

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

With Independent Auditor's Report

As of and for the Years Ended December 31, 2019 and 2018

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
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Independent Auditor's Report

To the Board of Directors and Stockholders
Ad Astra Rocket Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ad Astra Rocket Company and Subsidiaries (the "Company") which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, 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.

Independent Auditor's Report, continued

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced historical net losses, negative cash flows from operations, and a negative working capital. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to this matter are also discussed in Note 2. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ham, Langston & Bregina, L.L.P.

Houston, Texas
March 11, 2020

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 66,945	\$ 483,562
Accounts receivable	30,663	27,582
Prepaid expenses	<u>15,291</u>	<u>13,954</u>
Total current assets	<u>112,899</u>	<u>525,098</u>
Property and equipment, net	1,440,575	1,285,721
Other assets	<u>31,392</u>	<u>33,044</u>
Total assets	<u>\$ 1,584,866</u>	<u>\$ 1,843,863</u>
 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Line of credit	\$ -	\$ 408,000
Notes payable, current portion	117,578	112,737
Notes payable, related party	607,000	505,000
Accounts payable	949,783	540,166
Accrued liabilities	1,012,047	941,298
Interest payable	192,777	176,528
Interest payable, related party	<u>-</u>	<u>66,781</u>
Total current liabilities	<u>2,879,185</u>	<u>2,750,510</u>
Notes Payable, net of current portion	<u>1,484,674</u>	<u>1,160,036</u>
Total liabilities	<u>4,363,859</u>	<u>3,910,546</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock:		
Series A, \$0.01 par value, 2,200 shares authorized; 369 shares issued and outstanding	4	4
Series C, \$0.01 par value, 1,000 shares authorized; 26 shares issued and outstanding	-	-
Series D, \$0.01 par value, 4,000 shares authorized; 3,236 and 1,422 shares issued and outstanding	32	14
Common stock, \$0.01 par value, 75,000,000 shares authorized; 21,021,963 shares issued and outstanding	210,221	210,221
Additional paid-in capital	36,701,793	35,206,014
Accumulated deficit	<u>(39,691,043)</u>	<u>(37,482,936)</u>
Total stockholders' deficit	<u>(2,778,993)</u>	<u>(2,066,683)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,584,866</u>	<u>\$ 1,843,863</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Research and development income	\$ 779,214	\$ 1,931,154
Operating expenses:		
Payroll expense	1,636,884	1,821,336
Professional fees	100,807	110,370
Other general and administrative expenses	<u>1,293,866</u>	<u>1,686,850</u>
Total operating expenses	3,031,557	3,618,556
Other income (expense):		
Interest income	23	26
Interest expense	(89,053)	(87,394)
Other income, net	<u>133,266</u>	<u>60,932</u>
Total other income (expense), net	<u>44,236</u>	<u>(26,436)</u>
Net loss before provision for income taxes	(2,208,107)	(1,713,838)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (2,208,107)</u>	<u>\$ (1,713,838)</u>
Basic and diluted loss per share	<u>\$ (0.11)</u>	<u>\$ (0.08)</u>
Basic weighted-average shares outstanding	<u>21,021,963</u>	<u>21,014,073</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	Preferred Stock						Common Stock		Additional Paid-In Capital	Accumulated Deficit During Development Stage	Total Stockholders' Equity
	Class A		Class C		Class D		Shares	Amount			
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance as of December 31, 2017	369	\$ 4	26	\$ -	-	\$ -	21,006,963	\$ 210,071	\$ 33,903,578	\$ (35,769,098)	\$ (1,655,445)
Preferred stock issued for cash	-	-	-	-	1,422	\$ 14	-	-	1,137,586	-	1,137,600
Common stock issued for cash	-	-	-	-	-	-	15,000	150	119,850	-	120,000
Compensatory stock options granted	-	-	-	-	-	-	-	-	45,000	-	45,000
Net income										(1,713,838)	(1,713,838)
Balance as of December 31, 2018	369	4	26	-	1,422	\$ 14	21,021,963	210,221	35,206,014	(37,482,936)	(2,066,683)
Preferred stock issued for cash	-	-	-	-	1,114	\$ 11	-	-	874,786	-	874,797
Preferred stock issued for conversion of note and interest payable	-	-	-	-	700	\$ 7	-	-	575,993	-	576,000
Compensatory stock options granted	-	-	-	-	-	-	-	-	45,000	-	45,000
Net loss										(2,208,107)	(2,208,107)
Balance as of December 31, 2019	369	\$ 4	26	\$ -	3,236	\$ 32	21,021,963	\$ 210,221	\$ 36,701,793	\$ (39,691,043)	\$ (2,778,993)

