



**TOR MINERALS INTERNATIONAL, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022**

TOR MINERALS INTERNATIONAL, INC. AND SUBSIDIARIES

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Independent Auditor's Report

Board of Directors and Shareholders of
TOR Minerals International, Inc.
Corpus Christi, Texas

Opinion

We have audited the consolidated financial statements of TOR Minerals International, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended, 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 the Company as of December 31, 2023 and 2022, and the results of its operations and its 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 Consolidated 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 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 the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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 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 consolidated 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.

BDO USA, P.C.

March 28, 2024

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Years Ended December 31,	
	2023	2022
NET SALES	\$ 27,075	\$ 29,909
Cost of sales	25,170	27,115
GROSS MARGIN	1,905	2,794
Technical services and research and development	75	55
Selling, general and administrative expenses	3,463	3,820
(Gain) loss on disposal of assets	(1)	50
OPERATING LOSS	(1,632)	(1,131)
OTHER (EXPENSE) INCOME:		
Interest expense, net	(17)	(65)
Gain (loss) on foreign currency exchange rate	112	(148)
Other income, net	3	89
Total Other Income (Expense)	98	(124)
Loss before provision for income taxes	(1,534)	(1,255)
Income tax benefit	(3)	(1)
NET LOSS	\$ (1,531)	\$ (1,254)
 <i>Loss per common share:</i>		
Basic and Diluted	\$ (0.43)	\$ (0.35)
Diluted	\$ (0.43)	\$ (0.35)
 <i>Weighted average common shares outstanding:</i>		
Basic and Diluted	3,542	3,542
Diluted	3,542	3,542

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
(In thousands)

	<u>Years Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
NET LOSS	\$ (1,531)	\$ (1,254)
OTHER COMPREHENSIVE LOSS, net of tax		
Currency translation adjustment, net of tax:		
Net foreign currency translation adjustment loss	(158)	(791)
Other comprehensive loss, net of tax	(158)	(791)
COMPREHENSIVE LOSS	<u>\$ (1,689)</u>	<u>\$ (2,045)</u>

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share amounts)

	December 31,	
	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,185	\$ 3,060
Trade accounts receivable, net	2,150	2,165
Inventories	7,841	10,309
Other current assets	940	890
Total current assets	14,116	16,424
PROPERTY, PLANT AND EQUIPMENT, net	8,161	8,428
OTHER ASSETS:		
Operating lease right-of-use assets	52	88
Other assets - equipment held, not used	-	473
Other asset - miscellaneous	3	3
Total other assets	55	564
Total Assets	\$ 22,332	\$ 25,416
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,803	\$ 2,719
Accrued expenses	1,327	1,042
Notes payable under lines of credit	16	741
Current maturities - financed lease liability	15	47
Current maturities - operating lease liability	51	52
Current maturities of long-term debt – financial institutions	153	149
Total current liabilities	3,365	4,750
LONG-TERM LIABILITIES:		
Long-term debt - financed lease liability, net of current	5	19
Long-term debt - operating lease liability, net of current	1	36
Long-term debt - financial institutions, net of current	311	450
Other long term liability, net of current	124	155
Total liabilities	3,806	5,410
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Common stock \$1.25 par value: authorized, 6,000 shares; 3,542 shares issued and outstanding at December 31, 2023 and 2022	4,427	4,427
Additional paid-in capital	31,222	31,013
Accumulated deficit	(15,303)	(13,772)
Accumulated other comprehensive loss	(1,820)	(1,662)
Total shareholders' equity	18,526	20,006
Total Liabilities and Shareholders' Equity	\$ 22,332	\$ 25,416

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years ended December 31, 2023 and 2022
(In thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at January 1, 2022	3,542	\$ 4,427	\$ 30,901	\$ (12,518)	\$ (871)	\$ 21,939
Share-based compensation	-	-	112	-	-	112
Net loss	-	-	-	(1,254)	-	(1,254)
Cumulative Translation Adjustment	-	-	-	-	(791)	(791)
Balance at December 31, 2022	<u>3,542</u>	<u>\$ 4,427</u>	<u>\$ 31,013</u>	<u>\$ (13,772)</u>	<u>\$ (1,662)</u>	<u>\$ 20,006</u>
Share-based compensation	-	-	209	-	-	209
Net loss	-	-	-	(1,531)	-	(1,531)
Cumulative Translation Adjustment	-	-	-	-	(158)	(158)
Balance at December 31, 2023	<u>3,542</u>	<u>\$ 4,427</u>	<u>\$ 31,222</u>	<u>\$ (15,303)</u>	<u>\$ (1,820)</u>	<u>\$ 18,526</u>

