

Registered number: 00537328

LAPMASTER WOLTERS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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LAPMASTER WOLTERS LIMITED

COMPANY INFORMATION

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| DIRECTORS | Mr F Brinken (appointed 3 June 2022) Mr T S Avila (resigned 21 September 2022) |
| REGISTERED NUMBER | 00537328 |
| REGISTERED OFFICE | Unit 1 Central Avenue Lee Mill Industrial Estate Ivybridge Devon PL21 9EN |
| INDEPENDENT AUDITORS | Bishop Fleming LLP Chartered Accountants & Statutory Auditors Salt Quay House 4 North East Quay Sutton Harbour Plymouth PL4 0BN |

LAPMASTER WOLTERS LIMITED

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LAPMASTER WOLTERS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

BUSINESS REVIEW

Lapmaster Wolters Limited ("Lapmaster" or "Company") is a highly regarded and well-established international machine tool business engaged in the manufacture and distribution of a wide range of lapping and polishing machines, spare parts, consumables, and accessories to a diverse market including oil and gas, aerospace, automotive, medical, semi-conductor and communication. In addition to the machine producing segment Lapmaster offers lapping process services

Lapmaster designs and manufactures custom lapping and polishing systems to suit particular customer application requirements. Lapping is derived from the phrase "Loose Abrasive Processing". It is a process to remove microscopic chips of material, such as ceramic, glass, sapphire and semi-conductor substrates, to achieve a precise dimensional accuracy of up to +/- 0.001mm. Lapmaster provides turnkey solutions to a variety of industries from medical, automotive, aerospace and oil industries amongst many others.

Lapmaster Wolters Limited is a subsidiary of Lapmaster Group Holdings LLC ("Group Holdings" or "Parent"), a US based group engaged in the design and development of precision abrasive finishing machinery utilised in lapping, polishing, honing, grinding and wire saw applications.

On 3 October 2022, Group Holdings, along with its subsidiaries, was acquired by a new group of investors. As a result of this acquisition, the Parent is undergoing a restructuring of its divisional product lines. Such restructuring might increase Lapmaster's activity as more manufacturing activities could be shifted from the US to the UK. Lapmaster expects this increased manufacturing activity to strengthen its financial position within the group.

During the year, the Company either sold or transferred its investments in foreign subsidiaries. The Dutch companies comprised of Formatec Holdings B.V. and its subsidiaries Admatec Europe B.V. and Formatec Technical Ceramics B.V. were sold to an unrelated third-party interest for cash, Lapmaster's Swiss subsidiary, Precision Surfacing Solutions GmbH, was transferred to Group Holdings in exchange for reduction of an intercompany loan.

PRINCIPAL RISKS AND UNCERTAINTIES

Our diverse business is open to risk from many market segments. The war in Ukraine brings issues that affect sanctions on international trade (exports to Russia), extended lead times on semi-conductor products as industries struggle to meet demand after Covid, to the rises in inflation across many global countries. However, with such a broad market, where some segments have faltered Lapmaster has always been able to seek out new business from those less affected by these challenges.

We continue to maintain output in productivity, however, remain conscious of maintaining a healthy balance of experience, knowledge and new recruitment to ensure we provide continuity in all positions.

The Company operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies.

LAPMASTER WOLTERS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL KEY PERFORMANCE INDICATORS

With the uncertainties, UK manufactured product continued to maintain sales driven by demand from the optics market.

Contract lapping services has seen an increase in demand in fine grinding with key customers.

Ongoing efforts to drive costs down proved difficult during the year as the cost to import goods continued to grow with increased supplier constraints and lead times.

Revenue growth is considered to be a key performance indicator, with performance over the past 5 years shown below:

| Year | 2022 | 2021 | 2020 | 2019 | 2018 |
|----------------|--------|--------|--------|--------|--------|
| Total UK Sales | £3.61m | £3.51m | £2.85m | £4.11m | £4.51m |

OTHER KEY PERFORMANCE INDICATORS

Alongside revenue the director also considers EBITDA as a key performance indicator. The UK business met its EBITDA forecast for the full year due to increased revenue in its machinery products.

Contract grinding remained steady and with continued sales of optics machines this helped achieve the yearly result.

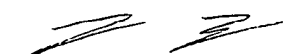
Emphasis on distributors remained a key focal point with continued increase in activity and orders. Future activity will continue to increase as a result of restructuring activities.

DIRECTORS' STATEMENT OF COMPLIANCE WITH DUTY TO PROMOTE THE SUCCESS OF THE COMPANY

The Director is aware of their duty under s.172 of the Companies Act 2006 to act in a way which they consider, in good faith would be most likely to promote the success of the Company for the benefit of its shareholders, which includes having regard to other stakeholders.

The Director considers it is imperative that the Company maintains its reputation for high standards of business conduct as they are responsible for the Company's' standards, culture, values, ethics and reputation. These are embedded by the senior management team throughout all departments of the business. The Director also seeks to balance the needs of its members with s.172 matters throughout the period in the policies and practices operated by the Company ensuring that its obligations to all stakeholders are met.

This report was approved by the board on 26 September 2023 and signed on its behalf.



Mr F Brinken
Director

LAPMASTER WOLTERS LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The director presents his report and the financial statements for the year ended 31 December 2022.

PRINCIPAL ACTIVITY

The principal activities of the Company are to research, develop, manufacture and sell lapping and polishing machines. The Company also provides contract lapping, process design and contract polishing services.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £1,019,884 (2021: loss £456,762).

DIRECTORS

The directors who served during the year were:

Mr F Brinken (appointed 3 June 2022)

Mr T S Avila (resigned 21 September 2022)

FUTURE DEVELOPMENTS

Group investment will continue to bring further opportunity as new technology can be offered in conjunction with core product.

Additional expenditure from the group due to its restructure is under discussion to allow the UK to increase productivity, review standardisation and modularisation of its core products bringing additional opportunity with reduced lead time and cost, and increased machine efficiency.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

We engage with our stakeholders regularly and actively seek to strengthen and expand those relationships further. The recent periods of operation were and are challenging; through our channels of communication with our key suppliers and customers, we have sought to ensure that our continuity of service has been maintained where possible.

DISCLOSURE OF INFORMATION TO AUDITORS

The director at the time when this Director's Report is approved has confirmed that:

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

POST BALANCE SHEET EVENTS

There have been no significant events affecting the Company since the year end.

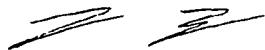
AUDITORS

The auditors, Bishop Fleming LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

LAPMASTER WOLTERS LIMITED

**DIRECTOR'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

This report was approved by the board and signed on its behalf.



Mr F Brinken
Director

Date: 26 September 2023

Unit 1
Central Avenue
Lee Mill Industrial Estate
Ivybridge
Devon
PL21 9EN

**DIRECTOR'S RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The director is responsible for preparing the Strategic Report, the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the director is required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LAPMASTER WOLTERS LIMITED

OPINION

We have audited the financial statements of Lapmaster Wolters Limited (the 'Company') for the year ended 31 December 2022, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Analysis of Net Debt and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the director with respect to going concern are described in the relevant sections of this report.

OTHER INFORMATION

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' Report thereon. The director is responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

LAPMASTER WOLTERS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LAPMASTER WOLTERS LIMITED (CONTINUED)

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Director's Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Director's Responsibilities Statement set out on page 5, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the director is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LAPMASTER WOLTERS LIMITED
(CONTINUED)**

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We have considered the nature of the industry and sector, control environment and business performance, key drivers for directors' remuneration, bonus levels and performance targets;
- We have considered the results of our enquiries of management about their own identification and assessment of the risks of irregularities;
- Any matters identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
 - Identifying, evaluation and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - The internal controls established to mitigate risks of fraud or noncompliance with laws and regulations.

We have considered the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in incorrect revenue recognition and management override of controls.

We also obtained an understanding of the legal and regulators frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act 2006, Financial Reporting Standard 102 and UK tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included data protection regulations, occupational health and safety regulations, employment legislation and AS9100 international quality management system standard.

Audit response to risks identified

Our procedures to respond to the risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having direct effect on the financial statements;
- Enquiring of management concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Performing detailed transactional testing in relation to the recognition of revenue and year-end cut off;
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries, and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of potential bias; and evaluating the business rationale of any significant

LAPMASTER WOLTERS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LAPMASTER WOLTERS LIMITED (CONTINUED)

transactions that are unusual or outside the normal course of the business.

We also communicated relevant identified laws and regulations and potential fraud risk to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from an error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Kevin Connor FCA (Senior Statutory Auditor)
for and on behalf of
Bishop Fleming LLP
Chartered Accountants
Statutory Auditors
Salt Quay House
4 North East Quay
Sutton Harbour
Plymouth
PL4 0BN

26 September 2023

LAPMASTER WOLTERS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

| | Note | 2022 £ | 2021 £ |
|--|------|--------------------|--------------------|
| Turnover | 4 | 3,611,519 | 3,511,290 |
| Cost of sales | | (2,847,949) | (2,737,156) |
| Gross profit | | 763,570 | 774,134 |
| Administrative expenses | | (1,190,111) | (668,793) |
| Other operating income | 5 | 1,835,496 | 1,106 |
| Exceptional other operating charges | 11 | (2,006,386) | - |
| Operating (loss)/profit | 6 | (597,431) | 106,447 |
| Interest receivable and similar income | | 143,083 | 134,730 |
| Interest payable and similar expenses | 9 | (565,536) | (697,939) |
| Loss for the financial year | | (1,019,884) | (456,762) |
| Other comprehensive income for the year | | | |
| Currency translation differences | | (1,749,990) | (590,724) |
| Total comprehensive income for the year | | (2,769,874) | (1,047,486) |

The notes on pages 16 to 30 form part of these financial statements.

LAPMASTER WOLTERS LIMITED
REGISTERED NUMBER:00537328

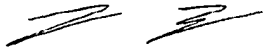
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

| | Note | 2022 £ | 2021 £ |
|---|------|-------------------------|--------------------------|
| Fixed assets | | | |
| Tangible assets | 12 | 1,110,421 | 1,129,780 |
| Investments | 13 | - | 40,553,096 |
| | | <u>1,110,421</u> | <u>41,682,876</u> |
| Current assets | | | |
| Stocks | 14 | 802,877 | 612,441 |
| Debtors: amounts falling due after more than one year | 15 | 7,943,442 | 6,441,769 |
| Debtors: amounts falling due within one year | 15 | 2,657,991 | 2,197,962 |
| Cash at bank and in hand | | 334,689 | 150,248 |
| | | <u>11,738,999</u> | <u>9,402,420</u> |
| Creditors: amounts falling due within one year | 16 | (1,876,010) | (1,616,108) |
| Net current assets | | <u>9,862,989</u> | <u>7,786,312</u> |
| Total assets less current liabilities | | <u>10,973,410</u> | <u>49,469,188</u> |
| Creditors: amounts falling due after more than one year | 17 | (3,022,823) | (38,748,727) |
| Net assets | | <u><u>7,950,587</u></u> | <u><u>10,720,461</u></u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 2,324,380 | 2,324,380 |
| Revaluation reserve | 19 | 953,510 | 963,072 |
| Capital redemption reserve | 19 | 9,200 | 9,200 |
| Foreign exchange reserve | 19 | - | 1,749,990 |
| Other reserves | 19 | 5,608,171 | 5,608,171 |
| Profit and loss account | 19 | (944,674) | 65,648 |
| | | <u><u>7,950,587</u></u> | <u><u>10,720,461</u></u> |

LAPMASTER WOLTERS LIMITED
REGISTERED NUMBER:00537328

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



Mr F Brinken
Director

Date: 26 September 2023

The notes on pages 16 to 30 form part of these financial statements.

LAPMASTER WOLTERS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

| | Called up share capital | Capital redemption reserve | Revaluation reserve | Foreign exchange reserve | Capital contribution reserve | Profit and loss account | Total equity |
|--|----------------------------|----------------------------------|------------------------|--------------------------------|------------------------------------|----------------------------|------------------|
| | £ | £ | £ | £ | £ | £ | £ |
| At 1 January 2022 | 2,324,380 | 9,200 | 963,072 | 1,749,990 | 5,608,171 | 65,648 | 10,720,461 |
| Loss for the year | - | - | - | - | - | (1,019,884) | (1,019,884) |
| Currency translation differences | - | - | - | (1,749,990) | - | - | (1,749,990) |
| Transfer to/from profit and loss account | - | - | (9,562) | - | - | 9,562 | - |
| At 31 December 2022 | 2,324,380 | 9,200 | 953,510 | - | 5,608,171 | (944,674) | 7,950,587 |

The notes on pages 16 to 30 form part of these financial statements.

LAPMASTER WOLTERS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

| | Called up share capital | Capital redemption reserve | Revaluation reserve | Foreign exchange reserve | Capital contribution reserve | Profit and loss account | Total equity |
|--|----------------------------|----------------------------------|------------------------|--------------------------------|------------------------------------|----------------------------|-------------------|
| | £ | £ | £ | £ | £ | £ | £ |
| At 1 January 2021 | 208,640 | 9,200 | 972,634 | 2,340,714 | 5,608,171 | 512,848 | 9,652,207 |
| Loss for the year | - | - | - | - | - | (456,762) | (456,762) |
| Currency translation differences | - | - | - | (590,724) | - | - | (590,724) |
| Shares issued during the year | 2,115,740 | - | - | - | - | - | 2,115,740 |
| Transfer to/from profit and loss account | - | - | (9,562) | - | - | 9,562 | - |
| At 31 December 2021 | 2,324,380 | 9,200 | 963,072 | 1,749,990 | 5,608,171 | 65,648 | 10,720,461 |

The notes on pages 16 to 30 form part of these financial statements.

LAPMASTER WOLTERS LIMITED

**ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2022**

| | At 1 January 2022 £ | Cash flows £ | At 31 December 2022 £ |
|--------------------------|------------------------------|-----------------|--------------------------------|
| Cash at bank and in hand | 150,248 | 184,441 | 334,689 |
| Bank overdrafts | (10) | 10 | - |
| | <u>150,238</u> | <u>184,451</u> | <u>334,689</u> |

The notes on pages 16 to 30 form part of these financial statements.

LAPMASTER WOLTERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL INFORMATION

Lapmaster Wolters Limited is a limited liability company incorporated in England and Wales in the United Kingdom. The address of its registered office is Unit 1 Central Avenue, Lee Mill Industrial Estate, Ivybridge, Devon, PL21 9EN.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

Under the Companies Act 2006, the Company is exempt from producing consolidated accounts as it is included in non-EEA group accounts of a larger group (s.401).

The Company has taken the exemption to prepare a cashflow statement which has been approved by the shareholders.

The parent entity in which consolidated statements are being produced is Lapmaster Group Holdings LLC. These parent entity statements are to be submitted with the statements of Lapmaster Wolters Limited.

The following principal accounting policies have been applied:

2.2 GOING CONCERN

The Company has incurred a current year loss of £1.02m (2021: loss of £0.46m). Once currency translation differences are included, this becomes a current year loss of £2.77m (2021: loss of £1.05m). At the year end, it had net current assets of £9.86m (2021: £7.79m). This becomes a net current asset of £3.16m (2021: £1.71m) when excluding a long term debtor owing from a group entity.

The Company has generated positive EBITDA in 2023 for the period to the end of August 2023. It had reported losses in 2022 and 2021 due to accrued interest on loans due to its parent undertaking, as well as one-off exchange rate losses arising from the disposal of investments in 2022. The exposure to this is notably reduced going forwards following the disposal of investments.

The Director has prepared forecasts which anticipate further growth and profits in 2023 and 2024, with sufficient existing funding in place for the coming twelve months and the Company continues to receive the support of the wider US Group.

Therefore, the Director considers it appropriate for the financial statements of the Company to be prepared on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. ACCOUNTING POLICIES (continued)

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. ACCOUNTING POLICIES (continued)

2.4 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.5 OPERATING LEASES: THE COMPANY AS LESSEE

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.6 RESEARCH AND DEVELOPMENT

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight-line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. ACCOUNTING POLICIES (continued)

2.7 GOVERNMENT GRANTS

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

2.8 FINANCE COSTS

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 BORROWING COSTS

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

2.10 PENSIONS

DEFINED CONTRIBUTION PENSION PLAN

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

2.11 EXCEPTIONAL ITEMS

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2.12 TANGIBLE FIXED ASSETS

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses with the exception of Freehold Property. Freehold Property is held at its deemed cost on transition to FRS 102 based on a third party valuation as at 9 September 2015. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. ACCOUNTING POLICIES (continued)

2.12 TANGIBLE FIXED ASSETS (CONTINUED)

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | |
|-----------------------|------------------------|
| Freehold property | - 2% |
| Plant and machinery | - 8% |
| Motor vehicles | - 25% reducing balance |
| Fixtures and fittings | - 10-25% |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.13 VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment.