The accompanying notes are an integral part of consolidated financial statements

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net loss	\$ (2,208,107)	\$ (1,713,838)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	144,900	138,395
Compensatory element of stock option grants	45,000	45,000
Changes in operating assets and liabilities:		
Accounts receivable	(3,081)	838,764
Prepaid expenses	(1,337)	937
Other assets	1,651	2,499
Accounts payable and accrued liabilities	480,366	(2,632)
Interest payable	16,249	18,667
Interest payable, related party	<u>9,219</u>	<u>16,250</u>
Net cash used in operating activities	<u>(1,515,139)</u>	<u>(655,958)</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(299,754)</u>	<u>(68,867)</u>
Net cash used in investing activities	<u>(299,754)</u>	<u>(68,867)</u>
Cash flows from financing activities:		
Payments on notes payable	(93,521)	(90,121)
Proceeds from notes payable	15,000	-
Proceeds from notes payable, related party	602,000	5,000
Proceeds from issuance of Series D preferred stock	874,797	1,137,600
Proceeds from issuance of common stock	<u>-</u>	<u>120,000</u>
Net cash provided by financing activities	<u>1,398,276</u>	<u>1,172,479</u>
Decrease in cash and cash equivalents	(416,617)	447,654
Cash and cash equivalents, beginning of period	<u>483,562</u>	<u>35,908</u>
Cash and cash equivalents, end of period	<u>\$ 66,945</u>	<u>\$ 483,562</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 63,516</u>	<u>\$ 52,479</u>
Non-cash Investing and Financing Activities:		
Series D Preferred shares issued upon conversion of related party note and interest payable	<u>\$ 576,000</u>	<u>\$ -</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Ad Astra Rocket Company and Subsidiaries (the "Company" or "AARC") was incorporated on January 14, 2005 and officially organized on July 15, 2005 in Houston, Texas. The Company engages in research and development of technology and manufactures prototypes based on its research and development, including work on advanced plasma technology, the Variable Specific Impulse Magnetoplasma Rocket ("VASIMR") and Hydrogen transportation systems.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company's direct, wholly-owned subsidiaries: Ad Astra Rocket Company (Costa Rica) S.R.L. incorporated in Costa Rica, and Ad Astra Servicios Energeticos Y Ambientales, Inc. a Delaware corporation. The consolidated financial statements also include the accounts of the Company's indirect, wholly owned subsidiary Ad Astra Servicios Energeticos y Ambientales AASEA, S.R.L., a Costa Rican corporation which is a direct, wholly-owned subsidiary of Ad Astra Servicios Energéticos Y Ambientales, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial position, results of operations and cash flows of the Company's foreign subsidiary are determined using the United States dollar as the functional currency.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Estimates

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 certain assets and liabilities. These estimates also impact disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that its estimates are reasonable.

Account Receivable and Allowance for Doubtful Accounts

The Company provides services to entities located primarily in the United States and Costa Rica. The Company grants credit only after an evaluation of financial condition. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. At December 31, 2019 and 2018, there was no allowance as management believes all accounts are collectible.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Computers and software	3
Laboratory equipment	5
Machine shop equipment	5
Solar Power equipment	10
Building	15

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Property and Equipment, continued

Leasehold improvements are amortized on a straight-line basis based on the shorter of the corresponding lease term or useful life. Expenditures for major renewals and improvements that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in operations.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of a long-lived asset, including intangible assets, may be impaired, an evaluation of recoverability is performed by comparing the estimated future undiscounted cash flows associated with the asset or the asset's estimated fair value to the asset's carrying amount to determine if a write-down to market value or discounted cash flow is required. During the years ended December 31, 2019 and 2018, the Company did not record any impairment expense related to long-lived assets.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at the end of the reporting period. The Company provides a valuation allowance to reduce deferred tax assets to their net realizable value.

The Company uses Accounting Standards Codification ("ASC") 740-10, "*Accounting for Uncertainty in Income Taxes*," which creates a single model to address uncertain income tax positions and prescribes the minimum recognition threshold a tax position is required to meet for recognition in the financial statements. The Company did not recognize any interest or penalties related to any unrecognized tax position during the years ended December 31, 2019 and 2018.

The Company files a consolidated federal income tax return in the United States and state tax returns in the jurisdictions in which it operates.