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (1,531)	\$ (1,254)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,574	1,487
(Gain) loss on disposal of assets	(1)	50
Share-based compensation	209	112
Provision (Recovery) of bad debt	35	(13)
Changes in working capital:		
Trade accounts receivable	(14)	2,120
Inventories	2,315	(1,528)
Other current assets	(29)	(350)
Right-of-use operating leases	(60)	(56)
Accounts payable and accrued expenses	(667)	575
Net cash provided by operating activities	<u>1,831</u>	<u>1,143</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(676)	(782)
Proceeds from sales of property, plant and equipment	1	3
Net cash used in investing activities	<u>(675)</u>	<u>(779)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	16	110
Payments on lines of credit	(737)	(879)
Payments on financed leases	(49)	(53)
Payments on long-term bank debt	(153)	(148)
Net cash used in financing activities	<u>(923)</u>	<u>(970)</u>
Effect of foreign currency exchange rate fluctuations on cash and cash equivalents	<u>(108)</u>	<u>5</u>
Net increase (decrease) in cash and cash equivalents	125	(601)
Cash and cash equivalents at beginning of year	<u>3,060</u>	<u>3,661</u>
Cash and cash equivalents at end of year	<u>\$ 3,185</u>	<u>\$ 3,060</u>
<i>Supplemental cash flow disclosures:</i>		
Interest paid	\$ 30	\$ 66
Income taxes paid	\$ 2	\$ -
<i>Non-cash investing activities:</i>		
Capital expenditures financed through accounts payable and accrued expenses	\$ 4	\$ 36
Vehicle acquired through finance lease obligation	\$ -	\$ 20

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc.
Notes to the Audited Consolidated Financial Statements
December 31, 2023 and 2022

1. Description of Business

TOR Minerals International, Inc. and Subsidiaries (“TOR”, “we”, “us”, “our”, or the “Company”), a Delaware Corporation, is engaged in a single industry, the manufacture and sale of mineral products for use as pigments and extenders, primarily in the manufacture of paints, industrial coatings plastics, and solid surface applications. The Company's global headquarters are located in Corpus Christi, Texas (“TMI”). The Asian Operation, TOR Minerals Malaysia, Sdn. Bhd. (“TMM” or “Asian Operations”), is located in Ipoh, Malaysia, and the European Operation, TOR Processing and Trade, BV (“TPT” or “European Operations”), is located in Hattem, The Netherlands.

The individual who prepared both the financial statements and the notes to the audited, consolidated financial statements is Glenda Webb, TOR’s VP of Finance and Accounting. She holds a Masters in Accountancy and has been a CPA since 2008.

TOR’s authorized transfer agent is Computershare Limited. Their contact information is Computershare Investor Services, P.O. Box 43078, Providence, RI 02940-3078 at www.computershare.com or by phone at 1-800-564-6253.

Basis of Presentation and Use of Estimates: The consolidated financial statements include the accounts of TOR Minerals International, Inc. and its wholly-owned subsidiaries, TMM and TPT. All significant intercompany transactions and balances are eliminated in the consolidation process.

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we evaluate our estimates, including those related to bad debt, inventories, income taxes, financing operations, contingencies and litigation. TOR bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents: The Company considers all highly liquid investments readily convertible to known cash amounts and with a maturity of twelve months or less at the date of purchase to be cash equivalents. The Company maintains cash balances at financial institutions in the U.S. which, at times, exceed federally insured amounts. For the years ended December 31, 2023 and 2022, the Company did not experience any such losses.

Allowance for Doubtful Accounts: The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. During 2023, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) *Financial Instruments-Credit Losses* (“ASC 326”) which did not have a material impact on the financial statements. The objectives of ASC 326 are to decrease the number of credit impairment models that entities use to account for debt instruments, eliminate the barrier to timely recognition of credit losses by using an expected loss model instead of an incurred loss model, require an entity to recognize an allowance of lifetime expected credit losses, and does not require a specific method for entities to use in estimating expected credit losses. The change in estimation methodology and the consideration of forward-looking information, such as economic conditions and industry trends, does not significantly affect the allowance amount. TOR’s historical loss rate and the current economic conditions indicate that the credit risk associated with its trade receivables remains relatively stable. As a result, the estimated credit losses under ASC 326 are not significantly different from the previous allowance estimation method. As of December 31, 2023 and 2022, the allowance for doubtful accounts was approximately \$51,000 and \$16,000, respectively.

Foreign Currency: Results of operations for the Company’s foreign operations, TMM and TPT, are translated from the designated functional currency to the U.S. Dollar using average exchange rates during the period, while assets and liabilities are translated at the exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are reported as other comprehensive loss, net of income tax. The effect of changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses) in earnings.

TMM measures and records its transactions in terms of the local Malaysian currency, the Ringgit (“RM”), which is also TMM’s functional currency. As a result, gains and losses resulting from translating the balance sheet from RM to U.S. Dollars are recorded as cumulative translation adjustments (which are included in accumulated other comprehensive loss, a separate component of shareholders’ equity) on the consolidated balance sheets. As of December 31, 2023, the cumulative translation adjustment included on the consolidated balance sheets was a loss of approximately \$1,986,000. Year ending December 31, 2022, the cumulative translation adjustment included on the consolidated balance sheets was a loss of approximately \$1,690,000.

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TPT's functional currency is the Euro. As a result, gains and losses resulting from translating the balance sheet from Euros to U.S. Dollars are recorded as cumulative translation adjustments on the consolidated balance sheets. As of December 31, 2023, the cumulative translation adjustment included on the consolidated balance sheets was income of approximately \$166,000. Year ending December 31, 2022, the cumulative translation adjustment included on the consolidated balance sheets was a gain of approximately \$28,000.

