

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

REO Plastics Inc

1185093rd Avenue North
Maple Grove, MN 55369

763+-425-4171
reoplastics.com
info@reoplastics.com
[SIC Code: 3089]

Annual Report

For the period ending April 30, 2023 (the "Reporting Period")

Outstanding Shares

The number of shares outstanding of our Common Stock was:

445,909 as of April 30, 2023 [Current Reporting Period Date or More Recent Date]

445,909 as of April 30, 2023 [Most Recent Completed Fiscal Year End]

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: No:

Change in Control

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes: No:

1) Name and address(es) of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer any names used by predecessor entities, along with the dates of the name changes.

REO Plastics Inc

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):
Minnesota, Active

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:
None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:
None

The address(es) of the issuer's principal executive office:
11850 93rd Avenue North
Maple Grove, MN 55369

The address(es) of the issuer's principal place of business:
 Check if principal executive office and principal place of business are the same address:

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?
No: Yes: If Yes, provide additional details below:

2) Security Information

Transfer Agent

Name: EQ Shareowner Services (Equiniti)
Phone: 800-468-9716
Email: See shareowneronline.com
Address: 1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

Trading symbol:	<u>REOP</u>
Exact title and class of securities outstanding:	<u>Common Stock</u>
CUSIP:	<u>760248104</u>
Par or stated value:	<u>\$0.10</u>
Total shares authorized:	<u>1,000,000</u> as of date: <u>4/30/2023</u>
Total shares outstanding:	<u>445,909</u> as of date: <u>4/30/2023</u>
Total number of shareholders of record:	<u>85</u> as of date: <u>7/18/2023</u>

All additional class(es) of publicly quoted or traded securities (if any):

Trading symbol:	_____
Exact title and class of securities outstanding:	_____
CUSIP:	_____
Par or stated value:	_____
Total shares authorized:	_____ as of date: _____
Total shares outstanding:	_____ as of date: _____

Total number of shareholders of record: _____ as of date: _____
 Trading symbol: _____
 Exact title and class of securities outstanding: _____
 CUSIP: _____
 Par or stated value: _____
 Total shares authorized: _____ as of date: _____
 Total shares outstanding: _____ as of date: _____
 Total number of shareholders of record: _____ as of date: _____

Other classes of authorized or outstanding equity securities:

The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g. preferred shares). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.

Exact title and class of the security: _____
 CUSIP (if applicable): _____
 Par or stated value: _____
 Total shares authorized: _____ as of date: _____
 Total shares outstanding (if applicable): _____ as of date: _____
 Total number of shareholders of record (if applicable): _____ as of date: _____

Exact title and class of the security: _____
 CUSIP (if applicable): _____
 Par or stated value: _____
 Total shares authorized: _____ as of date: _____
 Total shares outstanding (if applicable): _____ as of date: _____
 Total number of shareholders of record (if applicable): _____ as of date: _____

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

- 1. For common equity, describe any dividend, voting and preemption rights.**

_____ Full rights _____

- 2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

_____ n/a _____

- 3. Describe any other material rights of common or preferred stockholders.**

_____ None _____

- 4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.**

_____ None _____

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.**

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: Yes: (If yes, you must complete the table below)

Shares Outstanding as of Second Most Recent Fiscal Year End: Opening Balance Date <u>4/30/2021</u> Common: <u>446,009</u> Preferred: <u>0</u>			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to. *You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
<u>9/30/21</u>	<u>Repurchase</u>	<u>100</u>	<u>Common</u>	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Shares Outstanding on Date of This Report: Ending Balance Ending Balance: Date <u>4/30/2023</u> Common: <u>445,909</u> Preferred: <u>0</u>									

Example: A company with a fiscal year end of December 31st, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2021 through December 31, 2022 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: Yes: (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder. *You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

Use the space below to provide any additional details, including footnotes to the table above:

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. (Please ensure that these descriptions are updated on the Company's Profile on www.otcmarkets.com).

- A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")
Plastic Injection Molding and Value-Added Services
- B. List any subsidiaries, parent company, or affiliated companies.
None
- C. Describe the issuers' principal products or services.
Reo Plastics is a custom manufacturer of our customers' products.

5) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

In addition to our owned facility at 11850 93rd Avenue North, Maple Grove, MN, we lease approximately 43,000 square feet of warehouse space under a noncancelable lease agreement that expires in August 2024.

6) Officers, Directors, and Control Persons

Using the table below, please provide information, as of the period end date of this report, regarding any officers, or directors of the company, individuals or entities controlling more than 5% of any class of the issuer's securities, or any person that performs a similar function, regardless of the number of shares they own. **If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or**

controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity in the note section.

Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Names of All Officers, Directors and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
<u>Carolyn P. Sample</u>	<u>President/ Director</u>	<u>Minneapolis, MN</u>	<u>361,109</u>	<u>Common</u>	<u>81%</u>	
<u>Daniel J. Dammen</u>	<u>Executive VP/ CFO/ Director</u>	<u>New Hope, MN</u>	<u>100</u>	<u>Common</u>	<u><1%</u>	
<u>James L. Swenson</u>	<u>Senior VP/ Director</u>	<u>Ramsey, MN</u>	<u>1,000</u>	<u>Common</u>	<u><1%</u>	
<u>Paul Levenson</u>	<u>VP</u>	<u>Otsego, MN</u>	<u>0</u>			
<u>John Adamski</u>	<u>VP</u>	<u>Rogers, MN</u>	<u>0</u>			
<u>Jeffery Wittnebel</u>	<u>VP</u>	<u>Forest Lake, MN</u>	<u>0</u>			
<u>Scott Dunn</u>	<u>VP</u>	<u>Stacy, MN</u>	<u>0</u>			
<u>Ernest A. Lindstrom</u>	<u>Chairman/ Director</u>	<u>Richfield, MN</u>	<u>10,000</u>	<u>Common</u>	<u>2%</u>	
<u>Ron Draper</u>	<u>Director</u>	<u>Stillwater, MN</u>	<u>100</u>	<u>Common</u>	<u><1%</u>	

7) Legal/Disciplinary History

A. Identify whether any of the persons or entities listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None

- B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Securities Counsel (must include Counsel preparing Attorney Letters).

Name: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

Accountant or Auditor

Name: _____
Firm: RSM US LLP
Address 1: One South Wacker Drive, Suite 800
Address 2: Chicago, IL 60606
Phone: _____
Email: _____

Investor Relations

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

All other means of Investor Communication:

Twitter: _____
Discord: _____
LinkedIn: _____
Facebook: _____
[Other] _____

Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement.** This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: _____
Firm: _____
Nature of Services: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

9) Financial Statements

A. The following financial statements were prepared in accordance with:

- IFRS
- U.S. GAAP

B. The following financial statements were prepared by (name of individual)²:

Name: **Daniel J. Dammen**
Title: **Chief Financial Officer**
Relationship to Issuer: **Officer/Director**

Describe the qualifications of the person or persons who prepared the financial statements: **Inactive CPA in the State of Minnesota. Over 25 years of audit and financial statement preparation experience.**

Provide the following financial statements for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

- a. Audit letter, if audited;
- b. Balance Sheet;
- c. Statement of Income;
- d. Statement of Cash Flows;
- e. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- f. Financial Notes

Important Notes:

- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- All financial statements for a fiscal period must be published together with the disclosure statement in one Annual or Quarterly Report.

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Carolyn P. Sample certify that:

1. I have reviewed this Disclosure Statement for REO Plastics Inc;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

² The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

7/21/2023 [Date]

/s/ Carolyn P. Sample [CEO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Principal Financial Officer:

I, Daniel J. Dammen certify that:

1. I have reviewed this Disclosure Statement for Reo Plastics Inc;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

7/21/2023 [Date]

/s/ Daniel J. Dammen [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

REO Plastics, Inc.

Financial Report
April 30, 2023

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Balance sheets	3-4
Statements of income	5
Statements of stockholders' equity	6
Statements of cash flows	7
Notes to financial statements	8-17

Independent Auditor's Report

Board of Directors and Stockholders
REO Plastics, Inc.