Stock-Based Compensation

ASC 718-10, "*Accounting for Stock-Based Compensation*", requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations.

Stock-based compensation expense recognized under ASC 718-10 was \$45,000 for both of the years ended December 31, 2019 and 2018, which consists of stock-based compensation expense related to employee and director stock option issuances.

Loss Per Share

Basic loss per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted loss per share considers shares issuable upon exercise of outstanding stock options that have exercise or conversion prices below the market value of the Company's common stock. At December 31, 2019 and 2018, stock options pertaining 50,000 and 81,000 shares of common stock, respectively, have been excluded from the computation of diluted earnings per share because the Company is in a net loss position and their effect would be anti-dilutive.

Concentrations of Credit Risk

The Company maintains its cash in financial institutions selected by management based upon their assessment of the financial stability of the institution. Balances periodically exceed the federal depository insurance limit; however, the Company has not experienced any losses on deposits.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Revenue and Cost Recognition

Research, Design and Development Income

Substantially all contracts of the Company are long-term contracts involving the design, engineering and execution of either propulsion system technologies or hydrogen transport technologies. These long-term contracts include multiple distinct performance obligations which are segregated into milestone phases and are typically satisfied upon the successful inspection and acceptance of the reported results by the customer. At the inception of an arrangement that includes milestone payments, the Company evaluates whether each milestone is substantive and the risk to both parties on the basis of the contingent nature of the milestone (an output method). This evaluation includes an assessment of whether: (i) the consideration is commensurate with the Company's performance to achieve the milestone, (ii) the consideration relates solely to past performance, and (iii) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone and the level of effort and investment required to achieve the respective milestone in making this assessment. There is considerable judgement involved in determining whether the milestone satisfies all of the criteria required to conclude that a milestone is substantive. Revenue from these milestone contracts will be recognized at the point in time when the Company successfully accomplishes the milestone which is the satisfaction of the contracts performance obligation. During the years ended December 31, 2019 and 2018 the Company was party to various milestone revenue contracts as discussed in Note 9 of these financial statements.

Revenue from services provided are recognized when there is evidence of a contract and associated contract value, each respective performance obligation is determined, contract values are allocated to each respective performance obligation and recorded as the performance obligation is satisfied.

Income from time-and-material research, design and development contracts is recognized over time as the service is provided and are generally billed on a monthly basis. During the year ended December 31, 2019, the Company recorded \$85,856 of revenue for time-and-material research, design and development contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies and other overhead type costs. Operating costs are charged to operations as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and revenue and are recognized in the period in which the revisions are determined.

Research, Design and Development Expenses

Research and development projects and costs are expensed as incurred. These costs consist of direct costs associated with the design of new products. Research and development expenses incurred during the years ended December 31, 2019 and 2018, were \$1,434,678 and \$1,863,032, respectively, and included as a component of operating expenses.

Fair Value of Financial Instruments

Fair value estimates of financial instruments are based on relevant market information and may be subjective in nature and involve uncertainties and matters of significant judgment. The Company believes that the carrying value of its assets and liabilities approximates the fair value of such items. The Company does not hold or issue financial instruments for trading purposes.

The Company adheres to ASC 820 and includes fair value information in the notes to its consolidated financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-14, *Revenue from Contracts with Customers*. ASU No. 2015-14 supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2015-14 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2015-14 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU No. 2015-14 recognized at the date of adoption (which includes additional footnote disclosures). The Company adopted the provisions of ASU No. 2015-14, on January 1, 2019, using the modified retrospective approach noting no change to the timing of its revenue recognition but updated its revenue and cost recognition disclosures in accordance with the new guidance under U.S. GAAP.

FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this update supersedes Topic 840, *Leases*. ASU No. 2016-02 will result in recognizing lease assets and lease liabilities from operating leases on the balance sheet. For leases with a term of 12 months or less, a lessee is permitted to make an election by class of the underlying asset not to recognize lease assets and lease liabilities on the balance sheet. ASU No. 2016-02 was initially effective for annual periods beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which deferred the effective date by one year (effective for annual periods beginning after December 15, 2020). Management is currently evaluating the impact of the guidance on the financial statements and related disclosures.

FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. For public business entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company adopted the provisions of ASU No. 2016-09 on January 1, 2019, which did not have a significant impact on its financial statements.