Inventory: We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the net realizable value based upon assumptions about future demand and market conditions. Based on our inventory analysis, no such write down was necessary during the years ended December 31, 2023 and 2022.

Overhead is charged to inventory based on normal capacity and we expense abnormal amounts of idle facility expense, freight and handling costs in the period incurred. For the year ended December 31, 2023, the Company recorded an increase in the 2023 consolidated statement of operations as a component of Cost of sales of approximately \$185,000, primarily related to idle facility expense at TPT and TMM operations. During 2022, we recorded an increase in the 2022 consolidated statement of operations as a component of Cost of sales of approximately \$988,000, primarily related to idle facility expense primarily at the TPT and TMM operations.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of depreciable assets, which range from 3 to 39 years. Maintenance and repair costs are charged to operations as incurred and major improvements extending asset lives are capitalized.

Impairment of Long-Lived Assets: The impairment of long-lived assets is assessed when changes in circumstances (such as, but not limited to, a decrease in market value of an asset, current and historical operating losses or a change in business strategy) indicate that their carrying value may not be recoverable. This assessment is based on management's estimates of future undiscounted cash flows, salvage values or net sales proceeds. These estimates take into account management's expectations and judgments regarding future business and economic conditions, future market values and disposal costs. Actual results and events could differ significantly from management's estimates. Based upon our most recent analysis, management determined no assets were impaired. There can be no assurance that future impairment tests will not result in a charge to net earnings (loss).

Revenue Recognition: The Company follows FASB ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaborative arrangements and financial instruments. Under ASC 606, an entity recognizes revenue when it transfers control of the promised goods or services to its customer, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. If control transfers to the customer over time, an entity selects a method to measure progress that is consistent with the objective of depicting its performance.

In determining the appropriate amount of revenue to be recognized as the Company fulfills the obligations under its contracts with customers, the following steps must be performed at contract inception: (i) identification of the promised goods in the contract; (ii) determination of whether the promised goods are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company satisfies its performance obligation as the products are delivered to its customers or common carrier at which point control is transferred to the customer. The Company invoices customers once the product has shipped and collection generally occurs within the payment terms agreed with customers. Accordingly, there is no financing component to the Company's arrangements with customers.

Shipping and Handling: The Company records shipping and handling costs, associated with the outbound freight on products shipped to customers, as a component of cost of sales.

Income Taxes: The Company records a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and tax credit carry-forwards. The effect on deferred tax

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assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain.

When accounting for uncertainties in income taxes, the Company evaluates all tax years still subject to potential audit under the applicable state, federal and foreign income tax laws. The Company is subject to taxation in the United States, Malaysia, and The Netherlands. Federal income tax returns in the United States are subject to examination for the tax years ended December 31, 2020 through December 31, 2023. State tax returns, which are filed in Texas, are subject to examination for the tax years ended December 31, 2019 through December 31, 2023.

The Company's tax returns in various non-U.S. jurisdictions are subject to examination for various tax years dating back to December 31, 2018.

The Company did not recognize any tax benefits from uncertain tax positions within the provision for income taxes. The Company may recognize a tax benefit only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

In addition, the Company did not recognize any interest and penalties in the consolidated financial statements during the years ended December 31, 2023 and 2022. If any interest or penalties related to any income tax liabilities are imposed in future reporting periods, the Company expects to record both of these items as components of income tax expense.

Share Based Compensation: The Company calculates share based compensation using the Black-Scholes-Merton ("Black-Scholes") option-pricing model, which requires the input of subjective assumptions including the expected stock price volatility. For the years ended December 31, 2023 and 2022, we recorded approximately \$209,000 and \$112,000, respectively, in share-based employee compensation. This compensation cost is included in selling, general and administrative ("SG&A") expenses in the accompanying Consolidated Statements of Operations.

Leases In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02 which created ASC Topic 842 *Leases*, to require balance sheet recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. In July 2018, the FASB issued ASU 2018-11, to provide another transition method in addition to the existing transition method, allowing entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, the FASB has issued other ASU's to clarify application of the guidance in the original standard and to provide practical expedients for applying the standard, all of which are effective upon adoption. For non-public entities this standard was effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

The Company adopted the standard as of January 1, 2022. This standard requires the Company to recognize right-of-use ("ROU") assets and lease liabilities on the balance sheet for identified property that is subject to operating lease agreements. The Company elected to adopt this standard by applying the additional transition method set forth in ASU 2018-11, whereby the Company implemented the provisions of the new standard to existing leases by recognizing and measuring lease assets and liabilities on the balance sheet as of January 1, 2022, as well as a cumulative-effect adjustment to the opening balances of accumulated deficit (if any). Consequently, the reporting of leases for the prior year continues to be provided in accordance with ASC Topic 840, which was effective during that period. The Company elected the package of practical expedients permitted under the transition guidance within ASC 842, which, among other things, allowed the carryforward of historical lease classification without the need to re-evaluate such classification pursuant to the provisions of ASC 842. Other practical expediciencies used include (i) not reassessing initial direct cost, (ii) not reassessing existing contracts that may contain a lease, and (iii) not recognizing a lease asset or lease liability for leases with terms of twelve months or less.