2.14 STOCKS

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.15 FINANCIAL INSTRUMENTS

The Company has elected to apply the provisions of Section 11 "Basic Financial Instruments" of FRS 102 to all of its financial instruments.

Basic financial assets

Basic financial assets, which include trade and other receivables, cash and bank balances, are initially measured at their transaction price including transaction costs and are subsequently carried at their amortised cost using the effective interest method, less any provision for impairment, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables due with the operating cycle fall into this category of financial instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date.

Financial assets are impaired when events, subsequent to their initial recognition, indicate the estimated future cash flows derived from the financial asset(s) have been adversely impacted. The

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. ACCOUNTING POLICIES (continued)

2.15 FINANCIAL INSTRUMENTS (CONTINUED)

impairment loss will be the difference between the current carrying amount and the present value of the future cash flows at the asset(s) original effective interest rate.

If there is a favourable change in relation to the events surrounding the impairment loss then the impairment can be reviewed for possible reversal. The reversal will not cause the current carrying amount to exceed the original carrying amount had the impairment not been recognised. The impairment reversal is recognised in the profit or loss.

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instruments any contract that evidences a residual interest in the assets of the Company after the deduction of all its liabilities.

Basic financial liabilities, which include trade and other payables, bank loans and other loans are initially measured at their transaction price after transaction costs. When this constitutes a financing transaction, whereby the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Discounting is omitted where the effect of discounting is immaterial.

Debt instruments are subsequently carried at their amortised cost using the effective interest rate method.

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if the payment is due within one year. If not, they represent non-current liabilities. Trade payables are initially recognised at their transaction price and subsequently are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Derecognition of financial assets

Financial assets are derecognised when their contractual right to future cash flow expire, or are settled, or when the Company transfers the asset and substantially all the risks and rewards of ownership to another party. If significant risks and rewards of ownership are retained after the transfer to another party, then the Company will continue to recognise the value of the portion of the risks and rewards retained.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

**3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION
UNCERTAINTY**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimations. The following judgements have had the most significant effect on amounts recognised in the financial statements.

Stock impairment:

Management review stock for obsolescence on a yearly basis. The stock value in the financial statements is impaired for any obsolete stock identified.

Investment impairment review:

Management annually assess the carrying value of investments held in subsidiaries comparing the carrying value to the higher of its current fair value or its value in use to determine if the value remains supportable and whether an impairment write down is required.

4. TURNOVER

An analysis of turnover by class of business is as follows:

| | 2022 £ | 2021 £ |
|-----------------------|------------------|------------------|
| Sale of goods | 3,360,683 | 3,323,473 |
| Rendering of services | 250,836 | 187,817 |
| | <u>3,611,519</u> | <u>3,511,290</u> |

Analysis of turnover by country of destination:

| | 2022 £ | 2021 £ |
|-------------------|------------------|------------------|
| United Kingdom | 1,874,058 | 1,738,793 |
| Rest of Europe | 1,066,305 | 812,989 |
| Rest of the world | 671,156 | 959,508 |
| | <u>3,611,519</u> | <u>3,511,290</u> |

LAPMASTER WOLTERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****5. OTHER OPERATING INCOME**

| | 2022 £ | 2021 £ |
|---|------------------|--------------|
| Profit on disposal of fixed asset investments | 1,835,496 | - |
| Government grants receivable | - | 1,106 |
| | <u>1,835,496</u> | <u>1,106</u> |

The profit arising on the disposal of fixed asset investments is as per disposals arising in note 12.

Government grants receivable related to the Coronavirus Job Retention Scheme (CJRS), through which the Company has received compensation for part of the wages, associated national insurance contributions and employer pension contributions of employees who have been placed on furlough, there are no unfulfilled conditions or other contingencies relating to the grants.

6. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after charging:

| | 2022 £ | 2021 £ |
|---------------------------------------|------------------|----------------|
| Exchange differences | 2,378,624 | 31,630 |
| Other operating lease rentals | 24,726 | 36,622 |
| Depreciation of tangible fixed assets | 39,792 | 42,091 |
| | <u>2,443,142</u> | <u>110,343</u> |

7. AUDITORS' REMUNERATION

During the year, the Company obtained the following services from the Company's auditors and their associates:

| | 2022 £ | 2021 £ |
|---|-----------|-----------|
| Fees payable to the Company's auditors and their associates for the audit of the Company's financial statements | 17,530 | 44,015 |

The 2021 fees payable has been updated to reflect additional costs of £28,515 incurred and agreed with management after the conclusion of the 2021 audit.

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the consolidated accounts of the parent Company.

LAPMASTER WOLTERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

8. EMPLOYEES

Staff costs were as follows:

| | 2022 £ | 2021 £ |
|-------------------------------------|----------------|----------------|
| Wages and salaries | 594,240 | 585,756 |
| Social security costs | 57,139 | 53,222 |
| Cost of defined contribution scheme | 93,636 | 83,057 |
| | <u>745,015</u> | <u>722,035</u> |

The average monthly number of employees, including the director, during the year was as follows:

| | 2022 No. | 2021 No. |
|--------------------------|-------------|-------------|
| Production | 12 | 12 |
| Sales and administration | 6 | 6 |
| Technical | 2 | 2 |
| | <u>20</u> | <u>20</u> |

9. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2022 £ | 2021 £ |
|-------------------------------|----------------|----------------|
| Loans from group undertakings | 565,536 | 697,939 |
| | <u>565,536</u> | <u>697,939</u> |

10. TAXATION

| | 2022 £ | 2021 £ |
|---|-----------|-----------|
| TOTAL CURRENT TAX | <u>-</u> | <u>-</u> |
| DEFERRED TAX | | |
| TOTAL DEFERRED TAX | <u>-</u> | <u>-</u> |
| TAXATION ON PROFIT ON ORDINARY ACTIVITIES | <u>-</u> | <u>-</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

10. TAXATION (CONTINUED)**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

| | 2022 £ | 2021 £ |
|---|--------------------|------------------|
| Loss on ordinary activities before tax | <u>(1,019,884)</u> | <u>(456,762)</u> |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%) | <u>(193,778)</u> | <u>(86,785)</u> |
| EFFECTS OF: | | |
| Capital allowances for year in excess of depreciation | 350 | 2,188 |
| Expenses not deductible for tax purposes, other than goodwill amortisation and impairment | 4,294 | 590 |
| Deferred tax asset not recognised | 421,287 | 135,629 |
| Remeasurement of deferred tax for changes in tax rates | <u>(232,153)</u> | <u>(51,622)</u> |
| TOTAL TAX CHARGE FOR THE YEAR | <u><u>-</u></u> | <u><u>-</u></u> |

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

There were no factors that may affect future tax charges.

11. EXCEPTIONAL ITEMS

| | 2022 £ | 2021 £ |
|---|-------------------------|-----------------|
| Exchange rate losses arising from disposal of investments | 2,006,386 | - |
| | <u><u>2,006,386</u></u> | <u><u>-</u></u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

12. TANGIBLE FIXED ASSETS

| | Freehold property £ | Plant and machinery £ | Motor vehicles £ | Fixtures and fittings £ | Total £ |
|---|---------------------------|-----------------------------|------------------------|-------------------------------|------------|
| COST | | | | | |
| At 1 January 2022 | 1,050,000 | 696,438 | 12,550 | 48,934 | 1,807,922 |
| Additions | - | 20,433 | - | - | 20,433 |
| At 31 December 2022 | 1,050,000 | 716,871 | 12,550 | 48,934 | 1,828,355 |
| DEPRECIATION | | | | | |
| At 1 January 2022 | 84,841 | 538,068 | 11,893 | 43,340 | 678,142 |
| Charge for the year on owned assets | 13,396 | 24,858 | - | 1,374 | 39,628 |
| Charge for the year on financed assets | - | - | 164 | - | 164 |
| At 31 December 2022 | 98,237 | 562,926 | 12,057 | 44,714 | 717,934 |
| NET BOOK VALUE | | | | | |
| At 31 December 2022 | 951,763 | 153,945 | 493 | 4,220 | 1,110,421 |
| At 31 December 2021 | 965,159 | 158,370 | 657 | 5,594 | 1,129,780 |

LAPMASTER WOLTERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****13. FIXED ASSET INVESTMENTS**

| | Investments in subsidiary companies £ |
|---------------------|---|
| COST | |
| At 1 January 2022 | 40,553,096 |
| Disposals | (40,553,096) |
| | <hr/> |
| At 31 December 2022 | - |
| | <hr/> <hr/> |

During the year, the Company disposed of the following investments:

- On 7 July 2022, the Company disposed of 100% of the share capital of Formatec Holding B.V., a Dutch private limited company. Formatec Holding B.V. owns 100% of the share capital of Formatec Technical Ceramics B.V. and Admatec Europe B.V. The consideration received was £11.26m.
- On 14 December 2022, the directors of Lapmaster Parent LLC approved a share purchase agreement to enact the disposal of 100% of the share capital of Precision Surfacing Solutions GmbH (Switzerland) to Lapmaster Group Holdings LLC for consideration of £31.348m.

14. STOCKS

| | 2022 £ | 2021 £ |
|-------------------------------------|-------------|-------------|
| Raw materials and consumables | 432,030 | 368,714 |
| Work in progress (goods to be sold) | 315,725 | 223,366 |
| Finished goods and goods for resale | 55,122 | 20,361 |
| | <hr/> | <hr/> |
| | 802,877 | 612,441 |
| | <hr/> <hr/> | <hr/> <hr/> |

Stock of raw materials held is stated after impairment provisions of £173,942 (2021: £154,184).

LAPMASTER WOLTERS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. DEBTORS

| | 2022 £ | 2021 £ |
|-------------------------------------|------------------|------------------|
| DUE AFTER MORE THAN ONE YEAR | | |
| Amounts owed by group undertakings | 6,703,977 | 6,076,551 |
| Other debtors | 1,239,465 | - |
| Prepayments and accrued income | - | 365,218 |
| | <u>7,943,442</u> | <u>6,441,769</u> |
| | | |
| | 2022 £ | 2021 £ |
| DUE WITHIN ONE YEAR | | |
| Trade debtors | 389,810 | 260,059 |
| Amounts owed by group undertakings | 1,966,660 | 1,891,548 |
| Other debtors | 250,999 | 129 |
| Prepayments and accrued income | 50,522 | 46,226 |
| | <u>2,657,991</u> | <u>2,197,962</u> |

Amounts owed by group undertakings of £6.704m are receivable in one instalment on 30 April 2029. Interest is charged at 2% per annum and is receivable in full on repayment of the loan.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2022 £ | 2021 £ |
|--|------------------|------------------|
| Trade creditors | 468,542 | 450,792 |
| Amounts owed to group undertakings | 961,634 | 994,070 |
| Taxation and social security costs | 15,292 | 15,494 |
| Accruals | 37,849 | 23,731 |
| Deferred income | 392,693 | 132,011 |
| Overdrafts owed to credit institutions | - | 10 |
| | <u>1,876,010</u> | <u>1,616,108</u> |

LAPMASTER WOLTERS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

| | 2022 £ | 2021 £ |
|------------------------------------|------------------|-------------------|
| Amounts owed to group undertakings | 3,022,823 | 36,808,289 |
| Accruals | - | 1,940,438 |
| | <u>3,022,823</u> | <u>38,748,727</u> |

Amounts owed to group undertakings of £3.023m are payable in one instalment on 30 April 2029. Interest is charged at 2% per annum and is repayable in full on repayment of the loan.

18. SHARE CAPITAL

| | 2022 £ | 2021 £ |
|---|------------------|------------------|
| ALLOTTED, CALLED UP AND FULLY PAID | | |
| 2,324,380 (2021: 2,324,380) Ordinary shares of £1.00 each | <u>2,324,380</u> | <u>2,324,380</u> |

19. RESERVES**Revaluation reserve**

The revaluation reserve contains cumulative revaluation gains on the Company's freehold property prior to conversion to FRS 102.

Capital redemption reserve

The capital redemption reserve was created upon the repurchase by the Company of its own shares. The nominal value of the repurchased share capital was transferred from retained earnings into this reserve.

Other reserves - Capital contribution

The capital contribution surplus was created when the shareholders injected assets into the Company with no return of shares.

Foreign exchange reserve

The foreign exchange reserve represents accounting entries recorded in other comprehensive income in the accounts that remain undistributable.

Profit and loss account

The profit and loss account contains the Company's cumulative undistributed profits and losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**
20. PENSION COMMITMENTS

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £93,636 (2021: £83,057). Contributions totaling £Nil (2021: £Nil) were payable to the fund at the reporting date.

21. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2022 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

| | 2022 £ | 2021 £ |
|--|---------------|---------------|
| Not later than 1 year | 18,364 | 16,689 |
| Later than 1 year and not later than 5 years | 15,094 | 15,108 |
| | <u>33,458</u> | <u>31,797</u> |

22. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary undertaking of their ultimate parent company, Lapmaster Group Holdings LLC, the Company has taken advantage of the exemption in section 33.1A of FRS 102 in not disclosing intra-group transactions where 100% of the voting rights are controlled within the group.

Key Management Personnel

The Directors, who have authority and responsibility for planning, directing and controlling the activities of the Company are considered to be the only key management personnel. The Directors are not remunerated by the Company.

23. CONTROLLING PARTY

The immediate parent undertaking is Lapmaster Group Holdings LLC. The ultimate parent undertaking is Lapmaster US Holdings, Inc.

The parent undertaking of the smallest group to consolidate these financial statements is Lapmaster Group Holdings LLC, a company incorporated in the United States of America. Copies of the Lapmaster Group Holdings LLC can be obtained from Lapmaster International LLC, 501 W Algonquin Road, Mount Prospect, IL 60056, USA.

Under the Companies Act 2006, the Company is exempt from producing consolidated accounts as it is included in non-EEA group accounts of a larger group (s.401).