2. Going Concern

Historically, the Company has not generated significant revenue from core operations and, accordingly, it has experienced historical net losses, negative cash flows from operating activities, and a negative working capital. During the years ended December 31, 2019 and 2018 the Company had net loss of \$2,208,107 and \$1,713,838, respectively. The Company has a working capital deficiency of \$2,766,286 and \$2,225,412, at December 31, 2019 and 2018, respectively. The Company has financed its operations using sales of its common stock and preferred stock, the issuance of convertible debentures to a related party, and other traditional debt financing. These factors raise a substantial doubt about the Company's ability to continue as a going concern.

The Company has received contracts from government entities and others that contribute to the Company's strategic initiatives, as described in the Revenue and Cost Recognition section of Note 1 Summary of Significant Accounting Policies of this report. These have resulted in sources of income from research, design and development contracts related to technologies derived from the VASMIR® and hydrogen transport systems of \$779,214 and \$1,931,154 recorded as research, design and development income on the statement of operations for the periods ended December 31, 2019 and 2018, respectively. While the VASMIR® rocket is not commercially viable in its current form, the Company expects to continue to be able to source additional research, design and development projects and income from these entities in the upcoming year.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Going Concern, continued

Management's primary focus is raising the funds necessary to fully implement the Company's business plan. The Company's long-term viability depends on its ability to expand its research, design and development service offerings and obtain adequate equity or debt funding to meet current commitments and fund the continuation of its business operations.

3. Accounts Receivable

Accounts Receivable, at December 31, 2019 and 2018, were \$30,663 and \$27,582, respectively, and relate to various research, design and development project contracts and revenue from speaking and consulting engagements.

4. Other Assets

Other assets was comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Deposits	\$ 16,391	\$ 15,543
License	<u>15,001</u>	<u>17,501</u>
Total	<u>\$ 31,392</u>	<u>\$ 33,044</u>

The license included in other assets is an intangible asset obtained from a United States governmental agency that allows the Company to use certain technologies in the development of its advanced plasma rocket propulsion technology. The license was acquired during 2006 for \$50,000 and is being amortized over its 20 year contractual life. The Company recorded amortization expense of \$2,500 during each of the years ended December 31, 2019 and 2018.

5. Property and Equipment

Property and equipment at December 31, 2019 and 2018, and related activity for the years then ended, were as follows:

December 31, 2019

<u>Description</u>	<u>2018</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2019</u>
Computer and software	\$ 671,853	\$ -	\$ -	\$ 671,853
Laboratory equipment	4,107,301	36,409	-	4,143,710
Machine shop equipment	102,396	-	-	102,396
Leasehold improvements	1,570,963	-	-	1,570,963
Renewable energy equipment	200,000	263,345	-	463,345
Land and building	1,000,000	-	-	1,000,000
Other	<u>145,228</u>	<u>-</u>	<u>-</u>	<u>145,228</u>
	7,797,741	299,754	-	8,097,495
Less accumulated depreciation	<u>(6,512,020)</u>	<u>(144,900)</u>	<u>-</u>	<u>(6,656,920)</u>
Net property and equipment	<u>\$ 1,285,721</u>	<u>\$ 154,854</u>	<u>\$ -</u>	<u>\$ 1,440,575</u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Property and Equipment, continued

December 31, 2018

<u>Description</u>	<u>2017</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2018</u>
Computer and software	\$ 661,550	\$ 10,303	\$ -	\$ 671,853
Laboratory equipment	4,048,737	58,564	-	4,107,301
Machine shop equipment	102,396	-	-	102,396
Leasehold improvements	1,570,963	-	-	1,570,963
Renewable energy equipment	200,000	-	-	200,000
Land and building	1,000,000	-	-	1,000,000
Other	145,228	-	-	145,228
	7,728,874	68,867	-	7,797,741
Less accumulated depreciation	(6,373,625)	(138,395)	-	(6,512,020)
Net property and equipment	\$ 1,355,249	\$ (69,528)	\$ -	\$ 1,285,721

Depreciation and amortization expense of \$144,900 and \$138,395 was recognized during the years ended December 31, 2019 and 2018.

6. Accrued Liabilities

Accrued liabilities was comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Deferred salaries	\$ 674,853	\$ 607,628
Other wages payable	9,011	6,699
Payroll taxes and benefits	170,789	176,971
Legal contingency	150,000	150,000
Other	7,394	-
	<u>\$ 1,012,047</u>	<u>\$ 941,298</u>

7. Notes Payable and Long-Term Debt

Line of Credit

At December 31, 2018, the Company had a \$408,000 line of credit with a vendor, owned by a former member of the Company's board of directors. The line of credit and related accrued interest of \$176,528 at December 31, 2018 was due on demand with interest rate 3.25%, which was the "prime" interest rate at December 31, 2018. Effective August 2019, the line of credit was modified into a term note payable with principal of \$408,000 due in full in October 2022. At December 31, 2019, the accrued interest of \$171,228 related to this line of credit remain outstanding and is due on demand.