The Company considers a contract to be a lease when the terms of the agreement indicate a right to control the use of an identified asset for a period of time in exchange for consideration. A right to control the use of an identified asset exists when the contract terms set forth the Company's right to obtain substantially all of the economic benefits from use of the identified asset, or to direct its use throughout the contract period. The Company considers substantially all of the economic benefits to mean 90% or more of the utility of the identified asset.

The Company evaluates and classifies its leases as operating, financing or sales-type leases based on the criteria set forth in ASC 842 that considers whether a lease is economically similar to the purchase of a nonfinancial asset. The Company has adopted an accounting policy to define "substantially all" of the fair value of the underlying asset to mean 90% or greater and

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a “major part” of the remaining economic life to mean 75% or greater in performing its classification assessment. The Company excludes variable lease payments that are based on performance or use from the lease classification determination. The Company will include the exercise price of a purchase option when reasonable certainty exists that option will be exercised. The Company will also include termination penalties unless it is reasonably certain that any option to terminate the lease is not likely, and therefore will not incur the penalty. Lastly, the Company includes any residual value guarantees that are provided to lessors in the lease classification determination.

The Company recognizes a right-of-use asset based on the initial measurement amount of the lease liability, as discussed below, increased by any prepayments that are made to the lessor at or before the lease commencement date and any initial direct costs that are incurred, reduced by any incentive amounts received.

The Company recognizes lease liabilities based upon the discounted present value of the payment amounts expected to be made over the non-cancellable terms of the underlying leases. Variable lease payments that are based on performance or use are excluded in the measurement of the right of use (“ROU”) assets and liabilities. The exercise price of purchase options and termination penalties are included in the lease liability when reasonable certainty exists that these costs will be incurred.

The Company evaluates lease modifications as they occur and records such as a separate lease or an adjustment to the existing right-of-use asset and lease liability as appropriate.

For the years ended December 31, 2023 and 2022, the Company recognized a right-of-use lease asset of approximately \$72,000 and \$154,000, respectively, which includes both operating leases and finance type leases reported in plant, property, and equipment, net on the consolidated balance sheet. For the years ended December 31, 2023 and 2022 the corresponding liability of approximately \$52,000 and \$88,000, respectively, are reported on the balance sheet related to operating leases. See further discussion of leases in Note 9.

2. Debt and Notes Payable

Long-term Debt – Financial Institutions

Below is a summary of our long-term debt to financial institutions as of December 31, 2023 and 2022:

(In thousands)	December 31, 2023	December 31, 2022
Fixed rate Euro term note payable to Rabobank, with an interest rate of 6.9% at December 31, 2023, due August 31, 2027, secured by TPT's land and buildings. Monthly principal payments are €1,616 (\$1,785) at December 31, 2023 and a Euro balance of €70k.	\$ 77	\$ 96
Fixed rate Euro term note payable to Rabobank, with an interest rate of 4.55% at December 31, 2023, due May 31, 2029, secured by TPT's land and buildings. Monthly principal payments are €1,566 (\$1,730) at December 31, 2023 and a Euro balance of €100k.	111	128
Fixed rate Euro term note payable to Rabobank, with an interest rate of 2.2% at December 31, 2023. The loan is due July 31, 2026 and is secured by TPT's land and buildings. Monthly principal payments are €8,333 (\$9,205) at December 31, 2023 and a Euro balance of €250k.	276	375
Total	\$ 464	\$ 599
Less current maturities	153	149
Total long-term debt - financial institutions	\$ 311	\$ 450

Short term Debt

European Operations

On July 13, 2015, TPT entered into an amended perpetual short-term banking facility (the “TPT Amended Agreement”) with Rabobank. Under the terms of the TPT Amended Agreement, the TPT line of credit (the “TPT Line”) is

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€500,000 (\$552,400 at 12/31/2023) and interest was the average 1-month EURIBOR plus the bank margin of 3.3%. At December 31, 2023, the interest rate was 7.17% and TPT had approximately €15,000 (\$16,000 at 12/31/2023) outstanding on the TPT Line.

On March 31, 2023, Rabobank notified TPT of a new covenant, effective January 1, 2024 against all debt facilities held at Rabobank. The covenant requires for TPT to exceed an earnings before income tax, depreciation, and amortization threshold of €500k on a stand-alone production basis, excluding all corporate income and expense. Should the covenant not be met, the facility would be due upon demand.

Asian Operations

On September 22, 2020, TMM entered into an amended short-term banking facility with HSBC to extend the maturity date from June 30, 2020 to June 30, 2021 with the ability to further extend each year, if approved. Current maturity of the agreement is June 30, 2024. The HSBC facility includes the following in RM: (1) overdraft and bank guarantee each of RM 500,000 (\$108,950 at 12/31/2023); (2) an import line of RM 4,500,000 (\$980,550 at 12/31/2023); and (3) an export (“ECR”) line of RM 2,000,000 (\$435,800 at 12/31/2023). At December 31, 2023, TMM had no outstanding balance on the HSBC short-term banking facility.