Opinion

We have audited the accompanying consolidated financial statements of REO Plastics, Inc. (the Company), which comprise the balance sheets as of April 30, 2023 and 2022, the related statements of income, stockholders' equity and cash flows for the years then ended; and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of REO Plastics, Inc. as of April 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended 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 Financial Statements section of our report. We are required to be independent of the Company 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's 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 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 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 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 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 the Company's 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's 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.

RSM US LLP

Minneapolis, Minnesota
July 19, 2023

REO Plastics, Inc.

Balance Sheets
April 30, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash	\$ 3,690,051	\$ 2,192,797
Short-term investments	2,767,018	-
Trade receivables, net	4,208,928	12,340,205
Inventories, net:		
Raw materials	6,152,744	6,934,097
Work in process	1,797,157	1,684,754
Finished goods	4,450,587	2,947,957
Customer molds in process	482,176	444,179
Prepaid and other current assets	133,932	62,021
Income taxes receivable	258,956	-
Total current assets	23,941,549	26,606,010
Property and equipment, at cost:		
Land	228,193	217,593
Building	12,884,261	6,509,378
Machinery and equipment	23,412,756	21,785,122
Construction in progress	360,123	3,766,478
	36,885,333	32,278,571
Less accumulated depreciation	20,690,806	19,299,550
	16,194,527	12,979,021
Operating lease right-of-use-asset	386,106	-
	\$ 40,522,182	\$ 39,585,031

See notes to financial statements.

	2023	2022
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 493,967	\$ -
Current portion of operating lease liabilities	225,830	-
Accounts payable	2,777,495	5,205,285
Income taxes payable	-	78,673
Accrued expenses, principally compensation	1,381,022	1,593,716
Customer deposits	393,723	317,182
Total current liabilities	5,272,037	7,194,856
Long-term liabilities:		
Long-term debt, net of current maturities and deferred financing costs	4,431,607	3,641,219
Operating lease liabilities, less current portion	162,873	-
Deferred compensation, less current portion	401,649	425,557
Deferred income taxes	1,446,000	1,307,000
	6,442,129	5,373,776
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.10 per share; authorized 1,000,000 shares; 445,909 shares issued and outstanding	44,591	44,591
Additional paid-in capital	224,438	224,438
Retained earnings	28,538,987	26,747,370
	28,808,016	27,016,399
	\$ 40,522,182	\$ 39,585,031

REO Plastics, Inc.

Statements of Income
Years Ended April 30, 2023 and 2022

	2023	2022
Net sales	\$ 51,894,070	\$ 52,612,865
Cost of goods sold	<u>46,816,383</u>	<u>45,181,650</u>
Gross profit	<u>5,077,687</u>	<u>7,431,215</u>
Operating expenses:		
General and administrative	2,103,603	2,061,752
Selling	520,171	522,109
Deferred compensation	16,092	28,445
Loss on disposal of property and equipment	<u>172,590</u>	<u>5,217</u>
	<u>2,812,456</u>	<u>2,617,523</u>
Operating income	2,265,231	4,813,692
Nonoperating income (expense):		
Interest (expense) income, net	(30,545)	1,015
Other, net	<u>(29,077)</u>	<u>(3,341)</u>
Net income before income tax expense	2,205,609	4,811,366
Income tax expense	<u>(413,992)</u>	<u>(1,070,000)</u>
Net income	<u>\$ 1,791,617</u>	<u>\$ 3,741,366</u>
Income per common share	<u>\$ 4.02</u>	<u>\$ 8.39</u>
Weighted-average common shares outstanding	<u>445,909</u>	<u>445,951</u>

See notes to financial statements.

REO Plastics, Inc.

**Statements of Stockholders' Equity
Years Ended April 30, 2023 and 2022**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, April 30, 2021	\$ 44,601	\$ 224,488	\$ 23,009,244	\$ 23,278,333
Purchase of 100 shares of common stock for retirement	(10)	(50)	(3,240)	(3,300)
Net income	-	-	3,741,366	3,741,366
Balance, April 30, 2022	44,591	224,438	26,747,370	27,016,399
Net income	-	-	1,791,617	1,791,617
Balance, April 30, 2023	\$ 44,591	\$ 224,438	\$ 28,538,987	\$ 28,808,016

See notes to financial statements.