Notes Payable and Notes Payable, Related Party

The Company had the following notes payable and notes payable, related party at December 31:

	<u>2019</u>	<u>2018</u>
Demand note payable to an officer of the Company. The note bears no interest, is uncollateralized and the principle balance is due upon demand.	\$ 607,000	\$ 5,000
Note payable to a bank, bearing interest at a fixed rate of 6.5% per year, with principal and interest of \$460 due in monthly installments through June 2022. At December 31, 2019, the note was uncollateralized.	12,735	-

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Notes Payable and Long-Term Debt, continued

Notes Payable and Notes Payable, Related Party, continued

Note payable to a bank, bearing interest at a fixed rate of 3% per year and due in total monthly payments of \$2,236, including interest, through April 2022, at which date, a balloon payment for the remaining principal and interest balance of \$126,077 is due. At December 31, 2019, the note was uncollateralized.

174,726 195,458

Note payable to a vendor, owned by a former member of the Company's board of directors, bearing interest at the current "prime" interest rate of 4.75% at December 31, 2019, due October 2022. Accrued interest on this note was \$21,549, and the note was uncollateralized.

408,000 -

Demand note payable to a member of the Company's Board of Directors, bearing interest at a fixed rate of 3.25% per year and uncollateralized. The note holder converted the outstanding principal and interest totaling \$576,000 into 720 shares of Series D Preferred Stock of the Company in July 2019. Accrued interest on this note was \$66,781 at December 31, 2018.

- 500,000

Note payable to a solar panel equipment manufacturer, bearing interest at a fixed rate of 9.50% per year, with principal and interest of \$2,588 due in monthly installments until April 2026. The loan is collateralized with the purchased equipment. The Company has the option to opt out of the purchase agreement with no penalties or fees if proper four-month notice is given to the equipment manufacturer. As of December 31, 2019 the Company does not anticipate opting out of the purchase agreement.

146,774 162,984

Note payable to a bank, bearing interest at a variable rate, currently 3.53% per year (as of December 31, 2019), which can be adjusted quarterly, and due in total monthly payments of \$6,906, including interest, through May 2032. At December 31, 2019, the note is guaranteed by an officer of the Company.

860,017 914,331

Less current maturities

2,209,252 1,777,773
(724,578) (617,737)

Total long-term debt, net of current maturities

\$ 1,484,674 \$ 1,160,036

At December 31, 2019, future minimum principal payments remaining under our notes payable and notes payable, related party, are as follows:

Year

2020	\$ 724,578
2021	107,018
2022 and after	<u>1,377,656</u>
	<u>\$ 2,209,252</u>

The Company's weighted average interest rate on outstanding short-term debt obligations for the years ended December 31, 2019 and 2018 was 4.08% and 3.49%, respectively. The Company's weighted average effective rate on outstanding short-term debt obligations for the years ended December 31, 2019 and 2018 was 4.18% and 3.74%, respectively.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock Incentive Plan

On September 9, 2016 the Company adopted the Ad Astra Rocket Company 2016 Stock Incentive Plan (the "Plan"). A total of 2,000,000 shares of common stock are reserved for issuance under the Plan. The purpose of the Plan is to promote continued service by certain key employees, non-employee members of the Board of Directors, consultants and other independent advisors, by providing the opportunity to acquire an interest in the Company.

The following table summarizes certain information relative to stock options issued pursuant to the Plan:

	<u>2016 Stock Incentive Plan</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding, December 31, 2017	140,300	\$ 7.11
Forfeited/cancelled	<u>(18,000)</u>	<u>(6.67)</u>
Outstanding, December 31, 2018	122,300	7.18
Forfeited/cancelled	<u>(43,500)</u>	<u>(6.67)</u>
Outstanding, December 31, 2019	<u>78,800</u>	<u>7.46</u>
Exercisable, December 31, 2019	<u>78,800</u>	<u>\$ 7.46</u>

The weighted-average remaining life and weighted-average exercise price of outstanding options at December 31, 2019 were 3.6 years and \$7.46. The exercise prices for outstanding options ranged from \$6.00 to \$10.00 at December 31, 2019, and information relating to such options follows:

<u>Range of Exercise</u>	<u>Stock Options Outstanding</u>	<u>Stock Options Exercisable</u>	<u>Weighted Average Remaining Contract Life</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Exercise Price of Options Exercisable</u>
\$4.18 - \$6.67	50,000	50,000	5.2 years	\$ 6.00	\$ 6.00
\$6.68 - \$10.00	<u>28,800</u>	<u>28,800</u>	0.8 years	\$ 10.00	\$ 10.00
	<u>78,800</u>	<u>78,800</u>			

During the years ended December 31, 2019 and 2018, the Company did not grant any options. The fair value of options expensed under the Plan was \$45,000 for both of the years ended December 31, 2019 and 2018.

As of December 31, 2019, there was \$7,500 of unrecognized expense related to non-vested share-based compensation arrangements.

9. Milestone Revenue Contracts

The Company has received a contract from a US government entity that contains milestone payments for the research, design and development of related technology for the VASIMR® engine. The contract is effective for the period from August 2015 to August 2018 and will total \$9.06 million if all milestones are met. The Company has received various no cost contract extensions to the contract and extended the period to June 2020. While as of December 31, 2019 the VASIMR® engine is not commercially viable in its current form, the technologies already developed coupled with those developed under the aforementioned contract further the concept's function. The contract outlines a milestone schedule of 3 years resulting in contingent payments of \$368,000 to \$883,000 per achieved milestone. The milestone criteria require the Company to develop the VASIMR® technology to certain specifications progressing to a sustained test of the rocket's technology and provide scientific evidence of their completion in order to satisfy the terms of the milestone. The contract has been determined by the Company to be a milestone arrangement.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Milestone Revenue Contracts, continued

The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive. These projects have been recorded as research, design and development income upon the completion of the milestone criteria and receipt of payment (an output method) on the statement of operations. During the years ended December 31, 2019 and 2018, the Company recorded \$160,236 and \$1,396,921, respectively, of revenue related to this project. As of December 31, 2019, \$480,709, in contingent milestone payments remain under the contracts.

The Company has received a contract from a Costa Rican NGO entity that contains milestone payments for the execution of 1) the acquisition, installation and commissioning of a hydrogen dispensing system with a capacity for dispensing hydrogen at 700 bar, and its integration into the project "Self-sustainable Transport Ecosystem, based on Renewable Energies and Hydrogen Technologies", and 2) the development of protocols and procedures for the operation and maintenance of hydrogen plants. The contract is effective in the period between April 3, 2019 and April 2, 2021 and totals \$765,000 once all milestones are met. The contract includes a milestone schedule of 11 months resulting in contingent payments of \$25,000 to \$474,660 per achieved milestone. In order to satisfy the terms of the milestones, the criteria requires the Company to execute a conceptual, preliminary and critical design for the installation and commissioning of such dispensing system; and to carry out the elaboration of the corresponding protocols and procedures. The contract is determined by the Company to be a milestone arrangement. The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive. These projects are recorded as research, design and development income upon the completion of the milestone criteria and receipt of payment (an output method) on the statement of operations. During the year ended December 31, 2019, the Company recorded \$533,122 of revenue related to this project. As of December 31, 2019, \$231,878 in contingent milestone payments remain under the contracts.

The Company has received a contract from a Costa Rican government entity that contained milestone payments for the execution of the Techno-economic modeling and design for the expansion of "Ecosystem of Sustainable Transportation, based on Renewable Energies and Hydrogen Technologies. The contract was effective in the period between February 20, 2018 and October 26, 2018 and totaled \$432,623 when all milestones were met. The contract included a milestone schedule of 9 months resulting in contingent payments of \$18,188 to \$125,000 per achieved milestone. In order to satisfy the terms of the milestones, its criteria required the Company to execute a conceptual, preliminary and critical design of the expansion of such ecosystem; and to carry out the elaboration of the corresponding business plan. The contract is determined by the Company to be a milestone arrangement. The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive. These projects have been recorded as research, design and development income upon the completion of the milestone criteria and receipt of payment (an output method) on the statement of operations.

10. Related Party Transactions

During the year ended December 31, 2019 and December 31, 2018, the Company obtained notes payable of \$607,000 and \$5,000, respectively, from an officer of the Company bearing no interest and is due on demand. Also see Notes Payable and Long-Term Debt Note 7, and Stockholders' Deficit in Note 12 for additional related party disclosures.

11. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. For the years ended December 31, 2019 and 2018, there were no provisions for income taxes and deferred tax assets have been entirely offset by a valuation allowance, due to the Company's unlikely realization based on its recurring net losses.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income Taxes, continued

Significant components of the Company's deferred tax assets and liabilities were as follows at December 31:

	<u>2019</u>	<u>2018</u>
Deferred tax assets (liabilities):		
Net operating loss carry-forwards	\$ 6,472,927	\$ 6,235,891
Non-deductible accruals	194,765	110,292
Basis difference in property and equipment	<u>(126,936)</u>	<u>(122,240)</u>
Total deferred tax assets, net	<u>6,540,756</u>	<u>6,223,943</u>
Valuation allowance	<u>(6,540,756)</u>	<u>(6,223,943)</u>
Deferred tax assets, net	<u>\$ -</u>	<u>\$ -</u>

The difference between the income tax benefit in the accompanying statements of operations and the amount that would result if the U.S. Federal statutory rate of 21% were applied to pre-tax loss for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
(Benefit) expense for income tax at federal statutory rate	\$ (463,703)	(21.0)	\$ (359,983)	(21.0)
Change in valuation allowance	316,813	14.4	37,313	2.2
Compensatory stock option grants	9,450	0.4	9,450	0.5
Tax accrual to return adjustments	<u>137,440</u>	<u>6.2</u>	<u>313,220</u>	<u>18.3</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

As of December 31, 2019, for United States of America ("U.S.") federal income tax reporting purposes, the Company has approximately \$30,823,460 of unused net operating losses ("NOLs") available for carry-forward to future years. The benefit from carry-forward of such pre-2018 NOLs totaling approximately \$27,916,000 will expire at various dates through December 31, 2038. NOLs generated in 2018 and 2019 totaling approximately \$2,633,650 do not expire. Because tax laws limit the use of NOLs to future periods in which the Company generates taxable income, the Company may be unable to take full advantage of its NOLs for federal income tax purposes. Further, the benefit from utilization of NOL carry-forwards could be subject to limitations due to material ownership changes that may or may not occur in the Company.

12. Stockholders' Deficit

Common Stock

The Company's Certificate of Incorporation authorizes issuance of 75,000,000 shares of \$0.01 par value common stock. At December 31, 2019 and 2018, the Company had 21,021,963 shares of common stock issued and outstanding for both years. The Board of Directors may issue any authorized but unissued shares of common stock at prices and under other terms approved by the Board. The Company has not entered into any agreements with common stockholders that provide such stockholders with preferential economic rights not available to all holders of such class of common stock.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stockholders' Deficit, continued

Holders of Common Stock are entitled to one vote for each share held and have no preemptive or similar right to subscribe for, or to purchase, any shares of common stock or other securities to be issued by the Company in the future. Holders of shares of common stock have no exchange or conversion rights and the shares are not subject to redemption.

The Company is authorized by the Superintendencia General de Valores de Costa Rica ("Sugeval") to undertake Restricted Public Offerings ("RPO") of its common stock. These offerings are conducted under Costa Rican law outside of the United States of America. The Company has approved the issuance of up to 1,000,000 shares of common stock pursuant to the RPO.

The Company did not sell any common stock in 2019. During the year ended December 31, 2018, the Company sold 2,500 shares of common stock pursuant to stock subscription agreement with a related party, at a price of \$8.00 per share resulting in cash proceeds of \$20,000. The Company also sold 12,500 shares of common stock to an individual investor pursuant to a stock subscription agreement at a price of \$8.00 per share resulting in cash proceeds of \$100,000. The Company recorded no issuance costs related to these exercises.

Series A Preferred Stock

At December 31, 2019 and 2018, the Company had 2,200 shares authorized and 369 shares issued and outstanding of \$0.01 par value Series A preferred stock ("Series A"). Series A has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. Series A is convertible into Common Stock any time at the option of the holder at a price determined by dividing the Series A original issue price by the Series A conversion price in effect at the time of conversion. The Series A conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem Series A for cash at any time after the five year anniversary date of the issuance at a redemption price calculated by multiplying the Series A original issue price by one plus the Prime Rate (as reported by Bloomberg, L.P.) on the date of redemption times the number of years from the applicable Series A original issue date until the date of such calculation with a partial year being expressed by dividing the number of days which have passed since the most recent anniversary by 365, plus all declared but unpaid dividends.

During the years ended December 31, 2019 and 2018 the Company did not issue any shares of Series A Preferred Stock.