**LAPMASTER GROUP HOLDINGS, LLC
AND SUBSIDIARIES**
Mount Prospect, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
Mount Prospect, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Managers
Lapmaster Group Holdings, LLC and Subsidiaries
Mount Prospect, Illinois

Opinion

We have audited the consolidated financial statements of Lapmaster Group Holdings, LLC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2022 (Successor Period) and December 31, 2021 (Predecessor Period), and the related consolidated statements of comprehensive income (loss), members' equity, and cash flows for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lapmaster Group Holdings, LLC and Subsidiaries as of December 31, 2022 (Successor Period) and December 31, 2021 (Predecessor Period), and the results of their operations and their cash flows for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Lapmaster Group Holdings, LLC and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lapmaster Group Holdings, LLC and Subsidiaries' ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lapmaster Group Holdings, LLC and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lapmaster Group Holdings, LLC and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Oak Brook, Illinois
July 26, 2023

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

| | Successor 2022 | Predecessor 2021 |
|--|-------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 52,102,143 | \$ 50,968,521 |
| Accounts receivable-net of allowance for doubtful accounts of \$1,648,237 and \$1,521,591 as of December 31, 2022 and 2021, respectively | 40,177,429 | 32,320,045 |
| Contract assets | 31,753,731 | 20,393,692 |
| Inventories-net | 123,621,802 | 82,000,836 |
| Refundable income and other taxes | 4,599,906 | 686,296 |
| Prepaid expenses and other current assets | 16,388,998 | 9,397,160 |
| Total current assets | 268,644,009 | 195,766,550 |
| Long-term assets | | |
| Property, plant, and equipment-net | 28,496,032 | 17,760,343 |
| Operating lease right-of-use assets-net | 13,186,455 | - |
| Goodwill-net | 89,435,160 | 35,633,886 |
| Intangible assets-net | 72,848,857 | 27,606,850 |
| Deferred income tax assets | 1,977 | 2,763 |
| Other long-term assets | 2,253,970 | 900,370 |
| Total long-term assets | 206,222,451 | 81,904,212 |
| Total assets | \$ 474,866,460 | \$ 277,670,762 |
| LIABILITIES AND MEMBERS' EQUITY | | |
| Current liabilities | | |
| Current portion of long-term debt-net of debt issuance costs | \$ 54,560 | \$ 55,046,452 |
| Lines of credit | 181,729 | 248,211 |
| Accounts payable | 31,984,716 | 24,252,489 |
| Current portion of accrued warranty and installation obligations | 4,607,925 | 3,548,908 |
| Accrued expenses and other current liabilities | 18,416,491 | 16,784,234 |
| Current portion of long-term operating lease liabilities | 4,751,855 | - |
| Current portion of pension liabilities | 330,126 | 667,726 |
| Contract liabilities | 176,232,877 | 99,455,568 |
| Income and other taxes payable | 7,841,909 | 880,011 |
| Total current liabilities | 244,402,188 | 200,883,599 |
| Long-term liabilities | | |
| Long-term debt-net of current portion and debt issuance costs | 112,303 | 168,498 |
| Subordinated debt accrued interest | - | 4,039,648 |
| Subordinated debt | - | 37,539,532 |
| Deferred income tax liabilities | 29,008,157 | 10,451,913 |
| Pension liabilities-net of current portion | 9,436,995 | 13,874,255 |
| Accrued warranty obligations-net of current portion | 2,231,111 | 1,364,516 |
| Long-term operating lease liabilities-net of current portion | 8,468,985 | - |
| Other long-term liabilities | - | 1,991,253 |
| Total long-term liabilities | 49,257,551 | 69,429,615 |
| Members' equity | | |
| Member units | 171,155,383 | 7,885,361 |
| Statutory reserves | 1,634,581 | 1,485,058 |
| Accumulated other comprehensive income (loss) | 8,416,757 | (2,012,871) |
| Total members' equity | 181,206,721 | 7,357,548 |
| Total liabilities and members' equity | \$ 474,866,460 | \$ 277,670,762 |

See accompanying notes to the consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from
January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31
2021 (Predecessor Period)

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor 2021 |
|--|---|---|------------------------|
| Net sales | \$ 89,193,119 | \$ 240,363,077 | \$ 257,701,167 |
| Cost of sales | <u>61,396,549</u> | <u>164,574,222</u> | <u>169,343,630</u> |
| Gross profit | 27,796,570 | 75,788,855 | 88,357,537 |
| Operating expenses | | | |
| Engineering expenses | 5,916,249 | 20,283,926 | 24,195,944 |
| Selling expenses | 5,776,474 | 19,399,888 | 21,323,634 |
| General and administrative expenses | 5,859,337 | 18,361,761 | 21,791,924 |
| Amortization of intangible assets | 1,786,128 | 2,210,492 | 3,687,931 |
| Amortization of goodwill | 2,285,527 | 3,921,927 | 5,815,785 |
| Gain on sale of subsidiaries | - | (6,513,416) | - |
| Acquisition, restructuring, and other expenses | <u>8,729,505</u> | <u>26,380,261</u> | <u>22,389,394</u> |
| | <u>30,353,220</u> | <u>84,044,839</u> | <u>99,204,612</u> |
| Loss from operations | (2,556,650) | (8,255,984) | (10,847,075) |
| Other (expense) income | | | |
| Interest expense-net | (47,041) | (9,028,689) | (9,550,134) |
| Other (expense) income-net | <u>(976,411)</u> | <u>798,817</u> | <u>650</u> |
| | <u>(1,023,452)</u> | <u>(8,229,872)</u> | <u>(9,549,484)</u> |
| Loss before provision for income taxes | (3,580,102) | (16,485,856) | (20,396,559) |
| Provision for income taxes | <u>2,834,853</u> | <u>6,284,360</u> | <u>5,779,460</u> |
| Net loss | (6,414,955) | (22,770,216) | (26,176,019) |
| Other comprehensive income (loss) | | | |
| Net pension actuarial income | 6,109 | - | 1,882,700 |
| Foreign currency translation adjustment | <u>8,410,648</u> | <u>(8,464,186)</u> | <u>(5,672,477)</u> |
| | <u>8,416,757</u> | <u>(8,464,186)</u> | <u>(3,789,777)</u> |
| Comprehensive income (loss) | <u>\$ 2,001,802</u> | <u>\$ (31,234,402)</u> | <u>\$ (29,965,796)</u> |

See accompanying notes to the consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
For the period from October 5, 2022 through December 31, 2022 (Successor Period)

| | Member Units ⁽¹⁾ | Statutory Reserves | Accumulated Other Comprehensive Income ⁽²⁾ | Total Members' Equity |
|---|--------------------------------|-----------------------|--|-----------------------------|
| Balance-October 5, 2022 | \$ - | \$ - | \$ - | \$ - |
| Issuance of member units | 177,570,338 | 1,634,581 | - | 179,204,919 |
| Net loss | (6,414,955) | - | - | (6,414,955) |
| Comprehensive income | - | - | - | - |
| Net pension actuarial income | - | - | 6,109 | 6,109 |
| Foreign currency translation adjustment | - | - | 8,410,648 | 8,410,648 |
| Balance-December 31, 2022 | <u>\$ 171,155,383</u> | <u>\$ 1,634,581</u> | <u>\$ 8,416,757</u> | <u>\$ 181,206,721</u> |

⁽¹⁾ Comprised of Class A Preferred Units, Class B Preferred Units, and Common Units (see Note 6)

⁽²⁾ Accumulated other comprehensive income as of December 31, 2022 consisted of the following:

| | |
|---|---------------------|
| Foreign currency translation adjustment | \$ 8,410,648 |
| Net pension actuarial income | <u>6,109</u> |
| | <u>\$ 8,416,757</u> |

See accompanying notes to the consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
For the period from January 1, 2021 through October 4, 2022 (Predecessor Period) and for the year ended December 31, 2021 (Predecessor Period)

| | Member Units ⁽¹⁾ | Statutory Reserves | Accumulated Other Comprehensive Loss ⁽²⁾ | Total Members' Equity |
|---|--------------------------------|-----------------------|--|-----------------------------|
| Balance-January 1, 2021 | \$ 34,091,658 | \$ 1,480,489 | \$ 1,776,906 | \$ 37,349,053 |
| Distributions | (25,709) | - | - | (25,709) |
| Net loss | (26,176,019) | - | - | (26,176,019) |
| Increase in statutory reserves | (4,569) | 4,569 | - | - |
| Comprehensive income (loss) | - | - | - | - |
| Net pension actuarial income | - | - | 1,882,700 | 1,882,700 |
| Foreign currency translation adjustment | - | - | (5,672,477) | (5,672,477) |
| Balance-December 31, 2021 | 7,885,361 | 1,485,058 | (2,012,871) | 7,357,548 |
| Net loss | (22,770,216) | - | - | (22,770,216) |
| Increase in statutory reserves | (149,523) | 149,523 | - | - |
| Comprehensive loss | - | - | - | - |
| Sale of subsidiaries | - | - | 1,880,896 | 1,880,896 |
| Foreign currency translation adjustment | - | - | (8,464,186) | (8,464,186) |
| Balance-October 4, 2022 | <u>\$ (15,034,378)</u> | <u>\$ 1,634,581</u> | <u>\$ (8,596,161)</u> | <u>\$ (21,995,958)</u> |

⁽¹⁾ Comprised of Preferred A Units, Preferred B Units, Class A Units, and Class B Units (see Note 6)

⁽²⁾ Accumulated other comprehensive loss as of October 4, 2022 and December 31, 2021 consisted of the following:

| | October 4, 2022 | December 31, 2021 |
|---|-----------------------|-----------------------|
| Foreign currency translation adjustment | \$ (7,518,952) | \$ (935,662) |
| Net pension actuarial income | <u>(1,077,209)</u> | <u>(1,077,209)</u> |
| | <u>\$ (8,596,161)</u> | <u>\$ (2,012,871)</u> |

See accompanying notes to the consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period from October 5, 2022 to December 31, 2022 (Successor Period), for the period from January 1, 2022 to October 4, 2022 (Predecessor Period), and for the year ended December 31 2021 (Predecessor Period)

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor 2021 |
|---|---|---|---------------------|
| Cash from operating activities | | | |
| Net loss | \$ (6,414,955) | \$ (22,770,216) | \$ (26,176,019) |
| Adjustments to reconcile net loss to net cash from operating activities | | | |
| Depreciation and amortization | 4,767,416 | 7,667,161 | 11,929,369 |
| Amortization of debt issuance costs | - | 1,322,037 | 601,141 |
| Deferred income tax (benefit) expense | (857,822) | 832,222 | 2,178,939 |
| Subordinated debt non-cash interest expense | - | 3,146,203 | 3,732,628 |
| Net periodic pension cost | 165,321 | - | 547,550 |
| Non-cash lease expense | 65,628 | 130,058 | - |
| Loss on disposals of property, plant, and equipment | 414,934 | 225,130 | 482,517 |
| Gain on sale of subsidiaries | - | (6,513,416) | - |
| Decrease (increase) in assets, net of business acquisitions | | | |
| Accounts receivable-net | (7,196,888) | (2,208,339) | 6,600,138 |
| Contract assets | (4,414,295) | (7,510,074) | 8,077,218 |
| Inventories-net | (8,189,448) | (24,812,357) | (10,250,738) |
| Refundable income and other taxes | 662,965 | (2,412,350) | 741,732 |
| Prepaid expenses and other current assets | 477,442 | (6,868,163) | (3,192,055) |
| Other long-term assets | 150,937 | 129,829 | (406,000) |
| Increase (decrease) in liabilities, net of business acquisitions | | | |
| Accounts payable | 2,232,081 | 5,383,195 | 8,323,868 |
| Accrued warranty and installation obligations | 792,248 | 1,293,508 | (1,482,507) |
| Accrued expenses and other current liabilities | (609,867) | 3,574,425 | 978,949 |
| Pension liabilities | (448,207) | 18,179 | (1,563,628) |
| Contract liabilities | 8,037,066 | 74,317,242 | 56,668,315 |
| Income and other taxes payable | (786,548) | 993,049 | (668,147) |
| Other long-term liabilities | (2,069,921) | 78,668 | 1,991,253 |
| Net cash from operating activities | (13,221,913) | 26,015,991 | 59,114,523 |
| Cash flows from investing activities | | | |
| Proceeds from sales of property, plant, and equipment | - | 3,629,120 | 67,539 |
| Proceeds from sale of subsidiary | - | 11,374,868 | - |
| Purchases of property, plant, and equipment | (1,516,123) | (5,198,209) | (2,630,496) |
| Business acquisitions, net of cash acquired | (83,562,877) | - | (244,696) |
| Net cash from investing activities | (85,079,000) | 9,805,779 | (2,807,653) |

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period from October 5, 2022 to December 31, 2022 (Successor Period), for the period from January 1, 2022 to October 4, 2022 (Predecessor Period), and for the year ended December 31 2021 (Predecessor Period)

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor <u>2021</u> |
|--|--|--|-----------------------------------|
| Cash flows from financing activities | | | |
| Payment of debt issuance costs | \$ - | \$ - | \$ (4,027,883) |
| Proceeds from lines of credit | - | - | 26,448 |
| Payments on lines of credit | - | (63,623) | (6,400,000) |
| Payments on long-term debt | (12,967) | (18,162,441) | (19,115,058) |
| Issuance of member units | 145,996,917 | - | - |
| Dividends paid | - | - | (25,709) |
| Net cash from financing activities | <u>145,983,950</u> | <u>(18,226,064)</u> | <u>(29,542,202)</u> |
| Effect of exchange rates on change in cash and cash equivalents | <u>4,419,106</u> | <u>(9,718,535)</u> | <u>(3,826,823)</u> |
| Increase in cash and cash equivalents | 52,102,143 | 7,877,171 | 22,937,845 |
| Cash and cash equivalents-beginning of financial reporting period | <u>-</u> | <u>50,968,521</u> | <u>28,030,676</u> |
| Cash and cash equivalents-end of financial reporting period | <u>\$ 52,102,143</u> | <u>\$ 58,845,692</u> | <u>\$ 50,968,521</u> |
| Supplemental disclosures of cash flow information | | | |
| Cash paid for interest | <u>\$ 64,595</u> | <u>\$ 5,550,659</u> | <u>\$ 4,313,429</u> |
| Cash paid for income taxes | <u>\$ 4,479,222</u> | <u>\$ 3,888,500</u> | <u>\$ 4,283,436</u> |
| Supplemental disclosure of non-cash financing activities | | | |
| Accrued interest on subordinated debt | <u>\$ -</u> | <u>\$ 3,146,203</u> | <u>\$ 3,732,628</u> |

See accompanying notes to the consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Lapmaster Group Holdings, LLC and Subsidiaries (the “Company”), doing business as Precision Surfacing Solutions, is a manufacturer and distributor of a wide range of lapping, grinding, polishing and bore honing machines, spare parts, consumables, cleaning systems, and accessories.

Lapmaster Parent, LLC (the “Parent”) was formed on June 22, 2022 for the purposes of acquiring Lapmaster Group Holdings, LLC and its wholly owned operating subsidiaries. Lapmaster Group Holdings, LLC was acquired on October 5, 2022 (the “Lapmaster Acquisition”). The Parent had no operations prior to October 5, 2022.

The Lapmaster Acquisition was accounted for using the purchase method of accounting which resulted in a new basis of accounting for the assets acquired and for the liabilities assumed. The Parent’s new basis of accounting was pushed down to the Company in the Successor Period. Although the Company continues with the same core operations after the Lapmaster Acquisition, the consolidated financial statements reflect the historical accounting basis for the financial reporting periods prior to the Lapmaster Acquisition and the new accounting basis for the financial reporting period following the Lapmaster Acquisition. The financial reporting period from October 5, 2022 through December 31, 2022 represents the 2022 Successor Period. The financial reporting periods for the period from January 1, 2022 through October 4, 2022 represents the 2022 Predecessor Period and the year ended December 31, 2021 represents the 2021 Predecessor Period. The 2021 Predecessor Period, the 2022 Predecessor Period, and the Successor Period are not comparable.

Principles of Consolidation: The Successor consolidated financial statements include the accounts of Lapmaster Group Holdings, LLC and its wholly-owned subsidiaries, Lapmaster International, LLC (“Lapmaster US”) and its wholly-owned subsidiary Bates Technologies, LLC, PSS Texas LLC, Lapmaster Wolters (Shenyang) Precision Machinery Co., Ltd. (“Lapmaster China”) and its wholly owned subsidiary Shanghai Sheen Intelligent Technology, Ltd. (“Shanghai Sheen”), Lapmaster Wolters Limited (“Lapmaster UK”) and its wholly-owned subsidiaries Precision Surfacing Solutions (Switzerland) GmbH (“PSS Switzerland”), NHL Sub GmbH, and limited partner, Precision Surfacing Solutions GmbH & Co. KG (“PSS Germany”) and its wholly-owned subsidiaries Lapmaster Wolters GmbH (“Lapmaster Germany”), Lapmaster-Wolters (Singapore) PTE. Ltd., PW WaferTec GmbH (“WaferTec”), Elb Schliff Werkzeugmaschinen GmbH (“Elb”), aba Grinding Technology GmbH (“aba”), REFORM Grinding Technologies GmbH & Co. KG (“REFORM”), Kehren GmbH (“Kehren”), Lapmaster Wolters Japan Kabushiki Kaisha, and PSS Korea, Ltd. The Successor consolidated financial statements also include the accounts of Lapmaster Wolters India Private Ltd. (“Lapmaster India”), an entity for which the Company has a 95% ownership interest. The ownership interests in Lapmaster India, other than those of the Company, have not been presented separately as noncontrolling interests in the consolidated financial statements due to the insignificance of those interests.

The Predecessor consolidated financial statements included the accounts of Lapmaster Group Holdings, LLC and its wholly-owned subsidiaries, Lapmaster US and its wholly-owned subsidiary Bates Technologies, LLC, PSS Texas LLC, Lapmaster China and its wholly owned subsidiary Shanghai Sheen, Lapmaster UK and its wholly-owned subsidiaries PSS Switzerland, Formatec Holding, B.V. (which in turn wholly owns Admatec Europe B.V. (“Admatec”) and Formatec Technical Ceramics B.V. (“Formatec”)), NHL Sub GmbH, and limited partner, PSS Germany and its wholly-owned subsidiaries Lapmaster Germany, Lapmaster-Wolters (Singapore) PTE. Ltd., WaferTec, Elb, aba, REFORM, Kehren, Lapmaster Wolters Japan Kabushiki Kaisha, and PSS Korea, Ltd.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

The Predecessor consolidated financial statements also included the accounts of Lapmaster India, an entity for which the Company had a 95% ownership interest. The ownership interests in Lapmaster India, other than those of the Company, have not been presented separately as noncontrolling interests in the consolidated financial statements due to the insignificance of those interests.