On August 19, 2021, TMM amended its short-term banking facility with RHB Bank Berhad (“RHB”) to extend the maturity date from August 31, 2021 to August 31, 2022, and further extended to August 31, 2024. The RHB facility, as amended, includes the following in RM. (1) multi-trade line of RM 6,750,000 (\$1,470,825 at 12/31/2023); (2) a bank guarantee of RM 250,000 (\$54,475 at 12/31/2023); and (3) the foreign exchange contract line of RM 2,000,000 (\$435,800 at 12/31/2023). At December 31, 2023, TMM had no outstanding balance on the RHB short-term banking facility.

The banking facilities with both HSBC and RHB bear an interest rate on the respective overdraft facilities at 1.25% over bank prime, and the respective ECR facilities bear interest at 1.0% above the funding rate stipulated by the Export-Import Bank of Malaysia Berhad. The ECR facilities, which are a government supported financing arrangement specifically for exporters, are used by TMM for short-term financing of up to 180 days against customers’ and inter-company shipments.

The borrowings under both the HSBC and the RHB short-term credit facility are subject to certain subjective acceleration covenants based on the judgment of the banks and a demand provision that provides that the banks may demand repayment at any time. A demand provision is customary in Malaysia for such facilities. The loan agreements are secured by TMM’s property, plant and equipment. However, if demand is made by HSBC or RHB, we may be unable to refinance the demanded indebtedness, in which case, the lenders could foreclose on the assets of TMM. While repatriation is allowed in the form of dividends, the credit facilities prohibit TMM from paying dividends, and the HSBC facility further prohibits loans to related parties without the prior consent of HSBC.

The Company was in compliance with all financial and non-financial covenants at HSBC and RHB as of December 31, 2023. As of December 31, 2023, Rabobank had no financial covenants and the Company was in compliance with all non-financial covenants.

The following is a summary of the future maturities of long-term debt to financial institutions as of December 31, 2023:

<u>Years Ending December 31,</u>	
(In thousands)	
2024	\$ 153
2025	153
2026	96
2027	35
2028	21
Thereafter	6
Total	\$ 464

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3. Fair Value Measurements

Fair value measurements consist of the following three levels:

Level 1 inputs: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date (e. g., equity securities traded on the New York Stock Exchange).

Level 2 inputs: Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (e. g., quoted prices of similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active).

Level 3 inputs: Level 3 inputs are unobservable inputs (e. g., a company's own data) for the asset or liability and should be used to measure fair value to the extent that relevant observable inputs are not available.

The fair value of the Company's debt is based on estimates using standard pricing models and Level 2 inputs, including the Company's estimated borrowing rate, that take into account the present value of future cash flows as of the consolidated balance sheet date. The computation of the fair value of these instruments is performed by the Company. The carrying amounts and estimated fair values of the Company's long-term debt outstanding at Rabobank, including current maturities, are summarized below:

(In Thousands)	December 31, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	\$ 464	\$ 434	\$ 599	\$ 549

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and accrued expenses, accrued income taxes and short-term borrowings approximate fair values due to the short-term nature of these instruments.

4. Inventories

A summary of inventories follows:

(In thousands)	December 31,	
	2023	2022
Raw materials	\$ 1,671	\$ 4,121
Work in progress	996	965
Finished goods	4,684	4,650
Supplies	842	939
Total Inventories	8,193	10,675
Inventory reserve	(352)	(366)
Net Inventories	\$ 7,841	\$ 10,309

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5. Property, Plant and Equipment

Major classifications and expected lives of property, plant and equipment are summarized below:

(In thousands)	Expected Life	December 31,	
		2023	2022
Land	--	\$ 255	\$ 253
Office buildings	39 years	3,859	3,720
Production facilities	10 - 20 years	2,196	2,141
Machinery and equipment	3 - 15 years	21,546	9,794
Furniture and fixtures	3 - 20 years	1,358	1,257
Total		29,214	27,166
Less accumulated depreciation		(21,116)	(19,320)
Property, plant and equipment, net		8,098	7,846
Construction in progress		63	581
		<u>\$ 8,161</u>	<u>\$ 8,428</u>

All property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of depreciable assets.

The amounts of depreciation expense recorded on the Company's property, plant and equipment for the years ended December 31, 2023 and 2022 was approximately \$1,574,000 and \$1,487,000, respectively.

6. Income Taxes

Loss after provision for income taxes was as follows:

(In thousands)	Years Ended December 31,	
	2023	2022
Domestic	\$ (695)	\$ (841)
Foreign	(836)	(413)
Loss after income taxes	<u>\$ (1,531)</u>	<u>\$ (1,254)</u>

The components of provision for income taxes for periods presented are as follows:

(In thousands)	Components of Provision for Income Tax Benefit					
	Years Ended December 31,					
	2023			2022		
	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State	(3)		(3)	(1)		(1)
Foreign	-	-	-	-	-	-
Total Income Tax Benefit	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ (1)</u>

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory Federal income tax rate to loss before income taxes is as follows:

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Effective Tax Rate Reconciliation (In thousands)	Years Ended December 31,	
	2023	2022
Benefit computed at statutory rate	\$ (322)	\$ (263)
Change in valuation allowance - Domestic	146	143
Change in valuation allowance - Foreign	168	47
Effect of items deductible for book not tax, net		
Share-based compensation	1	23
Other - Foreign	(17)	(9)
Effect of foreign tax rate differential	24	50
Other adjustments	(1)	9
State income taxes, net of Federal benefit	(2)	(1)
	<u>\$ (3)</u>	<u>\$ (1)</u>

Significant Components of Deferred Taxes (In thousands)	Years Ended December 31,	
	2023	2022
Deferred Tax Assets:		
Net operating loss carry-forwards - Domestic	\$ 1,357	\$ 1,207
Net operating loss carry-forwards - Foreign	1,786	1,586
Non-qualifying share-based compensation	77	33
Unrealized foreign currency losses - Domestic	-	48
Domestic reserves	1	-
Foreign tax credits	436	452
PP&E - Domestic	3	3
Other deferred assets - Domestic	2	1
Other deferred assets - Foreign	18	19
	<u>3,680</u>	<u>3,349</u>
Valuation Allowance	<u>(3,680)</u>	<u>(3,349)</u>
Total deferred tax assets, net	<u>\$ -</u>	<u>\$ -</u>

Our effective tax rate is based on our level of pre-tax income, statutory rates and tax planning strategies. Significant management judgment is required in determining the effective tax rate and in evaluating our tax position. At December 31, 2023, our TMI operation had federal NOL carry-forwards of approximately \$6,460,000, of which approximately \$569,000 will begin to expire in 2035, approximately \$31,000 will begin to expire in 2036, and approximately \$5,860,000 has an unlimited carryforward period. The NOL carry-forwards when combined with other items, resulted in a deferred tax asset (“DTA”) of approximately \$1,439,000. After reviewing the factors under ASC 740, *Income Taxes*, which should be considered in determining whether a valuation allowance is appropriate, the Company decided to maintain the valuation allowance (“VA”) already in place to fully reserve its U.S. DTA and as noted below, also maintained the VA already in place against the net DTA of its foreign subsidiaries.

At December 31, 2023, TPT had NOL carry-forwards of approximately \$5,732,000, which resulted in a DTA of approximately \$1,089,000. As of 2023, these NOLs have a unlimited carryforward period, but due to the uncertainties regarding TPT’s ability to utilize the NOLs associated with this DTA, the Company maintained the valuation allowance previously established to fully reserve against this DTA.

At December 31, 2023, TMM had NOL carry-forwards of approximately \$2,905,000 and certain other deferred tax assets which resulted in a total DTA of approximately \$1,151,500. The NOLs have a limited carryforward period, which will begin to expire in 2029, and due to the uncertainties regarding TMM’s ability to utilize this DTA, the Company maintained the valuation allowance previously established to fully reserve against this DTA.

During the years ended December 31, 2023 and 2022 the valuation allowance increased by approximately \$331,000 and \$20,000, respectively.

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7. Stock Options

On February 21, 2000, the Company's Board of Directors approved the adoption of the 2000 Incentive Stock Option Plan (the "Plan") for TOR Minerals International, Inc. The Plan provides for the award of a variety of incentive compensation arrangements, including restricted stock awards, performance units or other non-option awards, to such employees and directors as may be determined by a Committee of the Board. At the Annual Shareholders' meeting on April 27, 2017, the fourth amendment to the Plan extended the period during which awards may be made under the Plan to April 27, 2026. At the Annual Shareholders' meeting on July 24, 2020, the maximum number of shares of the Company's common stock that may be sold or issued under the Plan was increased to 800,000 shares subject to certain adjustments upon recapitalization, stock splits and combinations, merger, stock dividend and similar events.

Long-Term Incentive Plans

On July 30, 2021, the Board of Directors granted senior management of the Company non-qualifying stock options (the "2021 Performance Awards"). The Performance Awards, which are subject to the terms, definitions and provisions of the 2000 Incentive Plan as amended, consist of the following grants:

<u>Officer's Name</u>	<u>Position</u>	2021-2023 LTIP Three Year Performance Grant Award
James Roecker	CEO and Vice-Chairman of the Board of Directors	75,000
Olaf Karasch	President and CTO	75,000
Glenda Webb	VP of Finance and Accounting	10,000
Arjen Leenstra	TPT Plant Manager	10,000
David Lee	TMM Plant Manager	10,000

The 2021 Performance Awards, which vest over a three-year period, are based solely on the basis of satisfaction of the performance criteria established annually by the Company's Board of Directors. The 2021 Performance Periods begin on January 1 of each calendar year and ending on December 31 of such year. The first Performance Period began on January 1, 2021 and ended on December 31, 2021. The final Performance Period begins on January 1, 2023 and ends on December 31, 2023. The exercise price for the 2021 Performance Awards was set at \$1.90 per share.

The 2021 Performance Awards consisted of 180,000 shares with one-third of the three-year total being available each year. Based on the satisfaction of the performance criteria established by the Company's Board of Directors, there were 23,019 shares awarded for 2023 performance that vested on January 1, 2024, 4,468 shares awarded for 2022 performance that vested on January 1, 2023, 31,332 shares awarded for 2021 performance that vested on January 1, 2022.