REO Plastics, Inc.

Statements of Cash Flows
Years Ended April 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	\$ 1,791,617	\$ 3,741,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,471,565	1,426,434
Loss on disposal of property and equipment	172,590	5,217
Deferred income taxes	139,000	567,000
Deferred compensation expense	16,092	28,444
Deferred compensation payments	(40,000)	(40,000)
Amortization of deferred financing costs	5,861	-
Noncash lease expense	2,597	-
Changes in operating assets and liabilities:		
Trade receivables	8,131,277	(4,233,485)
Inventories	(833,680)	(2,667,470)
Customer molds in process	(37,997)	207,266
Prepaid and other current assets	(71,911)	9,547
Accounts payable and accrued expenses	(2,640,484)	1,547,203
Customer deposits	76,541	(65,466)
Income taxes	(337,629)	(36,000)
Net cash provided by operating activities	7,845,439	490,056
Cash flows from investing activities:		
Purchases of investments	(2,767,018)	-
Purchases of property and equipment	(4,885,861)	(7,159,213)
Proceeds from disposal of property and equipment	26,200	65,235
Net cash used in investing activities	(7,626,679)	(7,093,978)
Cash flows from financing activities:		
Proceeds from long-term debt	1,858,781	3,641,219
Principal payments on long-term debt	(553,911)	-
Purchase of shares of common stock for retirement	-	(3,300)
Payments for deferred financing costs	(26,376)	-
Net cash provided by financing activities	1,278,494	3,637,919
Increase (decrease) in cash	1,497,254	(2,966,003)
Cash:		
Beginning	2,192,797	5,158,800
Ending	\$ 3,690,051	\$ 2,192,797
Supplemental disclosures of cash flow information:		
Cash payments for income taxes	\$ 613,000	\$ 539,000
Cash payments for interest expense	\$ 81,000	\$ -

See notes to financial statements.

REO Plastics, Inc.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: REO Plastics, Inc.'s (the Company) operations principally involve the custom injection molding, decorating and assembling of thermoplastics for customers in various industries, primarily in the United States of America. The Company establishes credit terms on an individual customer basis.

A summary of the Company's significant accounting policies follows:

Use of estimates in the preparation of financial statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Company's revenue is derived from sales of custom injection tooling, moldings, decorating and assembling of thermoplastics for original equipment manufacturers in various industries. Sales of products are subject to economic conditions and may fluctuate based on changes in the industry, trade policies and financial markets.

Nature of products and services: Revenue from the sale of the Company's products is recognized at a point in time, upon transfer of control to the customer, which is typically upon shipment, Free on Board (FOB) shipping point. The Company has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated equipment and not as a separate performance obligation.

Transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration such as early payment discounts, rebates, rights of return, and other allowances.

The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is estimated using the expected-value method (i.e., probability-weighted approach) based on review of specific transactions, historical experience, and market and economic conditions. Variable consideration is not significant to the overall transaction price.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Contract balances: The timing of revenue recognition aligns with the right to invoice the customer. The Company records accounts receivable when it has the unconditional right to issue an invoice and receive payment, which is upon shipment of the product to the customer or completion of the delivery. Payment terms on invoiced amounts range from 30 to 90 days. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the products and not to provide financing to the customer.

The Company excludes from revenue sales taxes and other government-assessed and imposed taxes on revenue-generating activities that are invoiced to customers.

Warranties: The Company generally provides limited-assurance-type warranties for standard equipment and work performed under its contracts. The warranty periods typically extend for a limited duration following transfer of control of the equipment. Historically, warranty claims have not resulted in material costs incurred. The Company does not consider these warranties to be performance obligations.

Costs to obtain a contract: The Company has elected to apply the practical expedient to expense sales commissions and associated costs as incurred when the expected amortization period is one year or less, which applies to all customer contracts.