All intercompany accounts and transactions have been eliminated in consolidation in the Predecessor and Successor consolidated financial statements.

Cash and Cash Equivalents: The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed insured limits, as applicable.

Accounts Receivable: Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 to 60 days from the invoice date. Accounts receivables are stated at the amounts billed to the customers of the Company. No interest or late fees are charged on those accounts receivable which are considered to be delinquent. Payments of accounts receivable are allocated to specific invoices identified on the customer's remittance advice or, if unspecified, to the oldest unpaid invoices.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management of the Company's best estimate of the amounts that will not be collected. Management of the Company reviews all accounts receivable balances and based on an assessment of collection and current creditworthiness, estimates the portion, if any, of the accounts receivable balances that will not be collected. Management of the Company's estimate also considers any changes in future economic conditions that might give rise to results that differ from past experience.

Inventories: Inventories are stated at the lower of cost or net realizable value, unless acquired in a business acquisition. Inventories acquired in business acquisitions are initially recorded at fair value. Cost is determined using the weighted-average cost method and includes materials, labor, and allocated overhead. Potential losses from obsolete and slow-moving inventories are recorded as a reserve against gross inventories when identified.

Property, Plant, and Equipment: Property, plant, and equipment are stated at cost, except for property, plant, and equipment acquired through business acquisitions, which is initially recorded at fair value as of the date of business acquisition. Depreciation and amortization is provided primarily using the straight-line method over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

When property, plant, and equipment are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation and amortization, and any resulting gain or loss is recognized as a component of operating expenses in the consolidated statements of comprehensive income (loss).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Property, plant, and equipment as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) was as follows:

| | Successor <u>2022</u> | Predecessor <u>2021</u> |
|--|--|--|
| Machinery and equipment | \$ 13,977,578 | \$ 24,872,779 |
| Buildings and improvements | 9,686,519 | 4,931,066 |
| Office and computer equipment | 1,880,219 | 4,916,492 |
| Vehicles | 150,341 | 889,876 |
| Furniture and fixtures | 455,754 | 1,574,775 |
| Leasehold improvements | 659,215 | 1,860,829 |
| | <u>26,809,626</u> | <u>39,045,817</u> |
| Less accumulated depreciation and amortization | <u>(643,553)</u> | <u>(24,465,741)</u> |
| | 26,166,073 | 14,580,076 |
| Land | <u>2,329,959</u> | <u>3,180,267</u> |
| Total property, plant, and equipment-net | <u>\$ 28,496,032</u> | <u>\$ 17,760,343</u> |

Depreciation and amortization expense related to property, plant, and equipment was \$695,761, \$1,534,742 and \$2,425,653 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively.

The estimated lives used for the computation of depreciation and amortization of property, plant, and equipment are as follows:

| | |
|-------------------------------|--------------|
| Machinery and equipment | 5 - 22 years |
| Building and improvements | 8 - 50 years |
| Office and computer equipment | 3 - 10 years |
| Vehicles | 3 - 6 years |
| Furniture and fixtures | 4 - 13 years |

Leasehold improvements are amortized over the shorter of the economic useful life of the improvement, or the term of the operating lease.

Intangible Assets: The Company amortizes its intangible assets with definite lives over their respective estimated useful lives. Intangible assets with indefinite lives are not amortized and are evaluated for impairment annually or earlier if certain indicators are present. No indefinite lived intangible asset impairment charges were recorded for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Long-Lived Assets: The Company reviews long-lived assets, including property, plant, and equipment, intangible assets with definite lives, and operating lease right-of-use assets, for potential impairment whenever events or circumstances indicate that the carrying value of such assets may not be recoverable. If the review indicates that the carrying value of these assets is not recoverable, the carrying amount of the assets is reduced to fair value with a corresponding charge to operating expenses in the financial reporting period in which the determination is made. No long-lived asset impairment charges were recorded for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period).

Goodwill: Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. During the year ended December 31, 2017, the Company began amortizing goodwill over a 10-year useful life. Goodwill impairment testing is performed at the entity level only when a triggering event indicates that the carrying value of the entity may exceed its estimated fair value. If a triggering event indicates that the carrying value of the entity may exceed its estimated fair value, the Company can either start with a quantitative or qualitative analysis. If a qualitative analysis is performed and indicates the potential for impairment, a quantitative analysis is performed. In a quantitative analysis, the fair value of the entity is compared with its carrying amount (including goodwill). If the fair value of the entity is less than its carrying amount, an impairment loss would be recognized in an amount to adjust goodwill to fair value of the entity. If the fair value of the entity exceeds its carrying value, no impairment loss is recognized. No goodwill impairment charges were recorded for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period).

Changes to goodwill for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) were as follows:

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor 2021 |
|---|--|--|----------------------------|
| Balance-beginning of financial reporting period | \$ - | \$ 35,633,886 | \$ 42,820,130 |
| Goodwill acquired | 88,554,981 | - | 122,786 |
| Goodwill amortization | (2,285,527) | (3,921,927) | (5,815,785) |
| Disposal of subsidiaries | - | (2,705,345) | - |
| Impact of foreign currency translation | 3,165,706 | (2,510,800) | (1,493,245) |
| Balance-end of financial reporting period | <u>\$ 89,435,160</u> | <u>\$ 26,495,814</u> | <u>\$ 35,633,886</u> |

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Debt Issuance Costs: Debt issuance costs are included as a direct deduction from the carrying amount of the debt liability, consistent with debt premiums and discounts. The amortization of debt issuance costs is included as a component of interest expense-net in the consolidated statements of comprehensive income (loss) and were \$1,322,037 and \$601,141 for the period from January 1, 2022 through October 4, 2022 (Predecessor Period) and for the year ended December 31, 2021 (Predecessor Period), respectively. No material level of new debt issuance costs was incurred during the period from October 5, 2022 through December 31, 2022 (Successor Period), and during the period from January 1, 2022 through October 4, 2022 (Predecessor Period). New debt issuance costs totaling \$4,027,883 were incurred during the year ended December 31, 2021 (Predecessor Period).

Sales Recognition: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenues from Contracts with Customers (Topic 606)*, which provides a five-step analysis of contracts to determine when and how sales are recognized and replaced most existing sales recognition guidance in generally accepted accounting principles in the United States of America. The core principle of the new guidance is that an entity should recognize sales to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive.

The Company derives its sales from three revenue streams: machines, sales of spare parts and consumables, and service. The Company recognizes sales when obligations under the terms of a contract are satisfied with a customer by the Company. For spare parts, consumables, or non-highly customized machines, this occurs when control passes to the customer on a point in time basis. Highly customized machines which have no alternative use and have enforceable right to payment are recognized as sales over time based on the transaction price outlined in each respective contractual agreement. Services where the customer receives the benefit while the service is performed are also recognized as sales over time based on the transaction price outlined in each respective contractual agreement.

Based on the standard payment terms, payments are typically due within 30 to 60 days. Payment terms can vary based on arrangement with customers of the Company.

Contracts with Customers – Sales are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive for those products or services. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included as a component of cost of sales in the consolidated statements of comprehensive income (loss). Amounts billed to customers for shipping and handling costs are included as a component of net sales in the consolidated statements of comprehensive income (loss). Provisions for any returns or product returns from customers, which are generally immaterial, are accounted for as reductions in sales in the same financial reporting period sales are recorded.

Performance Obligations – A performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. The Company recognizes sales when obligations under the terms of a contract with a customer are satisfied. For contracts involving percentage of completion or services, there is one performance obligation which is the transfer of a good or service over time. Certain machine sales, consumables, and spare parts sold on a point in time basis may have contracts that have multiple independent products; however, each of these products are treated as independent performance obligations. The promise to install machines is accounted for as a separate performance obligation except in situations in which the installation of the machine is considered an integral part and interdependent of the transfer of a working machine and therefore cannot be considered distinct in the context of the contract.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Variable Consideration – In certain contracts for machines, the Company's business gives rise to certain variable consideration, including penalties dictated generally by a certain date at which the machine must be delivered. Variable consideration is estimated at the most likely amount that is expected to be earned.

Contract Assets and Liabilities – Contract assets include unbilled sales resulting from sales under contracts recognized over time utilizing an input method of cost-to-cost sales recognition and sales recognized exceeding the amount billed to the customer. Contract liabilities include unearned revenue resulting from cash received from customers in advance of the work being performed and sales recognized. Contract assets and contract liabilities were as follows as of December 31, 2022 (Successor Period) and December 31, 2021 (Predecessor Period).

| | Successor 2022 | Predecessor 2021 |
|----------------------|---------------------------------|-----------------------------------|
| Contract assets | \$ 31,753,731 | \$ 20,393,692 |
| Contract liabilities | 176,232,877 | 99,455,568 |

Disaggregation of Sales – In the following table, sales are disaggregated by timing of satisfaction of performance obligations for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period).

| | Successor For the period from October 5, 2022 to <u>December 31, 2022</u> | Predecessor For the period from January 1, 2022 to <u>October 4, 2022</u> | Predecessor <u>2021</u> |
|--|---|---|-----------------------------------|
| Performance obligations satisfied at a point in time | \$ 22,472,624 | \$ 60,531,058 | \$ 76,576,463 |
| Performance obligations satisfied over time | 66,720,495 | 179,832,019 | 181,124,704 |

Warranties – The Company provides one- to three-year warranties against manufacturing defects in its products sold and records an expense and liability for expected costs related to this obligation. These warranties are considered to be assurance warranties and do not represent a performance obligation.

Significant Judgments – The Company recognizes certain contract sales for financial reporting purposes over time. Progress toward completion of the Company's contracts is measured by the percentage of costs incurred to date to estimated total costs for each contract and requires significant judgment. This method is used because management of the Company considers total costs to be the best available measure of progress on contracts.

Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative sales recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends and require significant judgment.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The Company applies the practical expedient that permits an entity not to recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less.

The Company applies the practical expedient that permits an entity to exclude sales taxes from the measurement of the transaction price.

The Company applies the practical expedient that permits an entity to expense sales commissions and associated costs as incurred when the expected amortization period is one year or less.

Recently Adopted Accounting Policies: In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases Topic 842*, Accounting Standards Codification (“ASC”) 842 (“ASC 842”) which requires that an entity recognize operating lease right-of-use assets and operating lease liabilities on its consolidated balance sheets for leases in excess of one year that were previously classified as operating leases under generally accepted accounting principles in the United States of America. On January 1, 2022, the Company adopted ASC 842 using the modified retrospective approach. The Company has not adjusted its consolidated financial statements and associated disclosures as of and for the year ended December 31, 2021 (Predecessor Period). ASC 842 requires lessees to recognize a lease liability and a right-of-use asset for each lease with a term longer than 12 months and adds new presentation and disclosure requirements for both lessees and lessors. The recognized lease liability is measured at the present value of lease payments not yet paid, and the corresponding lease right-of-use asset represents the lessee’s right to use the underlying asset over the lease term and is based on the liability, subject to certain adjustments. For consolidated statements of comprehensive income (loss) and cash flow purposes, ASC 842 retains the dual model with leases classified as either operating or finance leases. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern.

The Company elected the package of practical expedients permitted under the transition guidance in ASC 842 and, upon adoption of ASC 842, the Company did not reassess prior conclusions related to contracts containing leases, lease classification, and initial direct costs. The adoption of ASC 842 did not have a material impact on the Company’s consolidated statements of comprehensive loss or cash flows. Upon adoption of ASC 842, the Company recorded \$16,375,687 in operating lease right-of-use assets and corresponding operating lease liabilities in the consolidated balance sheet. There were no finance leases as of the adoption date of ASC 842.

Leases: The Company determines whether the contract contains a lease at the inception of an contract. If a lease is identified in a contract, the Company recognizes a right-of-use asset and liability on its consolidated balance sheets and determines whether the lease should be classified as a finance or operating lease. The Company does not recognize assets or liabilities for leases with lease terms of less than 12 months as the Company made the short-term lease election.

Operating lease right-of-use assets represent the Company’s right to use an underlying asset for the operating lease term and operating lease liabilities represent the Company’s obligation to make operating lease payments arising from the operating lease. Operating lease right-of-use assets and operating lease liabilities are recognized at the operating lease commencement date based on the estimated present value of operating lease payments over the operating lease term. Operating lease right-of-use assets also include prepaid rent.

As the implicit interest rate is generally not readily determinable for its operating leases, the Company uses its estimated incremental borrowing interest rate for vehicles and equipment which is derived from information available at the operating lease commencement date.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

The Company has elected to use the risk-free interest rate practical expedient as the discount interest rate to measure the facility and storage leases.

The Company made an accounting policy election not to separate lease and non-lease components of a contract that is or contains an operating lease for its facilities and equipment leases. As such, operating lease payments represent payments on both lease and non-lease components. Variable operating lease payments are expensed as incurred. If an operating lease includes an option to extend or terminate the operating lease, the Company reflects the option in the operating lease term if it reasonably certain it will exercise the option.

In connection with the Lapmaster Acquisition, the Company was required to remeasure all of its operating leases using interest rates as of the Lapmaster Acquisition date in accordance with ASC 805. There were no finance leases as of the Lapmaster Acquisition date and as of December 31, 2022 (Successor Period).

Income Taxes: The Company's domestic entities are limited liability companies classified as partnerships for federal income tax purposes. Consequently, related income and losses flow directly through to the members of the Company. Accordingly, no provision for federal income taxes in the United States of America has been reflected in the consolidated financial statements. The Company's domestic entities may be subject to certain state income taxes.

The majority of the Company's foreign subsidiaries have elected to be classified as entities disregarded from the Company for federal income tax purposes in the United States of America. Consequently, income and losses of these Company's foreign subsidiaries flow directly through to the members of the Company. The income of those foreign subsidiaries not having made the election to be disregarded from the Company for federal income tax purposes in the United States of America will flow through to the members of the Company when a distribution, or a transaction taxable under federal income tax laws in the United States of America as a deemed distribution, occurs.

All of the Company's foreign subsidiaries are also subject to various foreign income taxes. The international income tax rates vary by country and are assessed on the Company's international operations. Withholding taxes are also required to be remitted on certain types of payments made by foreign jurisdictions, including but not limited to royalty charges, management fees, and sales and marketing charges. The withholding taxes rules vary by jurisdiction and by entity classification. The Company accrues withholding taxes as incurred throughout the financial reporting period as required.

Uncertain Income Tax Positions: The Company recognizes an income tax position as a benefit only if it is more likely than not that the income tax position would be sustained in an income tax examination, with an income tax examination being presumed to occur. Benefits from income tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final income tax outcome of these matters is different from the amounts recorded, such differences impact the provision for income taxes in the financial reporting period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential income tax assessments would be included in the provision for income taxes.

Management of the Company has analyzed the income tax positions taken by the Company and has concluded that as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), there are no uncertain income tax positions taken or expected to be taken by these entities that would require recognition of a liability in the consolidated financial statements.

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Use of Estimates: The preparation of consolidated financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of sales and expenses during the financial reporting period. Actual results could differ from those estimates. Significant estimates include the determination of the allowance for doubtful accounts, cost estimates related to sales recognition, the net realizable value of inventories, the net recoverable amounts of deferred income tax assets and the carrying amount of deferred income tax liabilities, the useful lives and carrying values of long-lived assets, indefinite lived intangible assets, and goodwill, the evaluation of uncertain income tax positions, the fair value of interest rate swaps, the accrual required for product warranties, the fair value of consideration exchanged in business acquisitions, and the valuation of post-retirement benefits.

Foreign Currency:

Translation – All of the foreign subsidiaries of the Company use their local currency as the functional currency. The assets and liabilities of the foreign subsidiaries of the Company are translated into dollars (United States of America) using rates of exchange as of the balance sheet dates. Sales and expenses are translated at average exchange rates in effect during the financial reporting periods. The cumulative effect resulting from such translation is included as a component of accumulated other comprehensive income (loss), and changes in the cumulative effect of such translations are included in other comprehensive income (loss) in the consolidated financial statements.