On January 3, 2022, the Board of Directors granted one senior manager non-qualifying stock options (the "2022 Performance Awards"). The Performance Awards, which are subject to the terms, definitions and provisions of the 2000 Incentive Plan as amended, consist of the following grant:

<u>Officer's Name</u>	<u>Position</u>	2022-2023 LTIP Two Year Performance Grant Award
Michael Dalton	VP of Sales and Marketing	10,000

The 2022 Performance Awards, which vest over a two-year period, are based solely on the basis of satisfaction of the performance criteria established annually by the Company's Board of Directors. The 2022 Performance Periods begin on January 1 of each calendar year and ending on December 31 of such year. The first Performance Period began on January 1, 2022 and ended on December 31, 2022. The final Performance Period begins on January 1, 2023 and ends on December 31, 2023. The exercise price for the 2022 Performance Awards was set at \$2.48 per share.

The 2022 Performance Awards consisted of 10,000 shares with one-half of the two-year total being available each year. Based on the satisfaction of the performance criteria established by the Company's Board of Directors, there were 800 shares awarded for 2022 performance that vested on January 1, 2023. Mr. Dalton resigned from the Company effective June 30, 2023, and forfeited the rights to the 2023 performance award.

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Share-based payment arrangements

For the years ended December 31, 2023 and 2022, the Company recorded approximately \$209,000 and \$112,000, respectively, in share-based compensation. This compensation cost is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

The Company granted options to purchase 152,268 and 90,832 shares of common stock in the years ended December 31, 2023 and 2022, respectively. All grants for the comparative years were non-qualifying stock options. The following table summarizes the information pertaining to the granted options.

	<u>Twelve Months Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Number of shares granted - employees	75,268	81,332
Number of shares granted - non-employees	77,000	9,500
Fair market value - average per share	\$ 1.36	\$ 1.21
Weighted average exercise price per share	\$ 2.33	\$ 2.19

The following assumptions were used in the Black-Scholes option-pricing model for calculating the weighted average price per share:

	<u>Twelve Months Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Risk-free interest rate	3.59%	1.50%
Expected dividend yield	0.00%	0.00%
Expected volatility	0.52	0.50
Expected term (in years)	7.00	7.00

The risk free interest rate is based on the Treasury Constant Maturity Rate as quoted by the Federal Reserve at the time of the grant for a term equivalent to the expected term of the grant. The estimated volatility is based on the historical volatility of our stock and other factors. The expected term of options represents the period of time the options are expected to be outstanding from grant date.

The following table summarizes certain information regarding stock option activity:

	<u>Options</u>			
	<u>Total Reserved</u>	<u>Outstanding</u>	<u>Weighted Avg. Exercise Price</u>	<u>Range of Exercise Prices</u>
Balances at January 1, 2022	684,869	332,651	\$6.21	\$1.30 - \$11.39
Granted	-	90,832	\$1.87	\$2.25 - \$2.80
Forfeited or expired	-	(20,500)	\$13.40	\$16.77 - \$18.22
Balances at December 31, 2022	684,869	402,983	\$4.35	\$1.30 - \$11.39
Granted	-	152,268	\$2.33	\$1.90 - \$2.40
Forfeited or expired	-	(20,500)	\$11.37	\$11.27 - \$11.39
Balances at December 31, 2023	684,869	534,751	\$2.66	\$1.30 - \$10.48

Of the 800,000 shares included in the Plan, there have been 115,131 options exercised. At December 31, 2023, there were 534,751 options outstanding and 150,118 were available for future issuance. There were no options exercised or converted in 2023.

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The number of shares of common stock underlying options exercisable at December 31, 2023 was 534,751 and the weighted average remaining contractual life of those options is 7 years. Exercise prices on options outstanding at December 31, 2023, ranged from \$1.30 to \$10.48 per share as noted in the following table.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	534,751	\$2.66	150,118
Equity compensation plans not approved by security holders	--		--
Total	<u>534,751</u>	<u>\$2.66</u>	<u>150,118</u>

Included in the preceding table as of December 31, 2023, was 1,200 non-vested stock awards with a weighted average exercise price of \$3.05 per share. The non-vested shares unrecognized stock option compensation expense as of December 31, 2023 was approximately \$600. This expense is expected to be recognized over a weighted average period of .33 years.

8. Profit Sharing Plan

The Company has a profit sharing plan that covers the U.S. employees. Contributions to the plan are at the option of, and determined by the Board of Directors and are limited to the maximum amount deductible by the Company for Federal income tax purposes. For the years ended December 31, 2023 and 2022, there were no contributions to the plan.

The Company also offers U.S. employees a 401(k) savings plan administered by an investment services company. Employees are eligible to participate in the plan after completing six months of service with the Company. The Company matches contributions up to 4% of the employee's eligible earnings. Total Company contributions to the 401(k) plan for the years ended December 31, 2023 and 2022 was approximately \$28,000 and \$41,000, respectively.

