 and 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.

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. There were 180,000 and 225,000 shares available for issuance at November 30, 2009 and 2008, respectively.

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

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

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:

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>
Options outstanding at November 30, 2008	385,000	\$1.42		
Forfeited	<u>(25,000)</u>	<u>\$1.31</u>		
Options outstanding at November 30, 2009	<u>360,000</u>	<u>\$1.43</u>	<u>4.7</u>	<u>\$ -</u>
Options exercisable at November 30, 2009	<u>200,000</u>	<u>\$1.52</u>	<u>4.1</u>	<u>\$ -</u>

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

6. STOCK-BASED COMPENSATION

At November 30, 2009

Exercise Prices	Options Outstanding		Exercise Price	Options Exercisable	
	Number of Options Outstanding	Remaining Contractual Life		Number of Options Exercisable	Exercise Price
\$1.31	240,000	5.4	\$1.31	80,000	\$1.31
\$1.31	60,000	1.0	\$1.31	60,000	\$1.31
\$2.00	60,000	5.4	\$2.00	60,000	\$2.00
\$1.31-\$2.00	360,000	4.7	\$1.43	200,000	\$1.52

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	6.4	\$2.00	-	\$2.00
\$1.31-\$2.00	385,000	5.7	\$1.42	60,000	\$1.31

Total stock-based compensation cost recognized by Cohesant during the twelve months ended November 30, 2009 and 2008 was \$57,517 and \$344,170 (\$266,033 relates to options from Cohesant Technologies and \$78,137 relates to options from the Company), respectively, and has been included in the consolidated statements of operations.

Restricted Stock Grants

On March 4, 2009, the Company granted 30,000 restricted stock units to two employees at a grant date fair value of \$0.45 per share with a vesting period over three years from their employment anniversary date.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

6. STOCK-BASED COMPENSATION

On September 30, 2009, the Company granted 40,000 restricted stock units to three employees at a grant date fair value of \$0.52 per share with a vesting period over one to three years from the grant date.

<u>Restricted Stock</u>	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Shares outstanding at November 30, 2008	0			
Granted	<u>70,000</u>	<u>\$0.49</u>		
Shares outstanding at November 30, 2009	<u>70,000</u>	<u>\$0.49</u>	<u>2.1</u>	<u>\$ 31,500</u>

Total stock-based compensation cost recognized by Cohesant during the twelve months ended November 30, 2009 was \$6,796 for the shares of restricted stock that vested and has been included in the consolidated statements of operations.

7. REVOLVING LINE OF CREDIT

The Company's fully secured \$2,500,000 revolving line of credit facility expired on April 30, 2009 and was not renewed. The Company is in discussions with 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 amounts contributed during 2009 and 2008 were \$48,693 and \$56,144, respectively.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

9. INCOME TAXES

The provision for income taxes consists of the following at November 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
CURRENT		
State	\$ 48,046	\$ 40,436
Canadian	34,515	74,534
Total current	<u>82,561</u>	<u>114,970</u>
DEFERRED		
U.S. Federal/State/Canadian	(600,800)	(4,174,942)
State NOL	(172,050)	(218,966)
Valuation Allowance	722,527	3,597,870
Total deferred	<u>(50,323)</u>	<u>(796,038)</u>
INCOME TAX BENEFIT	<u>\$ 32,238</u>	<u>\$ (681,068)</u>

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

	<u>2009</u>	<u>2008</u>
Federal statutory rate	(34.0)%	(34.0)%
State taxes, net of federal benefit	(7.0)	(3.9)
Valuation allowance	41.0	34.9
Other	3.2	(3.6)
Effective tax rate	<u>3.2%</u>	<u>(6.6)%</u>

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

9. INCOME TAXES

Temporary differences which give rise to the net deferred tax liability at November 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Federal net operating loss	\$ 1,281,347	\$ 965,825
State net operating loss	246,094	316,998
Goodwill	2,293,192	2,689,872
Stock based compensation	57,735	31,669
Financial reporting reserves	148,848	80,090
Prepays	38,203	-
	<u>4,065,419</u>	<u>4,084,454</u>
Deferred tax liabilities:		
Property, plant and equipment	(198,913)	(159,187)
Prepays	-	(7,276)
	<u>(198,913)</u>	<u>(166,463)</u>
Valuation allowance - Federal	(3,620,412)	(3,600,994)
Valuation allowance – State	(246,094)	(309,132)
	<u>(3,866,506)</u>	<u>(3,910,126)</u>
NET DEFERRED TAX ASSET	<u>\$ -</u>	<u>\$ 7,865</u>

The Company has net operating loss carryforwards of approximately \$3.8 million available to offset future taxable income, which will expire in various years through 2028, if unused, and which may be subject to other limitations under IRS rules. Under ASC 740, 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, 2009 and 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.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

9. INCOME TAXES

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.

The Company has an agreement with Triton Lining Systems LLC ("Triton"), a company owned by a former employee of the Company's CuraFlo Spincast subsidiary (Note 3), and continues to receive as well as provide services to Triton. The Company had an outstanding balance of \$26,320 due to Triton as of November 30, 2009.

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, 2009 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	265,456
2011	197,092
2012	117,900
2013	1,556
2014	1,092
2015	502

Rent expense totaled \$295,388 and \$254,878 for the years ended November 30, 2009 and 2008, respectively.

COHESANT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

12. CONTINGENCIES

In April 2009 a CuraFlo Licensee filed a complaint in the state of California against the Company for breach of contract as well as other claims. The Company disputes these claims and intends to vigorously defend itself in this matter.

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.