The Company has certain intercompany borrowings between its subsidiaries. If the borrowings are deemed a long-term investment, the impacts of translation of the borrowings to the currency in which the borrowings are denominated is included in other comprehensive income (loss) in the consolidated financial statements. If the borrowings are not deemed a long-term investment, the impact of translation of the borrowings to the currency in which the borrowings are denominated is recognized in the consolidated statements of comprehensive income (loss) as a component of other (expense) income-net.

Transaction – The Company enters into certain transactions denominated in foreign currencies. Gains and losses on foreign currency transactions are recognized currently in the consolidated statements of comprehensive income (loss) as a component of other (expense) income-net. For the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), the (loss) gain on foreign currency transactions was (\$981,496), \$714,100, and (\$15,368), respectively.

Fair Value of Financial Instruments: The Company accounts for certain assets and liabilities at fair value, within a framework which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Level 2 – Inputs to the valuation methodology include: (i) Quoted prices for similar assets or liabilities in active markets; (ii) Quoted prices for identical or similar assets or liabilities in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset or liability; and (iv) Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology include prices or valuation techniques that are both unobservable and significant to the overall fair value measurement.

The asset's or liability's fair value measurement level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings, approximate fair value due to the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates fluctuate with market interest rates or the fixed interest rates are based on current interest rates offered to the Company for long-term debt with similar terms and maturities. The Company believed it was not practicable to determine the fair value of its subordinated debt. Unlike typical long-term debt, interest rates and other terms for subordinated debt are not readily available and generally involve a variety of factors, including due diligence by the subordinated debt holders.

It is the Company's policy, in general, to measure nonfinancial assets and liabilities at fair value on a non-recurring basis. These items are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (such as business acquisitions and evidence of impairment) which, if material, are disclosed in the notes to the consolidated financial statements.

Derivative Financial Instruments: The Company does not apply hedge accounting to derivative instruments and all changes are accounted for in the consolidated statements of comprehensive income (loss) as a component of interest expense-net.

Research and Development Costs: Expenditures for research and development costs are expensed when incurred and are included as a component of engineering expenses in the consolidated statements of comprehensive income (loss). For the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), the Company's research and development costs were \$1,918,579, \$7,821,780, and \$5,856,209, respectively.

Limitations of Liability: Lapmaster Group Holdings, LLC, and Lapmaster International, LLC were organized pursuant to the Illinois Limited Liability Company Act, which limits the liability of the individual members. The term of existence began with the filing of the Articles of Organization with the state of Illinois and continues indefinitely. As these entities have been organized as limited liability companies, their members are not liable for any act, debt, obligation, or liability of the entities, except to the extent a member personally guarantees any liabilities of these entities.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 2 – BUSINESS ACQUISITIONS

On October 5, 2022, the Parent obtained control of all outstanding membership interests of the Company through a merger agreement. Lapmaster Merger Sub, LLC was an entity formed and wholly owned by the Parent that merged with Lapmaster Group Holdings, LLC with Lapmaster Group Holdings, LLC being the surviving entity.

The purchase price of the Company was \$116,770,879, net of cash and cash equivalents acquired of \$58,845,692. The purchase price of the Company included rollover equity in the Company with a stated value of \$61,929,413 related to the combination of subordinated debt previously outstanding held by a member to the Company and also a member of the Company's member units in the Company prior to the Lapmaster Acquisition. The fair value of the rollover equity in the Company was determined to be \$33,208,002 through the use of an option pricing model. The rollover equity in the Company is considered a non-cash investing activity. The Company considered the fair value of the net tangible and intangible assets acquired, operating cash flows, and future expected sales to be generated when determining the purchase price for the Lapmaster Acquisition. The purchase price related to the Lapmaster Acquisition includes the estimated impacts of the final measurement of working capital in accordance with the merger agreement. The measurement of working capital resulted in the Parent being owed an expected \$7,500,000. The \$7,500,000 is a receivable of the Parent and not reflected in the consolidated balance sheet of the Company. The purchase price and related purchase price allocation related to the Lapmaster Acquisition is provisional for the final calculation of working capital related to its impact on the purchase price and the final allocation of purchase price and related intangible assets amongst subsidiaries of the Company, including impacts to the measurement of deferred income taxes and impacts related to the measurement of foreign currencies.

The consideration and the acquired assets and assumed liabilities of the Company have been recorded at their estimated fair values as of the date of the Lapmaster Acquisition. The purchase price for the Lapmaster Acquisition exceeded the fair value of net assets acquired, resulting in recorded goodwill related to the Lapmaster Acquisition. Transaction expenses related to the Lapmaster Acquisition were \$14,803,083. The transaction expenses were paid by the Parent and not included in the Company's consolidated financial statements. The Company, doing business as Precision Surfacing Solutions, is a manufacturer and distributor of a wide range of lapping, grinding, polishing and bore honing machines, spare parts, consumables, cleaning systems, and accessories. The Company believes the Lapmaster Acquisition will position the business to serve as a platform for future growth. The Lapmaster Acquisition has been accounted for as a purchase and, accordingly, the operating results of the Company have been included in the Company's consolidated financial statements since the date of the Lapmaster Acquisition.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 2 – BUSINESS ACQUISITIONS (Continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the Lapmaster Acquisition date:

| | |
|--|-----------------------|
| Consideration | |
| Total consideration | \$ 175,616,571 |
| Less cash and cash equivalents acquired | (58,845,692) |
| Net consideration | <u>\$ 116,770,879</u> |
| Allocated fair value of assets acquired and liabilities assumed | |
| Accounts receivable | \$ 30,153,413 |
| Contract assets | 24,951,342 |
| Inventories | 106,835,367 |
| Prepaid expenses, other current assets, and other long-term assets | 22,900,794 |
| Property, plant, and equipment | 26,426,223 |
| Operating lease right-of-use assets | 12,724,447 |
| Intangible assets | <u>69,300,000</u> |
| Total fair value of assets acquired | 293,291,586 |
| Contract liabilities | 154,330,728 |
| Accounts payable, accrued expenses, and other current liabilities | 47,672,023 |
| Operating lease liabilities | 12,723,190 |
| Deferred income tax liabilities | 27,579,141 |
| Pension liabilities | 9,260,132 |
| Income and other taxes payable | 8,002,542 |
| Accrued warranties and installation obligations | <u>5,507,932</u> |
| Total fair value of liabilities assumed | 265,075,688 |
| Total identifiable net assets acquired | 28,215,898 |
| Goodwill | <u>88,554,981</u> |
| Total fair value of net assets acquired | <u>\$ 116,770,879</u> |

As part of the Lapmaster Acquisition, the Company acquired certain customer lists and certain customer contracts of the Company. The Company determined that the customer-related intangible assets acquired were not capable of being sold or licensed independently from the other assets of the Company. The Company applied the private company intangible asset alternative related to intangible assets acquired in business acquisitions. Accordingly, any value associated with customer-related intangible assets and any acquired non-competition agreements were not separately recognized and rather assumed in the resulting goodwill balance. Other intangible assets that the Company acquired include trademarks, trade names, and developed technology, which were estimated at their values using the relief from royalty method. The estimated fair values of these intangible assets reflect various assumptions about discount interest rates, sales growth rates, operating margins, terminal values, useful lives and other prospective financial information. The Company also acquired in process research and development, which was valued at fair value using a cost to recreate model. Property and equipment and inventories were recorded at their fair values considering cost and market approaches. Goodwill arising from the Lapmaster Acquisition largely consists of intangible assets not separately recognized. Goodwill is not deductible for income tax purposes. The contractual value of accounts receivable acquired was \$31,675,004.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 2 – BUSINESS ACQUISITIONS (Continued)

| | Fair Value | Weighted- Average Amortization Period |
|-------------------------------------|----------------------|--|
| Intangible assets: | | |
| Developed technology | \$ 47,900,000 | 10 years |
| Trademarks and trade names | 20,000,000 | 10 years |
| In process research and development | 1,400,000 | indefinite |
| | <u>\$ 69,300,000</u> | |

The Company had agreements in place for the payment of bonuses to certain employees of the Company that required the employees of the Company to remain employed for a period of time after the Lapmaster Acquisition. The bonuses totaled \$3,546,000 and 50% of the amount was paid in the month following the Lapmaster Acquisition with the remaining 50% of the amount being paid in January 2023. The Company recorded an expense of \$3,546,000 as a component of acquisition, restructuring, and other expenses for the period from October 5, 2022 through December 31, 2022 (Successor Period). Accordingly, the Company had a liability of \$1,773,000 recorded as a component of accrued expenses and other current liabilities in the consolidated balance sheet as of December 31, 2022 (Successor Period).

On August 11, 2021, the Company, via Lapmaster China, entered into an equity transfer agreement to acquire all of the issued and outstanding equity of Shanghai Sheen, located in Shanghai, China, for \$244,696 in an effort to expand the Company's Chinese presence, services, and technical capabilities. The excess purchase price over the net asset fair value, which consisted of cash and cash equivalents, accounts receivable with the Company, accounts payable, and accrued expenses, was \$122,786. This amount is reflected as a component of goodwill in the consolidated balance sheet as of December 31, 2021 (Predecessor Period).

NOTE 3 – SALE OF SUBSIDIARIES

On July 7, 2022, the Company entered into an equity purchase agreement with a third party to sell certain assets and liabilities of the Company associated with its operations in the Netherlands, which consisted of Admatec and Formatec. The assets and liabilities sold were deemed to constitute a business under generally accepted accounting principles in the United States of America. Purchase consideration for the sale of Admatec and Formatec was \$13,344,671, exclusive of any applicable value added taxes. The purchase price of Admatec and Formatec was shown net of any working capital adjustments, the final calculations of which have now been finalized between the buyer of Admatec and Formatec and the Company. Subsequent to December 31, 2022 (Successor Period), the Company received proceeds from escrow related to the finalization of working capital of \$283,364 which was recorded as a component of prepaid expenses and other current assets in the consolidated balance sheet as of December 31, 2022 (Successor Period). \$1,500,000 of the purchase price of Admatec and Formatec is being held in escrow related to any indemnification losses claimed. However, the Company believes there to be no indemnification losses present. The amount is required to remain in an escrow account for an 18 month period after the July 7, 2022 sale date. Accordingly, the Company had a receivable totaling \$1,500,000 recorded as a component of other long-term assets in the consolidated balance sheet as of December 31, 2022 (Successor Period). Transaction proceeds received related to the sale of Admatec and Formatec were net of \$186,439 related to a transaction bonus that was paid at closing of the sale transaction.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 3 – SALE OF SUBSIDIARIES (Continued)

The Company recorded a gain associated with the sale of Admatec and Formatec based on the purchase consideration as compared to the assets sold and liabilities assumed as follows:

| | |
|--|---------------|
| Consideration | |
| Total consideration | \$ 13,344,671 |
| Disposed assets and liabilities | |
| Cash and cash equivalents | \$ 750,062 |
| Accounts receivable | 549,091 |
| Inventories | 923,745 |
| Prepaid expenses and other current assets | 307,901 |
| Property, plant, and equipment | 452,840 |
| Intangible assets | 17,339 |
| Goodwill | 2,705,345 |
| Total assets | 5,706,323 |
| Accounts payable | 125,854 |
| Accrued expenses and other current liabilities | 223,539 |
| Contract liabilities | 406,571 |
| Total liabilities | 755,964 |
| Accumulated other comprehensive loss | 1,880,896 |
| Total identifiable net assets | 6,831,255 |
| Total gain on disposal | \$ 6,513,416 |

The gain from the sale of Admatec and Formatec was recorded as a component of operating expenses in the consolidated statement of comprehensive loss for the period from January 1, 2022 through October 4, 2022 (Predecessor Period). The operations of Admatec and Formatec were included in the Company's consolidated financial statement results through the date of the sale. Sales associated with Admatec and Formatec were \$1,915,369 for the period from January 1, 2022 through October 4, 2022 (Predecessor Period) and \$5,348,552 for the year ended December 31, 2021 (Predecessor Period). Assets associated with Admatec and Formatec were \$6,046,524 as of December 31, 2021 (Predecessor Period).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 4 – INVENTORIES

Inventories as of December 31, 2022 and 2021 consisted of the following:

| | Successor 2022 | Predecessor 2021 |
|--|------------------------------|-----------------------------|
| Raw materials | \$ 74,272,495 | \$ 57,449,303 |
| Work-in-process | 44,704,373 | 15,154,120 |
| Finished goods | <u>22,570,889</u> | <u>25,426,246</u> |
| | 141,547,757 | 98,029,669 |
| Less reserve for excess and obsolete inventories | <u>(17,925,955)</u> | <u>(16,028,833)</u> |
| | <u><u>\$ 123,621,802</u></u> | <u><u>\$ 82,000,836</u></u> |

NOTE 5 – INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of the intangible assets as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) were as follows:

| 2022 (Successor Period) | | | | |
|-------------------------------------|----------------|-----------------------------|-----------------------------|-----------------------------|
| | Useful Life | Gross Amount | Accumulated Amortization | Net Amount |
| Not subject to amortization | | | | |
| In process research and development | N/A | \$ 1,400,000 | \$ - | \$ 1,400,000 |
| Subject to amortization | | | | |
| Developed technology | 10 years | 51,747,473 | 1,297,395 | 50,450,078 |
| Trademarks and trade names | 10 years | <u>21,537,209</u> | <u>538,430</u> | <u>20,998,779</u> |
| | | <u><u>\$ 74,684,682</u></u> | <u><u>\$ 1,835,825</u></u> | <u><u>\$ 72,848,857</u></u> |
| 2021 (Predecessor Period) | | | | |
| | Useful Life | Gross Amount | Accumulated Amortization | Net Amount |
| Not subject to amortization | | | | |
| Trademarks and trade names | N/A | \$ 15,259,904 | \$ - | \$ 15,259,904 |
| Subject to amortization | | | | |
| Patents | 20 years | 72,675 | 50,393 | 22,282 |
| Developed technology | 5-10 years | 19,992,738 | 14,332,548 | 5,660,190 |
| Customer backlog | 2-20 years | 11,270,282 | 5,736,793 | 5,533,489 |
| Trademarks and trade names | 2-15 years | <u>2,276,148</u> | <u>1,145,163</u> | <u>1,130,985</u> |
| | | <u><u>\$ 48,871,747</u></u> | <u><u>\$ 21,264,897</u></u> | <u><u>\$ 27,606,850</u></u> |

In process research and development are considered indefinite-lived intangible assets until the completion or abandonment of the associated research and development efforts.