Cash: For purposes of reporting cash flows, the Company considers all money market funds to be cash. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Short-term investments: At times, the Company has short-term investments that consist of certificates of deposit, treasury bills (T-bills) and treasury notes (T-notes). The certificates of deposit, T-bills and T-notes are held at one bank until maturity, with maturities of less than one year from the date of purchase, and are recorded at cost, which approximates fair value due to the short-term nature of these investments.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition and credit history, and current economic conditions. The allowance for doubtful accounts approximates \$21,000 as of April 30, 2023 and 2022. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is generally considered to be past due if any portion of the receivable balance is outstanding for more than 90 days beyond a customer's credit terms.

Inventories: Raw materials are stated at the lower of cost (first-in, first-out) or market. Inventories of work in process and finished goods are stated at standard costs, which approximate the lower of cost (first-in, first-out) or market. Inventories are reduced by valuation reserves of approximately \$42,000 and \$15,000 as of April 30, 2023 and 2022, respectively.

REO Plastics, Inc.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment is stated at acquisition cost. Repair and maintenance are expensed as incurred. Major improvements and betterments are capitalized. Depreciation is provided using the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Building	10-40
Machinery and equipment	3-10

The Company had repairs and maintenance expense of approximately \$867,000 and \$956,000 for the years ended April 30, 2023 and 2022, respectively.

During fiscal year 2022 and 2023 the Company expanded its manufacturing plant to increase capacity. The expansion costs incurred were being capitalized into construction in progress on the balance sheets, until the project was completed and the assets placed in service. The Company obtained a construction loan (see Note 2) to finance most of the project costs and funded the remaining costs with cash flows from operations. During the years ended April 30, 2023 and 2022, the Company incurred an insignificant amount of interest expense on the construction loan which was capitalized into construction in progress.

During 2023, the Company demolished a home it owned located adjacent to the plant as part of its plant expansion. This resulted in a loss on disposal of property and equipment of approximately \$178,000.

Long-lived assets: Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable or if depreciable lives should be modified. To date, management has determined that no impairment of long-lived assets exists.

Customer mold in process and customer deposits: The Company requires a cash deposit and milestone payments for customer-specific mold production, which is generally outsourced to a third-party mold manufacturer. Customer specific molds are recorded as current assets as costs are incurred and the revenue, and the corresponding cost of goods sold, is recognized on the molds when product samples have been approved by the customer.

Income taxes: Deferred income taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion of the deferred tax assets may not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company classifies all deferred income taxes as a single, noncurrent net asset in the accompanying balance sheets.

The Company recognizes income tax liabilities when the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from income tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Management has evaluated the Company's income tax positions and determined there are no material uncertain income tax positions that require adjustment to the financial statements. To the extent that the final income tax outcome of these matters is different from the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential income tax assessments are included in income tax expense.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Income per common share: Income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year.

Recently adopted accounting pronouncement: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. The Company adopted the new lease standard on May 1, 2022, using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on May 1, 2022 are presented under Topic 842, while prior period amounts continue to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, Leases.

To reduce the burden of adoption and ongoing compliance with Topic 842, a number of practical expedients and policy elections are available under the new guidance. The Company elected the package of practical expedients permitted under the transition guidance, which among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. The Company has not elected to adopt the hindsight practical expedient, and therefore will measure the ROU assets and lease liabilities using the remaining portion of the lease term at adoption on May 1, 2022.

The Company made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other significant leases, the Company recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or May 1, 2022 for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made before the commencement date and are reduced by any lease incentives.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes in index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Company's leases may include a non-lease component representing additional services transferred to the Company, such as common area maintenance for real estate. The Company made an accounting policy election to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. Non-lease components that are variable in nature are recorded in variable lease expense in the period incurred.

A lessee that is not a public business entity (PBE) is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, the Company has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities with similar terms as the leases, as posted on the Federal Reserve website.

REO Plastics, Inc.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

All of the Company's lease arrangements at the date of adoption of ASC 842 were classified as operating leases and the adoption of the new standard resulted in the recording of ROU assets and lease liabilities of approximately \$478,000 each on May 1, 2022. The adoption of ASC 842 did not materially impact the Company's earnings or cash flows and did not result in a cumulative-effective adjustment to stockholders' equity.