At December 31, 2019 and 2018, there were no accumulated, undeclared dividends.

Series C Preferred Stock

At December 31, 2019 and 2018, the Company had 1,000 shares authorized and 26 issued and outstanding, of \$0.01 par value Series C preferred stock ("Series C"). Series C has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series C is convertible by the holder into common stock within 15 days of notice of redemption from the Company at a price determined by dividing the Series C original issue price by the Series C conversion price in effect at the time of conversion.

The Series C conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem Series C for cash at any time after issuance with a twenty-day written notice at a redemption price equal to the original issue price, plus all declared but unpaid dividends. Series C stock become mandatorily convertible to common shares at a conversion rate of 3,000 common shares for each Series C share if Company closes an underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Securities Act of 1933, as amended.

During the years ended December 31, 2019 and 2018, the Company did not issue any shares of Series C Preferred Stock.

At December 31, 2019 and 2018, there were no accumulated and undeclared dividends.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Stockholders' Deficit, continued

Series D Preferred Stock

On October 15, 2018, the Company authorized the creation of 2,000 shares of \$0.01 par value Series D preferred stock ("Series D"). On June 12, 2019 the Company's Board of Directors approved an amendment to the Certificate of Designations to increase the number of authorized shares of the Corporations Series D Preferred Stock from 2,000 to 4,000 shares. On the approval of 75% of the then current holders of Series D Preferred stockholders on June 17, 2019, the number of authorized Series D shares were increased to 4,000 shares.

At December 31, 2019 the Company had 4,000 shares authorized and 3,236 issued and outstanding. At December 31, 2018 the Company had 1,422 issued and outstanding. Series D has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series D is convertible by the holder into common stock at any time from the Company at a price determined by dividing the Series D original issue price by the Series D conversion price in effect at the time of conversion.

The Series D conversion price is equal to the original issue price per share divided by 100. Series D stock becomes mandatorily convertible to common stock shares at a conversion rate of 100 common shares for each Series D share if Company closes an underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Securities Act of 1993, as amended.

During the period ended December 31, 2019, the Company sold 1,094 shares of Preferred D stock pursuant to stock subscription agreements with individual investors at a price of \$800 per share resulting in cash proceeds of \$875,200. The Company recorded no issuance costs related to this exercise.

During the period ended December 31, 2019, the Company converted \$576,000 of outstanding debt (principal and interest) of a related party into 720 shares of Preferred D stock pursuant to the conversion agreement of July 26, 2019 with a said related party at a price of \$800 per share resulting in the retirement of the outstanding debt. The Company recorded no issuance costs related to this exercise.

During the year ended December 31, 2018, the Company sold 294 shares of preferred stock pursuant to stock subscription agreements with related parties at a price of \$800 per share resulting in cash proceeds of \$235,200. The Company sold an additional 1,128 shares of preferred stock pursuant to stock subscription agreements with individual investors at a price of \$800 per share resulting in cash proceeds of \$902,400. The Company recorded no issuance costs related to this exercise.

At December 31, 2019 and 2018, there were no accumulated and undeclared dividends.

13. Commitments

Operating Leases

In September 2017, the Company renewed its lease agreement for office and laboratory space in Webster, Texas. The term of the agreement is for thirty-six months with a one-time option to extend the lease an additional three years. Base rent for the three years beginning in August 1, 2017 and ending July 31, 2020 is \$12,738 per month. In November 2019, the Company exercised their option for an additional three years beginning in August 1, 2020 and ending July 31, 2023 with base rent to be \$14,012 per month.

Rent expense for the years ended December 31, 2019 and 2018 totaled \$215,110, and \$213,033.

Minimum annual rentals under non-cancelable operating leases of more than one year in duration are as follows:

<u>Year</u>	<u>Annual Expense</u>
2020	\$ 159,226
2021	168,144
2022	168,144
2023	<u>98,084</u>
	<u>\$ 593,598</u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Contingencies

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. Management, along with the assistance of legal counsel, will determine the ultimate disposition and potential impact of these matters on the Company's financial condition, liquidity or results from operations. As of December 31, 2019, the Company is involved in a regulatory tax matter with the taxing authorities in Costa Rica. The taxing authorities have claimed the Company owed taxes and penalties related to ancillary income earned. As a result of this claim, the Company recorded a current liability of \$150,000 to cover the expected back taxes, penalties and legal representation for the matter.

15. Subsequent Events

Management has evaluated subsequent events through March 11, 2020, which is the date that the consolidated financial statements were available to be issued.