Customer backlog assets relate to intangible assets acquired in a past business combination prior to the adoption of the private company accounting alternative to not separately value customer related intangible assets.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 5 – INTANGIBLE ASSETS (Continued)

For the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), the impact of intangible assets acquired, amortization, and changes in foreign exchange rates on the net balance of intangible assets was as follows:

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor <u>2021</u> |
|---|--|--|-----------------------------------|
| Balance-beginning of financial reporting period | \$ - | \$ 27,606,850 | \$ 33,195,606 |
| Intangible assets acquired | 69,300,000 | | |
| Intangible assets amortization | (1,786,128) | (2,210,492) | (3,687,931) |
| Impact of foreign currency translation | 5,334,985 | (3,182,834) | (1,900,825) |
| Balance-end of financial reporting period | <u>\$ 72,848,857</u> | <u>\$ 22,213,524</u> | <u>\$ 27,606,850</u> |

As of December 31, 2022 (Successor Period), the Company's estimated aggregated amortization expense on intangible assets for the next five years ending December 31, and thereafter was as follows:

| <u>Years ending December 31,</u> | <u>Amount</u> |
|----------------------------------|----------------------|
| 2023 | \$ 7,328,468 |
| 2024 | 7,328,468 |
| 2025 | 7,328,468 |
| 2026 | 7,328,468 |
| 2027 | 7,328,468 |
| Thereafter | <u>34,806,517</u> |
| | <u>\$ 71,448,857</u> |

NOTE 6 – MEMBERS' EQUITY

Successor Members' Equity: The Parent owns all outstanding units of Lapmaster Group Holdings, LLC. The Parent's classes of equity include Class A Preferred Units, Class B Preferred Units, and Common Units, as outlined in the Parent's amended and restated limited liability company agreement (the "Parent LLC Agreement") dated October 5, 2022. The Class A Preferred Units and Class B Preferred Units have a capital value of \$1 per unit. In connection with the Lapmaster Acquisition described in Note 2, a member of the Company contributed \$168,300,000 in exchange for 168,300,000 Class A Preferred Units and 480,000 Common Units and another member of the Company rolled over prior equity in the Company totaling \$43,675,657 and a previously outstanding subordinated note payable totaling \$18,253,756 in exchange for 18,244,239 Class B Preferred Units and 520,000 Common Units. As of December 31, 2022 (Successor Period), units outstanding include 168,300,000 Class A Preferred Units, 18,244,239 Class B Preferred Units, and 1,000,000 Common Units. The Parent LLC Agreement allows for the subsequent issuance of incentive units; however, no incentive units have been authorized or issued as of December 31, 2022 (Successor Period).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 6 – MEMBERS' EQUITY (Continued)

The Class A Preferred Units and Class B Preferred Units have a preferred quarterly yield of 2.5%, which shall increase by 0.25% on December 31, 2023 and by 0.25% on the last day of each quarter thereafter until the preferred quarterly yield is equal to 3.75%. The quarterly yield on the Class A Preferred Units and Class B Preferred Units increases to 4.375% if a calculated adjusted earnings metric as compared to unreturned Class A Preferred Units capital value plus the unreturned accumulated yield falls below a threshold, as defined in the Parent LLC Agreement. The quarterly yield of Class B Preferred Units does not increase to 4.375% if there are other breaches of specified provisions under the Parent LLC Agreement. Class A Preferred Unit holders can elect for the unreturned preferred yield on both Class A Preferred Units and Class B Preferred Units to be paid-in-kind and added to the unreturned balance of the Class A Preferred Units and Class B Preferred Units rather than being paid in cash. Starting on January 1, 2024, the Parent LLC Agreement requires the preferred yield to be paid in cash in the amount of 50% of the preferred yield for the immediately preceding calendar quarter provided the Company has sufficient liquidity to pay the resulting distributions. The preferred yield does not require declaration by the Board of Managers of the Parent. Accordingly, the preferred yield amounts are recognized as member distributions of the Parent. The accumulated unreturned yield of Class A Preferred Units and Class B Preferred Units was \$4,024,565 and \$436,275, respectively, as of December 31, 2022 (Successor Period). Distributions for the Company are not payable until declared. No distributions were declared during the period from October 5, 2022 through December 31, 2022 (Successor Period).

Upon the occurrence of certain events as specific in the Parent LLC Agreement, distributions shall be made to all unit holders in respect of their outstanding units and unpaid preferred yield. First, holders of Class A Preferred Units would receive any unreturned yield. Second, holders of Class A Preferred Units would receive any unreturned capital value. Third, holders of Class B Preferred B Units would receive any unreturned preferred yield. Fourth, holders of Class B Preferred Units would receive any unreturned capital value. Fifth, the holders of Common Units would receive the remaining proceeds ratably based on the number of Common Units held by each member of the Parent.

Holders of Class A Preferred Units are able to require redemption of their Class A Preferred Units after the fifth anniversary of October 3, 2022 with proceeds equating to a required return, as defined in the Parent LLC Agreement. The Class B Preferred Units have certain triggers outlined in the Parent LLC Agreement that would result in redemption of the Class B Preferred Units upon the occurrence of contingent events.

The Parent LLC Agreement requires that a component of the Company be sold to a third party within an 18 month period following October 3, 2022. Absent a sale of the component of the Company, which includes the operations of Elb, REFORM, and Kehren, to a third party, the Parent LLC Agreement requires the member holding the majority of the Common Units of the Parent to purchase the component of the Company. The LLC Agreement also provides for certain funding limitations in excess of \$10,000,000 to the same component of the Company absent additional equity being contributed by the controlling member of the Company.

The Parent LLC Agreement, at the option of the Parent, requires additional equity to be issued to holders of Class A Preferred Units and Class B Preferred Units in an amount of up to \$15,000,000 in the form of 10,000,000 Class A Preferred Units and 5,000,000 Class B Preferred Units. The option is available for three years after October 3, 2022.

Predecessor Members' Equity: On February 15, 2017, Lapmaster Group Holdings, LLC completed a recapitalization and restructuring of its equity. As per the third amended and restated limited liability company agreement (the "Predecessor LLC Agreement"), the classes of outstanding equity of the Company were comprised of Preferred A Units, Preferred B Units, Class A Units, and Class B Units. In conjunction with the recapitalization and restructuring, 116,771,444 Preferred B Units were issued.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 6 – MEMBERS' EQUITY (Continued)

In addition, 1,198,719 and 413,651 Class A and Class B Units, respectively, were issued. The Class A and Class B Units were common units that were junior in liquidation priority to the Preferred A and Preferred B Units.

Class B Units were subject to an annual adjustment mechanism as set forth in the Predecessor LLC Agreement. Under the annual adjustment mechanism, the number of Class B Units changed annually based on a calculation related to the earnings of the Company, as defined in the operating agreement of Lapmaster Group Holdings, LLC prior to the Lapmaster Acquisition. Management of the Company had not historically calculated the current number of Class B Units and believed any fluctuation in the number of Class B Units was not material to the consolidated financial statements. All units, except as described below, were not redeemable by the Company and were not transferrable except for certain circumstances in the Predecessor LLC Agreement. Preferred A Units could have been redeemed, at the option of the unit holder, after the passage of six years subsequent to February 15, 2017 with payment having been contingent upon funds being legally available and the Company maintaining compliance with any covenants of debt agreements subsequent to any payment.

44,655,556 Preferred A Units, 116,771,444 Preferred B Units, 1,198,719 Class A Units, and 413,651 Class B Units were outstanding as of December 31, 2021 (Predecessor Period).

Each Class A Unit was entitled to one vote related to corporate voting matters; however, the Preferred A Units, Preferred B Units, and Class B Units held no such voting rights.

In accordance with the terms of the Predecessor LLC Agreement, the Preferred A and Preferred B Units accrued a preferred return at 10% and 12.9% per annum, respectively, compounding monthly. The Class A and Class B Units did not accrue a preferred return. Upon the occurrence of certain events as specified in the Predecessor LLC Agreement, distributions were required to be made to all unit holders in respect of their outstanding units and unpaid preferred returns. First, unpaid preferred returns were required to be distributed to Preferred A Units ratably until such amount were reduced to \$0. Second, unpaid preferred returns were required to be distributed to Preferred B Units. Subsequently, Preferred A Units were required to be distributed their aggregate unreturned capital and then Preferred B Units were required to be distributed their unreturned capital. Once these distributions were made, remaining amounts available for distribution were required to be made to Class A units. Class B Units only received distributions after all debtors of the Company were repaid following the previously described distributions to other classes of unit holders. The Preferred A, Preferred B, Class A, and Class B Units were held principally by the same two parties which also collectively control the Company and any potential distribution to the unit holders.

As of December 31, 2021, the undistributed preferred return was \$125,523,776. No such distributions of preferred returns or unreturned capital had been made as of December 31, 2021. No such distributions of preferred returns or unreturned capital were made for the period from January 1, 2022 through October 4, 2022 (Predecessor Period) or for the year ended December 31, 2021 (Predecessor Period).

The Company issued Class P Units to certain members of management of the Company as well as to certain non-employee directors of the Company. The Class P units were intended to be incentive compensation and were subject to vesting provisions. 50% of the awards were considered time-based and vested based on length of employment of the recipient and 50% of the awards were considered performance based and vested based on the achievement of certain cash return thresholds related to returns on invested capital of certain other units of the Company. The proceeds that were distributable to holders of Class P Units were subject to a distribution threshold. The distribution threshold required distribution levels of other units of the Company to have exceeded a certain level prior to Class P unit holders being eligible for proceeds. The Company had determined that any compensation expense associated with the Class P Units was not material.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 6 – MEMBERS' EQUITY (Continued)

No Class P Units had been issued for the period from January 1, 2022 through October 4, 2022 (Predecessor Period) and for the year ended December 31, 2021 (Predecessor Period). A total of 83,128.78 P Units had been granted to members of management of the Company and certain non-employee directors of the Company.

As of December 31, 2021 (Predecessor Period), 50,594.86 Class P units were outstanding. 13,013.69 Class P Units were forfeited during the year ended December 31, 2021 (Predecessor Period). 26,698.40 Class P Units have vested based on time vesting requirements as of December 31, 2021 (Predecessor Period). There was no material activity associated with the Class P units from January 1, 2022 through October 4, 2022 (Predecessor Period).

In connection with the Lapmaster Acquisition, holders of units outstanding under the Predecessor LLC Agreement received proceeds for the purchase of the Company either in the form of cash proceeds or in the form of rollover equity units of the Parent. The controlling member of Lapmaster Group Holdings, LLC prior to the Lapmaster Acquisition did not receive any rollover equity proceeds. Proceeds received by holders of Class P Units in connection with the Lapmaster Acquisition were \$364,744.

NOTE 7 – LINES OF CREDIT

On December 29, 2016, the Company entered into a credit agreement with a third-party financing institution (the "Credit Agreement"). The Credit Agreement included a revolving line of credit that allowed for maximum borrowings up to \$35,000,000 and also the ability to borrow Euro funds up to the United States of America dollar equivalent of \$10,000,000. The applicable interest rate on outstanding borrowings related to revolving line of credit was the prime interest rate or the one-month London Interbank Offered Rate ("LIBOR") plus an applicable margin based on the Company's total leverage ratio. The Company's revolving line of credit was eliminated through an amendment to the Credit Agreement that took place in September 2021. The outstanding amount on the revolving line of credit was fully repaid during the year ended December 31, 2021.

Lapmaster India has a line of credit agreement which allowed for maximum borrowings of approximately \$325,000. The applicable interest rate was 10.8% and 12.5% per annum as of December 31, 2022 (Successor) and 2021 (Predecessor), respectively. The line of credit is guaranteed by substantially all of the assets of Lapmaster India and the personal guarantee of an officer of Lapmaster India. The outstanding balance on the line of credit was \$181,729 and \$248,211 as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), respectively.

Formatec had a line of credit agreement which allowed for maximum borrowings of €275,000 or approximately \$295,000. The applicable interest rate was 5.5% per annum as of December 31, 2021 (Predecessor Period). The line of credit was guaranteed by all assets of Formatec. There was no outstanding balance on the line of credit as of December 31, 2021 (Predecessor Period). As described in Note 3, the Company sold Formatec on July 7, 2022 and accordingly, the line of credit was no longer active as of that date.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 8 – LONG-TERM DEBT

On December 29, 2016, the Company entered into the Credit Agreement described in Note 7 with a syndicate of lenders which also included a \$45,000,000 term loan and the revolving line of credit. In April 2019, the Credit Agreement was amended to provide an additional \$25,000,000 of capital to be used in conjunction with the acquisition of PSS Switzerland.

In September 2019, the Credit Agreement was amended and restated in its entirety, providing the Company with a \$75,000,000 term loan with quarterly principal installment payments ranging from \$937,500 to \$1,875,000, plus interest, with the remaining unpaid principal and interest due at the scheduled maturity date of September 30, 2024. The Credit Agreement also permitted the Company to borrow up to \$55,000,000 via a foreign delayed draw term loan over an 18-month period beginning in September 2019 to fund permitted business acquisitions. At the end of the 18-month period, the drawn portion would have become part of the principal balance of the term loan subject to the same amortization schedule. The proceeds of the delayed draw term loan were used to fund a past business acquisition. In May 2020, the Credit Agreement was amended resulting in a reduction in the foreign delayed draw term loan from \$55,000,000 to \$9,000,000 (the amount drawn as of the amendment date). The remaining balance became part of the term loan balance.

On March 9, 2021, the Company amended its Credit Agreement via a second amendment and forbearance agreement. The amendment to the Credit Agreement included a temporary forbearance period related to certain events of non-compliance, including non-compliance with financial covenants. Future covenants were also modified through the amendment to the Credit Agreement. The amendment to the Credit Agreement reduced borrowing capacity on the Company's revolving line of credit from \$35,000,000 to \$15,000,000 and eliminated the Company's ability to borrow Euro funds. Available revolving line of credit borrowings were also reduced by an availability block of \$10,000,000 that was put in place until removed by the lenders or after a period of compliance with certain covenants was demonstrated. With the availability block in place, the borrowing capacity on the revolving line of credit was limited to \$5,000,000. The amendment to the Credit Agreement also amended interest rates applicable to all borrowings to be LIBOR plus 4.75%. A default interest rate of 2% in addition to the standard interest rate was also effective for all borrowings as of March 1, 2021.

On September 3, 2021, the Company amended its Credit Agreement via a third amendment and forbearance agreement. The amendment to the Credit Agreement provided for a temporary forbearance period related to events of non-compliance, including non-compliance with financial covenants reported by management of the Company related to the year ended December 31, 2021 (Predecessor Period). The forbearance period extended through February 4, 2022 and provided an option to extend the forbearance period for 90 days if an agreement was signed related to the sale of the Company. In connection with this amendment, the Company made a principal payment totaling \$10,000,000 on outstanding term loan borrowings related to the Credit Agreement. The amendment to the Credit Agreement amended the interest rate on all borrowings to be fixed at 10%, terminated the Company's revolving line of credit, amended future principal payments on the Company's term loan borrowings to be \$600,000 monthly subsequent to the date of the amendment of the Credit Agreement, and also required the delayed draw term loan to be repaid at an amount equal to 5% of original principal borrowing on a monthly basis, increasing the repayment from the original 2.5% of original principal borrowing paid quarterly. Commencing September 30, 2021, the delayed draw term loan principal was being repaid in monthly payments of \$150,000 with the remaining balance due on the scheduled maturity date of the delayed draw term loan.

On December 31, 2021 (Predecessor Period), the Company amended its Credit Agreement via a fourth amendment and forbearance agreement. The amendment required the conversion of Admatec and Formatec intergroup debt to equity. All amounts impacted by the amendment were fully eliminated in the consolidated financial statements.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 8 – LONG-TERM DEBT (Continued)

The Credit Agreement requirement to have the Company enter into a signed agreement to sell the Company by February 4, 2022 was not met and accordingly, the Company experienced events of default related to the forbearance terms in the Credit Agreement. As a result, a fixed default rate of 15.00% was applied to all the outstanding long-term debt under the Credit Agreement as of February 4, 2022.

As a result of the events of default that took place under the Credit Agreement described above, all outstanding borrowings under the Credit Agreement were presented as a component of the current portion of long-term debt-net of debt issuance costs in the consolidated balance sheet as of December 31, 2021 (Predecessor Period).

Remaining borrowings under the Credit Agreement were fully repaid in connection with the Lapmaster Acquisition described in Note 2 and accordingly, there are no outstanding borrowings related the Credit Agreement as of December 31, 2022 (Successor Period).

In November 2016, the Company entered into a 10-year operating lease for a building which included a tenant allowance for \$175,000 of building improvements. The Company is required to reimburse the landlord monthly over the life of the lease including interest of 8% per annum which compounds monthly.

The Company holds various notes payable to finance companies that bear interest ranging from 0% to 8.79% and require monthly payments ranging from approximately \$400 to \$1,500 (the "Vehicle Loans"). The Vehicle Loans are due at various dates through November 2024. The Vehicle Loans are collateralized by vehicles.

Long-term debt as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), consisted of the following:

| | Successor 2022 | Predecessor 2021 |
|--------------------------------------|---------------------------|-----------------------------|
| Credit Agreement | \$ - | \$ 59,776,500 |
| Leasehold allowance | 96,462 | 113,385 |
| Vehicle Loans | 70,401 | 104,017 |
| Less unamortized debt issuance costs | <u>-</u> | <u>(4,778,952)</u> |
| | 166,863 | 55,214,950 |
| Less current maturities | <u>54,560</u> | <u>55,046,452</u> |
| | <u><u>\$ 112,303</u></u> | <u><u>\$ 168,498</u></u> |

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 8 – LONG-TERM DEBT (Continued)

Future scheduled minimum debt maturities of long-term debt as of December 31, 2022 (Successor Period) were as follows for future years ending December 31:

| <u>Years ending December 31,</u> | <u>Amount</u> |
|----------------------------------|-------------------|
| 2023 | \$ 54,560 |
| 2024 | 46,901 |
| 2025 | 28,615 |
| 2026 | 23,281 |
| 2027 | 13,506 |
| | <u>\$ 166,863</u> |

NOTE 9 – SUBORDINATED DEBT

During the year ended December 31, 2016, in conjunction with the Credit Agreement described in Notes 7 and 8, the Company entered into a promissory note from a member of the Company in the original principal amount of \$2,520,000. Interest accrued on a daily basis at a rate of 10% per annum with interest compounding annually. Any unpaid interest was due upon repayment of the promissory note. Repayment of the promissory note required certain provisions outlined in the Credit Agreement to be satisfied, and could only be repaid once these provisions had been met, which was not earlier than one year after the issuance of the promissory note. The promissory note had a scheduled maturity date of March 27, 2025. The total outstanding balance of the promissory note, including compounded interest, was \$3,689,532 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt in the consolidated balance sheet. Accrued and unpaid interest associated with the promissory note was \$368,953 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt accrued interest in the consolidated balance sheet. Interest expense for this promissory note was \$368,953 for the year ended December 31, 2021 (Predecessor Period).