Recent accounting pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require considerations of historical information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the assumptions, models and methods for estimating expected credit losses. The FASB subsequently issued ASU 2019-10, which deferred the effective date of this ASU to the Company's year ending April 30, 2024, with early adoption permitted. The Company is currently evaluating the impact the standard will have on its financial statements.

Subsequent events: The Company has evaluated subsequent events through July 19, 2023, the date on which the financial statements were available to be issued.

Note 2. Debt

Construction term note payable: In December of 2021, the Company entered into a construction loan agreement with a bank, providing for advances of up to \$5,500,000 through December 31, 2022, at which time the outstanding balance converted into a term note payable. Through September 2022, interest was due monthly at 3.000% and increased to 3.125% in October 2022 through the end of the term loan. The loan agreement requires minimum monthly principal payments based on a 20-year loan amortization with a balloon payment for the unpaid principal due December 26, 2028, however, the Company has elected to amortize and pay the loan over a 10-year period. The future maturity schedule is reflective of the company's intent to pay the loan over a 10-year period. The Company is allowed to pre-pay the outstanding balance at any point in time without incurring a pre-payment penalty. All borrowings are secured by a mortgage agreement.

Long-term debt consists of the following as of April 30, 2023 and 2022:

	April 30	
	2023	2022
Construction term note payable	\$ 4,946,089	\$ 3,641,219
Current maturities of long-term debt	493,967	-
Less deferred financing costs, net of accumulated amortization	(20,515)	-
Long-term debt, net of current maturities and deferred financing costs	\$ 4,431,607	\$ 3,641,219

REO Plastics, Inc.**Notes to Financial Statements**

Note 2. Debt (Continued)

The approximate annual future maturities of long-term debt are as follows:

Years ending April 30:		
2024	\$	494,000
2025		510,000
2026		526,000
2027		542,000
2028		560,000
Thereafter		2,314,000
	\$	<u>4,946,000</u>

Note 3. Federal and State Income Taxes

Deferred income taxes consist of the following components:

	April 30	
	2023	2022
Deferred tax assets:		
Accounts receivable	\$ 5,000	\$ 5,000
Inventory	152,000	155,000
Accrued expenses	62,000	92,000
Deferred compensation	110,000	117,000
Amortization	1,000	-
Lease Liability	89,000	-
R&E expenses—Section 174	264,000	-
	<u>683,000</u>	<u>369,000</u>
Deferred tax liabilities:		
Property and equipment	(2,041,000)	(1,676,000)
Right of use asset	(88,000)	-
Net deferred tax liabilities	<u>\$ (1,446,000)</u>	<u>\$ (1,307,000)</u>

The provision for income taxes charged to operations consisted of the following:

	Years Ended April 30	
	2023	2022
Current tax expense	\$ 275,000	\$ 503,000
Deferred tax expense	139,000	567,000
Income tax expense	<u>\$ 414,000</u>	<u>\$ 1,070,000</u>

REO Plastics, Inc.

Notes to Financial Statements

Note 3. Federal and State Income Taxes (Continued)

For the years ended April 30, 2023 and 2022, the difference between the tax expense and that which would be computed by applying the U.S. federal income tax rate (21%) to pretax net income is as follows:

	Years Ended April 30	
	2023	2022
Computed expected federal tax expense at statutory rates	\$ 463,000	\$ 1,010,000
State income tax expense, net of federal effect	42,000	113,000
Permanent differences	9,000	1,000
PPP loan forgiveness income	-	(50,000)
Research and experimental credits	(111,000)	-
Other	11,000	(4,000)
Income tax expense	<u>\$ 414,000</u>	<u>\$ 1,070,000</u>

Note 4. Commitments and Contingencies

Employee benefit plans: The Company has a 401(k) tax-deferred savings plan in effect for its employees. Employees over the age of 21 are eligible to participate on the 1st day of the month following 30 days of employment. The Company matches 50 % of employee contributions, up to 6% of the employee's salary. Matching contributions are made on a weekly basis. The Company recorded employer match expense of approximately \$163,000 and \$127,000 for the years ended April 30, 2023 and 2022, respectively.