9. Leases

Below is a summary of the costs associated with operating and finance leases for years ended December 31, 2023 and 2022:

(in thousands)	2023	2022
Operating lease cost:		
Fixed Rent expense	\$ 60	\$ 130
Finance lease cost:		
Amortization of ROU assets	47	59
Interest expense	2	2
Sublease Income	0	(74)
Net lease cost	<u>\$ 109</u>	<u>\$ 117</u>
Lease cost - SG&A	\$ 60	\$ 56
Lease cost - Depreciation and amortization	47	59
Lease cost - Interest expense	2	2
Net lease cost	<u>\$ 109</u>	<u>\$ 117</u>

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Amounts recognized as right-of-use assets related to finance leases are included in plant, property and equipment, net in the accompanying consolidated balance sheets, while related lease liabilities are included in current liabilities and long-term liabilities. Below is a summary of the right-of-use assets and lease liabilities related to finance leases for years ended December 31, 2023 and 2022:

(in thousands)	<u>2023</u>	<u>2022</u>
Finance lease ROU assets	\$ 20	\$ 66
Finance lease liabilities:		
Current portion liability	15	47
Long-term liability	5	19

Below is a summary of the cash and non-cash activities associated with the leases for the years ended December 31, 2023 and 2022:

(in thousands)	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 60	\$ 56
Operating cash flows from finance leases	2	2
Financing cash flows from finance leases	49	53
Non-cash investing and financing activities		
Additions to ROU assets obtained from:		
New operating lease liabilities	\$ 23	\$ 5
New finance lease liabilities	0	20

The future payments due under operating and finance leases as of December 31, 2023 is as follows:

(in thousands)	<u>Operating</u>	<u>Finance</u>
Due in 2024	\$ 51	\$ 15
2025	1	5
Lease liabilities recognized	<u>\$ 52</u>	<u>\$ 20</u>

As of December 31, 2023, the weighted average remaining lease term for the operating leases was .73 years, while the weighted average remaining lease term for the finance leases was .49 years.

Because we generally do not have access to the rate implicit in the lease, we utilize the Company's previous year cost of debt as the discount rate for new leases. The weighted average discount rate associated with operating leases as of December 31, 2023 was 3.8%, while the weighted average discount rate associated with finance leases was 5.5%.

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10. Commitment and Contingencies

Commitments

The future years total commitments due as of December 31, 2023 were as follows:

(In thousands)	Payments due by period						
	Total	2024	2025	2026	2027	2028	2029 +
Contractual Obligations							
Long-term Debt	\$ 464	153	153	96	35	21	6
Lines of Credit	16	16					
Interest Expense	1	1					
Operating Leases	52	51	1				
Finance Leases	20	15	5				
Capital Expenditures	31	31					
Total Contractual Obligations	\$ 584	\$ 267	\$ 159	\$ 96	\$ 35	\$ 21	\$ 6

Contingencies

From time to time, the Company may be involved in claims and litigation arising in the ordinary course of business. Because there are inherent uncertainties in the ultimate outcome of such matters, it is presently not possible to determine the ultimate outcome of any potential claims or litigation against the Company; however, management believes that the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operation or liquidity.

The Company believes that it is in compliance with all applicable country, state and local laws and regulations relating to the discharge of substances into the environment, and it does not expect that any material expenditure for environmental control facilities will be necessary in order to continue such compliance.

11. Significant Customers

For the years ended December 31, 2023 and 2022, one customer accounted for approximately 39% and 26%, respectively, of our total consolidated sales revenue. The amount included in accounts receivable at December 31, 2023 and 2022, related to this customer were approximately \$752,600 and \$468,600, respectively.

12. Foreign Sales

Revenues from sales to customers located outside the U.S. for the years ended December 31, 2023 and 2022 are as follows:

(In thousands)	Years Ended December 31,	
	2023	2022
Canada, Mexico & South/Central America	\$ 1,040	\$ 1,455
Pacific Rim	819	1,189
Europe, Africa & Middle East	10,280	14,275
Total Foreign Sales	\$ 12,139	\$ 16,919

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13. Sales by Product

Revenues from sales by product for the years ended December 31, 2023 and 2022 are as follows:

(In thousands)	December 31,		December 31,	
	2023		2022	
Sales Revenue by Product	Sales Revenue	% of Total Sales	Sales Revenue	% of Total Sales
ALUPREM	\$ 17,015	63%	\$ 15,220	51%
HITOX/TIOPREM	9,032	33%	13,596	45%
BARYPREM	1,028	4%	1,093	4%
Total Sales Revenue by Product	\$ 27,075	100%	\$ 29,909	100%

14. Risks & Uncertainties

The Company continues to monitor the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce because of the conflict in Ukraine and the intensifying activity with the Israeli-Palestinian conflict. All trade transactions with Russian customers have been halted until current sanctions are lifted in the United States, The Netherlands and Malaysia. Management will continue to monitor all developments in the region and determine if Russian customers' trade relationships are able to change. The geopolitical conflict between Israeli and Palestinian forces increased tensions around the Red Sea trade routes since fourth quarter 2023. While the area remains highly volatile, TOR continues to monitor the situation and communicate with shipping industry experts to mitigate potential supply chain delays from that region.

15. Subsequent Events

The Company evaluates events and transactions occurring after the consolidated balance sheet date, but before the consolidated financial statements are available to be issued. The Company has evaluated such events and transactions through March 28, 2024 the date the consolidated financial statements were available for issuance.