In April 2019, in conjunction with the PSS Switzerland acquisition, the Company entered into a \$10,000,000 promissory note with the same member of the Company holding the promissory note above. The promissory note accrued interest on a daily basis at a rate of 10% per annum with interest compounding annually. Any unpaid interest was due upon repayment of the promissory note. Repayment of the promissory note required certain provisions outlined in the Credit Agreement, and could only be repaid once these provisions had been met, which was not earlier than one year after the issuance of the promissory note. The maturity date of the promissory note was scheduled to be on March 27, 2025. The total outstanding balance of the promissory note, including compounded interest, was \$12,100,000 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt in the consolidated balance sheet. Accrued and unpaid interest associated with the promissory note was \$812,191 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt accrued interest in the consolidated balance sheet. Interest expense for this promissory note was \$1,173,835 for the year ended December 31, 2021 (Predecessor Period).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 9 – SUBORDINATED DEBT (Continued)

During the year ended December 31, 2018, the Company entered into a promissory note from a separate member of the Company in the amount of \$3,600,000. Interest accrued on a daily basis at a rate of 10% per annum with interest compounding annually. Any unpaid interest was due upon repayment of the promissory note. Repayment of the promissory note required certain provisions outlined in the Credit Agreement, and could only be repaid once these provisions had been met, which was not earlier than one year after the issuance of the promissory note. The maturity date of the promissory note was scheduled to be on March 27, 2025. The total outstanding balance of the promissory note, including compounded interest, was \$3,600,000 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt in the consolidated balance sheet. Accrued and unpaid interest associated with the promissory note was \$1,640,216 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt accrued interest in the consolidated balance sheet. Interest expense for this promissory note was \$429,087 for the year ended December 31, 2021 (Predecessor Period).

In April 2019, in conjunction with the acquisition of PSS Switzerland, the Company entered into a \$15,000,000 promissory note with a member of the Company. Interest accrued on a daily basis at a rate of 10% per annum with interest compounding annually. Any unpaid interest was due upon repayment of the promissory note. Repayment of the promissory note required certain provisions outlined in the Credit Agreement, and could only be repaid once these provisions had been met, which was not earlier than one year after the issuance of the promissory note. The maturity date of the promissory note was scheduled to be on March 27, 2025. The total outstanding balance of the promissory note, including compounded interest, was \$18,150,000 as of December 31, 2021 (Predecessor Period), and was included as a component of subordinated debt in the consolidated balance sheet. Accrued and unpaid interest associated with the promissory note was \$1,218,288 as of December 31, 2021 (Predecessor Period) and was included as a component of subordinated debt accrued interest in the consolidated balance sheet. Interest expense for this promissory note was \$1,760,753 for the year ended December 31, 2021 (Predecessor Period).

Interest expense incurred on the above subordinated promissory notes was \$3,146,203 for the period from January 1, 2022 through October 4, 2022 (Predecessor Period).

The member promissory notes described above were subordinated to any borrowings under the Credit Agreement described in Notes 7 and 8.

The member promissory notes were fully settled, either through repayment in cash or through the exchange of rollover equity via units of Lapmaster Parent, LLC, in connection with the Lapmaster Acquisition described in Note 2. Accordingly, the above subordinated promissory notes have no outstanding balance as of December 31, 2022 (Successor Period).

NOTE 10 – DERIVATIVES

The Company used interest rate swap agreements with the intent to decrease the risk associated with fluctuations in floating interest rates related to its long-term debt. The interest rate swaps were entered into on January 31, 2020. The Company had \$80,000,000 of notional amount interest rate swap agreements consisting of \$45,000,000 that had a scheduled expiration date of January 31, 2023 and \$35,000,000 that had a scheduled expiration date of September 27, 2024. These interest rate swaps were considered derivatives under generally accepted accounting standards in the United States of America and were designed as hedging instruments. The Company had not complied with the documentation requirements under ASC Topic 815, *Derivatives and Hedging*, and accordingly, all such interest rate swap agreements were recorded at fair value in the consolidated balances sheets with the offset to interest expense-net.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 10 – DERIVATIVES (Continued)

The fair value of the Company's interest rate swaps was (\$548,073) as of December 31, 2021 (Predecessor Period). The fair value of the Company's interest rate swap agreements was included as a component of accrued expenses and other current liabilities in the Company's consolidated balance sheet as of December 31, 2021 (Predecessor Period). The unrealized net gain of \$1,408,781 for the year ended December 31, 2021 (Predecessor Period) was recorded as a component of interest expense-net in the Company's consolidated statement of comprehensive loss. The fair value of each of the interest rate swap agreements was \$0 at their inception date. The interest rate swaps were terminated in April 2022 for total proceeds of \$867,800. The realized net gain was recorded as a component of interest expense-net in the Company's consolidated statement of comprehensive loss during the period from January 1, 2022 through October 4, 2022 (Predecessor Period).

NOTE 11 – STATUTORY RESERVES

Pursuant to the corporate law of the People's Republic of China ("PRC"), Lapmaster China is required to maintain a statutory reserve by appropriating from its after-tax profits before declaration or payment of dividends. The statutory reserve represents restricted retained earnings of Lapmaster China. Lapmaster China is required to transfer 10% of its net income, as determined under PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. There are no legal requirements in the PRC to fund this reserve by transfer of cash to restricted accounts, and Lapmaster China does not do so. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into capital by issuing new equity of the Company to existing equity holders of the Company in proportion to their share of equity of the Company or by increasing the par value of the equity currently held by Lapmaster China, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital of Lapmaster China. Based on the performance of Lapmaster China during the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), statutory reserves increased by \$0, \$149,523, and \$4,569, respectively. \$1,634,581 of equity issued as a result of the business acquisition described in Note 2 was allocated to statutory reserves.

NOTE 12 – PRODUCT WARRANTY

The Company offers a warranty or product guarantee on substantially all sales. The warranty period, in general, ranges from one to three years from either the date of shipment or installation of machines. The warranties cover repair or replacement of defective machine components and parts and issues with installations of machines.

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 12 – PRODUCT WARRANTY (Continued)

Changes to the warranty obligation for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) were as follows:

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor 2021 |
|--|--|--|----------------------------|
| Warranty obligation-beginning of the financial reporting period | \$ - | \$ 4,235,144 | \$ 4,309,097 |
| Assumed from Lapmaster | | | |
| Acquisition | 4,698,266 | | |
| Additions | 1,181,761 | 2,315,127 | 2,065,952 |
| Warranty claims | (201,629) | (457,019) | (1,373,373) |
| Release of prior reserves | (360,864) | (840,212) | (637,149) |
| Effect of exchange rate changes | 435,338 | (554,774) | (129,383) |
| Warranty obligation-end of the financial reporting period | <u>\$ 5,752,872</u> | <u>\$ 4,698,266</u> | <u>\$ 4,235,144</u> |

As of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), the Company had an installation liability of \$1,086,164 and \$678,280, respectively, to cover future costs for machines shipped but not yet installed.

NOTE 13 – INCOME TAXES

The Company's provision for income taxes reflects its partnership tax classification and is composed of various foreign and state provisions for income taxes.

The provision for income taxes for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) consisted of the following:

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 | Predecessor 2021 |
|---|--|--|----------------------------|
| Deferred income tax (benefit) expense | \$ (857,822) | \$ 832,222 | \$ 2,178,939 |
| State and foreign current income tax expense | <u>3,692,675</u> | <u>5,452,138</u> | <u>3,600,521</u> |
| Provision for income taxes | <u>\$ 2,834,853</u> | <u>\$ 6,284,360</u> | <u>\$ 5,779,460</u> |

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 13 – INCOME TAXES (Continued)

Deferred income tax assets and liabilities as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) were as follows:

| | Successor 2022 | Predecessor 2021 |
|-------------------------------------|---------------------------|-----------------------------|
| Deferred income tax assets | | |
| Tax loss carryforwards | \$ 5,769,617 | \$ 4,049,744 |
| Operating lease liabilities | 2,951,462 | - |
| Pension liabilities | 1,057,716 | 2,227,367 |
| Intangible assets | 65,042 | - |
| Other temporary differences | 78,641 | 103,851 |
| | <u>9,922,478</u> | <u>6,380,962</u> |
| Deferred income tax liabilities | | |
| Intangible assets | 19,902,036 | 6,795,482 |
| Sales recognition | 7,242,619 | 6,293,365 |
| Operating lease right-of-use assets | 2,951,462 | - |
| Property, plant, and equipment | 3,123,912 | 1,496,293 |
| Inventories | 2,311,858 | - |
| Other temporary differences | 220,311 | 60,017 |
| | <u>35,752,198</u> | <u>14,645,157</u> |
| Valuation allowance | <u>(3,176,460)</u> | <u>(2,184,955)</u> |
| Net deferred income tax liabilities | <u>\$ (29,006,180)</u> | <u>\$ (10,449,150)</u> |

The Company had gross operating loss carryforwards in Switzerland totaling approximately \$7,829,000 and \$5,684,000 as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), respectively. Income tax losses in Switzerland can be carried forward for a period of seven years. The gross operating loss carryforwards remaining as of December 31, 2022 (Successor Period) start to expire during the year ending December 31, 2023. As of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), the Company had gross operating loss carryforwards in Germany of approximately \$10,578,000 and \$9,292,000 respectively.

The Company has a fiscal unity arrangement related to certain German subsidiaries of the Company. The remaining gross operating loss carryforward in Germany available to the Company as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) relates to an entity in Germany that is not part of the fiscal unity arrangement.

Significant judgment is required in determining whether the Company's deferred income tax income assets will be realized in full or in part. A valuation allowance is required for deferred income tax assets when it is more likely than not that all or some portion of specific deferred income tax assets will not be realized. As of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), the Company's net deferred income tax assets in Switzerland have been reduced by a full valuation allowance totaling \$1,620,320 and \$1,206,919 due primarily to the fact that the Company has generated historic pre-tax net losses and projects future net losses in Switzerland. As of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), the Company has a full valuation allowance totaling \$1,556,140 and \$978,036, respectively, recorded against the net deferred income tax assets of the entity in Germany that is not part of the fiscal unity arrangement. The valuation allowance has been recorded due to historic net losses of the entity in Germany as well as future projected net losses related to the entity in Germany.

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 13 – INCOME TAXES (Continued)

The Company's valuation allowance increased by \$991,505 during the period from October 5, 2022 through December 31, 2022 (Successor Period) and decreased by \$1,082,900 during the year ended December 31, 2021 (Predecessor Period).

NOTE 14 – LEASES

The Company's leases predominantly consists of operating leases for production and storage facilities, equipment, and vehicles through the year ending December 31, 2032. Operating lease terms may contain renewal and extension options and early termination features. Generally, these options do not impact the operating lease term because the Company is not reasonably certain that it will exercise the options.

Cash paid for operating leases was \$820,216 and \$3,986,288 for the period from October 5, 2022 through December 31, 2022 (Successor Period) and for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), respectively.

The following is a summary of operating lease costs recorded as a component of loss from operations for the period from October 5, 2022 through December 31, 2022 (Successor Period) and for the period from January 1, 2022 through October 4, 2022 (Predecessor Period):

| | Successor For the period from October 5, 2022 to December 31, 2022 | Predecessor For the period from January 1, 2022 to October 4, 2022 |
|------------------------------|--|--|
| Lease cost components | | |
| Operating lease costs | \$ 885,844 | \$ 4,116,346 |
| Short-term lease costs | 228,677 | 854,140 |
| Variable lease costs | 99,232 | 726,198 |
| Sublease income | <u>(94,724)</u> | <u>(286,354)</u> |
| Total lease costs | <u>\$ 1,119,029</u> | <u>\$ 5,410,330</u> |

Total rent expense recorded as a component of loss from operations under all operating leases for the year ended December 31, 2021 (Predecessor Period) was \$6,840,000.

The non-cash addition of operating lease liabilities and related operating lease right-of-use assets was \$464,532 and \$1,670,858 for the period from October 5, 2022 through December 31, 2022 (Successor Period) and for the period from January 1, 2022 through October 4, 2022 (Successor Period).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 14 – LEASES (Continued)

Future maturities of operating lease liabilities as reconciled to the discounted minimum operating lease obligations included in the Company's consolidated balance sheet as of December 31, 2022 (Successor Period) were as follows for the future years ending December 31:

| <u>Years ending December 31,</u> | <u>Amount</u> |
|--|---------------------|
| 2023 | \$ 5,140,837 |
| 2024 | 3,097,250 |
| 2025 | 1,946,091 |
| 2026 | 1,675,279 |
| 2027 | 1,061,760 |
| Thereafter | 1,410,118 |
| Total operating lease payments | 14,331,335 |
| Less interest | 1,110,495 |
| Present value of operating lease liabilities | 13,220,840 |
| Current portion of long-term operating lease liabilities | 4,751,855 |
| Long-term operating lease liabilities-net of current portion | <u>\$ 8,468,985</u> |

The weighted average discount interest rate used to calculate the present value of minimum operating leases payments as of December 31, 2022 (Successor Period) was 3.86%. The remaining weighted average lease term (in years) as of December 31, 2022 (Successor Period) was 4.28.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Company receives various deposits in connection with certain contracts with customers. At times, the Company will provide a guarantee in connection with these contracts. These guarantees are banked by various third-party financial institutions. Total available guarantees as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) were approximately \$68,952,000 and \$78,563,000, respectively. Total unused guarantees as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) were approximately \$10,289,000 and \$21,724,000, respectively.

The Company from time to time is named respondent in various legal actions and proceedings covering a wide range of matters. Although litigation is subject to many uncertainties and the ultimate exposure with respect to these matters cannot be ascertained, management of the Company believes that the final outcome will not have a significant adverse effect on the Company's consolidated financial statements.

NOTE 16 – EMPLOYEE BENEFITS

Defined Contribution Plans: The Company has a 401(k) profit sharing plan covering eligible employees of Lapmaster US, as defined in the plan document. Under provisions of the plan, an employee of Lapmaster US is allowed to make voluntary contributions, subject to Internal Revenue Code limitations. The Company may, at its discretion, make a matching contribution and/or profit-sharing contribution to the plan. The Company made contributions approximating \$24,000, \$83,000, and \$83,000 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively.

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 16 – EMPLOYEE BENEFITS (Continued)

The Company has two defined contribution plans covering eligible employees of Lapmaster UK, as defined in the plan document. The Company made contributions approximating \$10,000, \$28,000, and \$36,000 to the plan for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively.

The Company also makes contributions to state sponsored retirement schemes as required by the governments of India and China on behalf of employees of Lapmaster India and Lapmaster China. Contributions approximating \$14,000, \$56,000, and \$56,000 were made related to these requirements for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively.

Pension Plans: Lapmaster Germany has a defined benefit retirement plan covering substantially all of their eligible employees (Plan A), and a defined benefit retirement plan covering one member of their management (Plan B). The plans are designed to provide retirement and disability benefits to certain employees of Lapmaster Germany, together with survivor retirement benefits to spouses. The plans are not currently funded. Activity in the plan for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) is disclosed below.

Elb also has a pension plan (Plan C). The plan is designed to provide retirement and disability benefits to certain employees of Elb, together with survivor retirement benefits to spouses. The plan is not currently funded. Activity in the plan for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) is disclosed below.

Kehren and PSS Switzerland also have pension plans (Plan D and Plan E, respectively). The plans are designed to provide retirement and disability benefits to certain employees of Kehren and PSS Switzerland, together with survivor retirement benefits to spouses. PSS Switzerland transferred Plan E to WaferTec when PSS Switzerland restructured its operations. The transfer was treated as a continuation of the previously existing plan. Plan E will continue in its current form for those employees retained by WaferTec. The plans are not currently funded. Activity in the plans for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) is disclosed below.