Litigation: The Company is involved in certain legal proceedings and claims incidental to the normal course of business. Although the ultimate outcome of these outstanding claims cannot be determined, management believes their final resolution will not have a material adverse effect on the financial position of the Company.

Note 5. Leases

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company leases certain warehouse facilities and various other equipment under noncancelable operating leases with various expiration dates through January 2029. The Company's operating leases generally do not contain any material restrictive covenants.

REO Plastics, Inc.

Notes to Financial Statements

Note 5. Leases (Leases)

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended April 30, 2023:

Operating lease cost	\$ 218,000
Short-term lease expense	141,000
Variable lease cost	134,000
Total lease cost	<u>\$ 493,000</u>

Rent expense under operating leases was approximately \$479,000 for the year ended April 30, 2022.

Supplemental cash flow information related to leases is as follows for the year ended April 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows—payments on operating leases	\$ 215,000

Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 114,000

Supplemental balance sheet information related to leases is as follows as of April 30, 2023:

Operating lease assets (liabilities):	
Operating lease right-of-use assets, net	<u>\$ 386,000</u>
Current portion of operating lease liabilities	(226,000)
Operating lease liabilities, net of current portion	<u>(163,000)</u>
Total operating lease liabilities	<u>(389,000)</u>
Net operating lease liability	<u>\$ (3,000)</u>

Weighted-average remaining lease term:	
Operating leases	2.56 years

Weighted-average discount rate:	
Operating leases	3.23%

REO Plastics, Inc.**Notes to Financial Statements****Note 5. Leases (Leases)**

Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of April 30, 2023:

	<u>Operating Leases</u>
Years ending December 31:	
2024	\$ 235,000
2025	93,000
2026	21,000
2027	21,000
2028	21,000
Thereafter	15,000
Total lease payments	<u>406,000</u>
Less imputed interest	(17,000)
Total present value of lease liabilities	<u><u>\$ 389,000</u></u>

Future minimum commitments, as determined under ASC Topic 840, Lease for all non-cancellable leases were approximately as follows as of April 30, 2022:

	<u>Operating Leases</u>
Years ending December 31:	
2023	\$ 383,000
2024	395,000
2025	141,000
2026	21,000
2027	21,000
Thereafter	27,000
Total minimum lease payments	<u><u>\$ 988,000</u></u>

Note 6. Major Customers

Net sales and trade receivables for the years ended April 30, 2023 and 2022, from major customers (in excess of 10% of total net sales) were as follows:

	<u>Net Sales, Years Ended April 30</u>		<u>Trade Receivables as of April 30</u>	
	2023	2022	2023	2022
Customer A	46%	47%	\$ 812,000	\$ 6,577,000
Customer B	12%	*	\$ 416,000	*
Customer C	*	10%	*	\$ 987,000

*Represents less than 10% of total sales in the year indicated

REO Plastics, Inc.

Notes to Financial Statements

Note 7. Deferred Compensation

The Company has deferred compensation arrangements with four current and retired key executives of the Company. Upon retirement, as defined, each executive receives annual payments of \$20,000 for a period of 11 years. The payments cease upon the death of the executive. All deferred compensation benefits were fully vested as of the signing of the contracts. Deferred compensation expense was approximately \$16,000 and \$28,000 for the years ended April 30, 2023 and 2022, respectively, and consists of the change in the present value of the remaining payments, including estimated retirement dates, and the difference between actual deferred compensation payment and the mortality adjusted expected payments.

Based on estimated retirement dates, the Company expects deferred compensation payments to continue through 2033. Future deferred compensation payments approximate as follows:

Years ending April 30:	
2024	\$ 80,000
2025	80,000
2026	80,000
2027	80,000
2028	80,000
Thereafter	<u>320,000</u>
	720,000
Less amounts representing interest and life expectancy adjustments	<u>(238,000)</u>
	482,000
Less current portion, included with accrued expenses	<u>(80,000)</u>
Deferred compensation, less current portion, at April 30, 2023	<u><u>\$ 402,000</u></u>