The following tables set forth the benefit obligation of the Company's plans, amounts recognized in the Company's consolidated financial statements, and the principal weighted-average assumptions used as of and for the period from October 5, 2022 through December 31, 2022 (Successor Period) and for the year ended December 31, 2021 (Predecessor Period). As the plans are not funded, the unfunded status is equal to the benefit obligation.

The Company's policy is to perform an actuarial valuation annually as of each December 31. Accordingly, there was no actuarial valuation completed during the interim period from January 1, 2022 through October 4, 2022 (Predecessor Period). Activity for the period from January 1, 2022 through October 4, 2022 (Predecessor Period) related to payments of \$230,696, periodic benefit costs of \$108,593, and a gain of \$1,701,010 related to the effects of exchange rate changes.

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 16 – EMPLOYEE BENEFITS (Continued)

| For the period from October 5, 2022 to December 31, 2022 (Successor Period) | | | | | | |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|---------------------|
| Change in projected benefit obligation | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Benefit obligation-beginning of financial reporting period | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Assumed pension liabilities from Lapmaster Acquisition | 4,784,836 | 181,162 | 2,260,613 | 707,545 | 1,108,415 | 9,042,571 |
| Service cost | 14,237 | - | - | 9,641 | 47,846 | 71,724 |
| Interest cost | 45,724 | 1,742 | 5,882 | 2,199 | 38,050 | 93,597 |
| Expected gain on plan assets | - | - | - | - | (31,003) | (31,003) |
| Actuarial (gain) loss | (12,521) | 726 | 8,558 | 425 | (12,724) | (15,536) |
| Benefits paid | (73,561) | (2,468) | (62,934) | (7,493) | (56,329) | (202,785) |
| Effect of exchange rate changes | 419,524 | 15,902 | 197,554 | 62,192 | 113,381 | 808,553 |
| Benefit obligation-end of financial reporting period | <u>\$ 5,178,239</u> | <u>\$ 197,064</u> | <u>\$ 2,409,673</u> | <u>\$ 774,509</u> | <u>\$ 1,207,636</u> | <u>\$ 9,767,121</u> |

| December 31, 2021 (Predecessor Period) | | | | | | |
|--|---------------------|-------------------|---------------------|---------------------|---------------------|----------------------|
| Change in projected benefit obligation | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Benefit obligation-beginning of year | \$ 7,650,267 | \$ 386,920 | \$ 4,452,069 | \$ 1,410,514 | \$ 4,035,031 | \$ 17,934,801 |
| Service cost | 43,694 | - | - | 40,141 | 495,049 | 578,884 |
| Interest cost (income) | 28,151 | 1,466 | 16,236 | 5,495 | (82,682) | (31,334) |
| Actuarial loss (gain) | 244,325 | (15,897) | (130,100) | (24,022) | (1,992,185) | (1,917,879) |
| Benefits paid | (316,188) | - | (297,796) | (33,712) | (271,061) | (918,757) |
| Effect of exchange rate changes | (560,678) | (27,021) | (312,497) | (64,312) | (139,226) | (1,103,734) |
| Benefit obligation-end of year | <u>\$ 7,089,571</u> | <u>\$ 345,468</u> | <u>\$ 3,727,912</u> | <u>\$ 1,334,104</u> | <u>\$ 2,044,926</u> | <u>\$ 14,541,981</u> |

The accumulated benefit obligation was \$9,767,121 and \$14,541,981 as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), respectively. For the period from October 5, 2022 through December 31, 2022 (Successor Period) and for the year ended December 31, 2021 (Predecessor Period), the actuarial losses and gains are primarily related to the demographic changes of current plan participants and changes in the discount interest rate.

Amounts recognized in the consolidated balance sheets as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) consisted of:

| 2022 (Successor Period) | | | | | | |
|-------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|---------------------|
| | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Current liabilities | \$ 320,106 | \$ 10,020 | \$ - | \$ - | \$ - | \$ 330,126 |
| Long-term liabilities | <u>4,858,133</u> | <u>187,043</u> | <u>2,409,674</u> | <u>774,508</u> | <u>1,207,637</u> | <u>9,436,995</u> |
| Net amount recognized | <u>\$ 5,178,239</u> | <u>\$ 197,063</u> | <u>\$ 2,409,674</u> | <u>\$ 774,508</u> | <u>\$ 1,207,637</u> | <u>\$ 9,767,121</u> |

| 2021 (Predecessor Period) | | | | | | |
|---------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|----------------------|
| | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Current liabilities | \$ 320,554 | \$ 10,629 | \$ 303,214 | \$ 33,329 | \$ - | \$ 667,726 |
| Long-term liabilities | <u>6,769,017</u> | <u>334,839</u> | <u>3,424,698</u> | <u>1,300,775</u> | <u>2,044,926</u> | <u>13,874,255</u> |
| Net amount recognized | <u>\$ 7,089,571</u> | <u>\$ 345,468</u> | <u>\$ 3,727,912</u> | <u>\$ 1,334,104</u> | <u>\$ 2,044,926</u> | <u>\$ 14,541,981</u> |

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 16 – EMPLOYEE BENEFITS (Continued)

The weighted-average assumptions used in all plans for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) were as follows:

| | Successor For the period from October 5, 2022 to <u>December 31, 2022</u> | Predecessor For the period from January 1, 2022 to <u>October 4, 2022</u> | Predecessor <u>2021</u> |
|---|---|---|-----------------------------------|
| Discount rate | 3.7% - 2.5% | 0.25% - 0.71% | 0.25% - 0.71% |
| Rate of compensation increase | 2% - 1% | 2% - 1% | 2% - 1% |
| Expected long-term rate of return on assets | 2.5% | 1.5% | 1.5% |

Components of net periodic benefit cost for the period from October 5, 2022 through December 31, 2022 (Successor Period) and for the year ended December 31, 2021 (Predecessor Period) were as follows:

| For the period from October 5, 2022 to December 31, 2022 (Successor Period) | | | | | | |
|---|------------------|-----------------|-----------------|------------------|------------------|-------------------|
| | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Service cost | \$ 14,237 | \$ - | \$ - | \$ 9,641 | \$ 47,846 | \$ 71,724 |
| Interest cost | 45,724 | 1,742 | 5,882 | 2,199 | 38,050 | 93,597 |
| Net periodic benefit cost | <u>\$ 59,961</u> | <u>\$ 1,742</u> | <u>\$ 5,882</u> | <u>\$ 11,840</u> | <u>\$ 85,896</u> | <u>\$ 165,321</u> |

| December 31, 2021 (Predecessor Period) | | | | | | |
|--|------------------|-----------------|------------------|------------------|-------------------|-------------------|
| | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Service cost | \$ 43,694 | \$ - | \$ - | \$ 40,141 | \$ 495,049 | \$ 578,884 |
| Interest cost (income) | 28,151 | 1,466 | 16,236 | 5,495 | (82,682) | (31,334) |
| Net periodic benefit cost | <u>\$ 71,845</u> | <u>\$ 1,466</u> | <u>\$ 16,236</u> | <u>\$ 45,636</u> | <u>\$ 412,367</u> | <u>\$ 547,550</u> |

The change in benefit obligation recognized as a component of accumulated other comprehensive income (loss) for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period) was as follows:

| For the period from October 5, 2022 to December 31, 2022 (Successor Period) | | | | | | |
|---|--------------------|---------------|-----------------|---------------|-------------------|-------------------|
| | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Net pension actuarial (gain) loss-current financial reporting period | \$ (12,521) | \$ 726 | \$ 8,558 | \$ 425 | \$ (12,724) | \$ (15,536) |
| Effect of settlements | - | - | - | - | 9,535 | 9,535 |
| Effect of exchange rates and other | (226) | 13 | 154 | 7 | (56) | (108) |
| | <u>\$ (12,747)</u> | <u>\$ 739</u> | <u>\$ 8,712</u> | <u>\$ 432</u> | <u>\$ (3,245)</u> | <u>\$ (6,109)</u> |

| December 31, 2021 (Predecessor Period) | | | | | | |
|--|-------------------|--------------------|---------------------|--------------------|-----------------------|-----------------------|
| | Plan A | Plan B | Plan C | Plan D | Plan E | Total |
| Net pension actuarial loss (gain)-current period | \$ 244,325 | \$ (15,897) | \$ (130,100) | \$ (24,022) | \$ (1,992,185) | \$ (1,917,879) |
| Prior service cost | - | - | - | - | 193,809 | 193,809 |
| Amortization of (loss) gain | (41,539) | (1,143) | - | - | - | (42,682) |
| Effect of settlements | - | - | - | - | 271,862 | 271,862 |
| Effect of exchange rates and other | (80,337) | (2,967) | (17,843) | (22,652) | (264,011) | (387,810) |
| | <u>\$ 122,449</u> | <u>\$ (20,007)</u> | <u>\$ (147,943)</u> | <u>\$ (46,674)</u> | <u>\$ (1,790,525)</u> | <u>\$ (1,882,700)</u> |

The Company is required to make minimum funding contributions to the plans. The Company expects to contribute \$330,126 during the year ending December 31, 2023, which is classified as a current liability in the consolidated financial statements as of December 31, 2022.

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 16 – EMPLOYEE BENEFITS (Continued)

The Company made contributions of approximately \$55,000, \$231,000, and \$822,000 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively.

The following pension benefit payouts are expected to be paid during the future years ending December 31:

| <u>Years ending December 31,</u> | <u>Plan A</u> | <u>Plan B</u> | <u>Plan C</u> | <u>Plan D</u> | <u>Plan E</u> | <u>Total</u> |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| 2023 | \$ 320,106 | \$ 10,020 | \$ 239,764 | \$ 31,997 | \$ 11,785 | \$ 613,672 |
| 2024 | 315,241 | 10,149 | 233,159 | 32,530 | 17,586 | 608,665 |
| 2025 | 306,473 | 10,276 | 226,282 | 33,878 | 24,429 | 601,338 |
| 2026 | 306,601 | 10,409 | 217,040 | 35,222 | 137,785 | 707,057 |
| 2027 | 353,925 | 10,521 | 207,703 | 35,610 | 61,553 | 669,312 |
| Years 2028 - 2032 | 1,816,140 | 54,263 | 886,536 | 188,483 | 1,068,201 | 4,013,623 |

NOTE 17 – CONCENTRATIONS

Uninsured Cash and Cash Equivalents: Lapmaster US maintains its cash balances at a financial institution located in Illinois. These cash balances are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. The Company may, from time to time, have balances in excess of FDIC insured deposit limits.

The Company also maintains cash and cash equivalents in financial institutions located in Germany, China, India, Japan, the Netherlands, Switzerland, Korea, and the United Kingdom. These balances approximated \$46,632,000 and \$48,611,000 as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), respectively.

At times, the Company maintains cash balances in financial institutions that may exceed government insured limits in the jurisdictions where cash is held. No credit losses were recorded during the for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), and through the date that these consolidated financial statements were available to be issued. Management of the Company believes the risk of loss related to amounts that exceed government insured limits is not significant.

Foreign Subsidiaries: The financial statements of the Company's foreign subsidiaries reflect total assets approximating \$385,000,000 and \$242,000,000 as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), respectively, and total net sales approximating \$76,000,000, \$206,000,000, and \$222,000,000 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively, of the consolidated financial statement totals.

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LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 18 – RELATED PARTY TRANSACTIONS

Surface Finishing Techniques Consulting Ltd. ("PSS Taiwan") is a related party sales and service entity that has certain transactions with the Company. The entity is related through ownership by a member of the Company. PSS Taiwan is not consolidated in the Company's consolidated financial statements as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period) and for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period).

During the year ended December 31, 2018, a promissory note with a principal balance of \$170,000 bearing interest of 2.86% per annum was issued to a member of the Company. This promissory note was used to open an office in Taiwan through PSS Taiwan. The promissory note was included as a component of other long-term assets in the consolidated balance sheets as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period).

During the year ended December 31, 2019, the Company paid \$151,766 to PSS Taiwan in connection with a business combination in Switzerland. The amount was due back to the Company via a promissory note. Payments have been made on the promissory note by PSS Taiwan to the Company since its inception. This amount was included as a component of other long-term assets and has an outstanding balance of \$120,963 and \$148,766 as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period), respectively, in the consolidated balance sheets.

The Company uses the services of PSS Taiwan for certain repairs and other services related to Company machines. The Company also sells certain parts and other materials to PSS Taiwan. Total expenses related to PSS Taiwan were approximately \$66,000, \$207,000, and \$1,750,000 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively. Total sales to PSS Taiwan were approximately \$126,000, \$688,000, and \$932,000 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively. The Company had net accounts payable totaling approximately \$124,866 due to PSS Taiwan and net accounts receivable from PSS Taiwan totaling approximately \$46,000 as of December 31, 2022 (Successor) and 2021 (Predecessor), respectively. These amounts were recorded as a component of accounts receivable and accounts payable, respectively, in the consolidated balance sheets.

PSS Taiwan has a December 31 fiscal year-end. PSS Taiwan had sales and expenses of \$1,571,202 and \$914,787, respectively, during the year ended December 31, 2022 and sales and expenses of \$1,750,080 and \$1,481,560, respectively, during the year ended December 31, 2021. Assets of PSS Taiwan were \$1,301,203 and \$1,161,871 as of December 31, 2022 (Successor) and 2021 (Predecessor), respectively.

Shanghai Sheen was a related party sales and service entity that had certain transactions with the Company. Shanghai Sheen was related through ownership of the entity being affiliated with a member of the Company. As described in Note 2, Shanghai Sheen was acquired by the Company during the year ended December 31, 2021 (Predecessor Period). Shanghai Sheen was not included in the Company's consolidated financial statements prior to the August 11, 2021 business acquisition date. The results of Shanghai Sheen have been included in the consolidated financial statements of the Company subsequent to the business acquisition date with any intercompany activity being eliminated in consolidation.

Shanghai Sheen had sales and expenses of \$822,069 and \$622,718, respectively, for the period from January 1, 2021 through August 11, 2021 (Predecessor Period).

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 (Successor Period) and 2021 (Predecessor Period)

NOTE 18 – RELATED PARTY TRANSACTIONS (Continued)

Shanghai Sheen earned commissions for certain sales and services completed. The Company expensed commissions totaling \$822,069 during the period from January 1, 2021 through August 11, 2021 (Predecessor Period) which related to operations with Shanghai Sheen. The commissions were recorded as a component of cost of sales in the consolidated statement of comprehensive loss.

The Company had related party promissory notes with certain members of the Company prior to the Lapmaster Acquisition as described in Note 9.

NOTE 19 – RESTRUCTURING

For the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), the Company incurred certain expenses in connection with restructuring activities, including moving certain manufacturing facilities of the Company and reorganization of Company personnel including severance, transaction expenses associated with the Lapmaster Acquisition, and certain activities for preparing the Company for sale. These costs were presented as acquisition, restructuring, and other expenses in the consolidated statements of comprehensive income (loss) and were \$8,729,505, \$26,380,261, and \$22,389,394 for the period from October 5, 2022 through December 31, 2022 (Successor Period), for the period from January 1, 2022 through October 4, 2022 (Predecessor Period), and for the year ended December 31, 2021 (Predecessor Period), respectively. There was no material remaining contractual liabilities related to restructuring activities as of December 31, 2022 (Successor Period) and 2021 (Predecessor Period).

A severance liability of \$2,265,978 was recorded as a component of accrued expenses and other current liabilities as of December 31, 2021 (Predecessor). Payments on the severance accrual made from January 1, 2022 through October 4, 2022 (Predecessor Period) were \$243,954. The remaining severance liability was paid in full in connection with the Lapmaster Acquisition described in Note 2.

NOTE 20 – SUBSEQUENT EVENTS

Management of the Company has evaluated subsequent events through July 26, 2023, the date that these consolidated financial statements were available to be issued.

Subsequent to December 31, 2022, PSS Taiwan was sold to the Company by the member of the Company that previously owned PSS Taiwan in exchange for a \$1,200,000 promissory note. The promissory note was then immediately contributed by the member to the Company in exchange for no consideration or additional member units.

Subsequent to December 31, 2022, the Company's ownership interests in Lapmaster India were sold by the Company to a member of the Company and other individuals in exchange for \$100,000.

Subsequent to December 31, 2022, the Company borrowed \$16,990,660 in the form of loans from entities affiliated with unit holders of the Parent. The borrowings have an interest rate of 15% per annum and mature in June and July 2024. The agreement associated with the borrowings also provides the Company to borrow an additional \$2,741,594.