

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

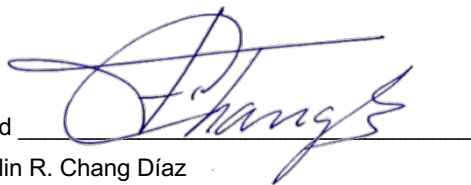
(Unaudited)

For the Periods Ended September 30, 2020 and December 31, 2019

Signed _____

Franklin R. Chang Díaz

CEO



December 4, 2020

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
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Impact Statement of Covid-19 on Ad Astra's Operations

Both in its operation in the United States as well as Costa Rica, Ad Astra Rocket Company is observing the stay-home and work-safe orders and guidelines implemented in both nations, and at the local level in Harris County, Texas, which comprises the Houston metropolitan area and surrounding communities, including the city of Webster where Ad Astra is located. While the company continues to make progress on its programs, these requirements have slowed down the accomplishments of planned milestones at both facilities and have prompted the management to refocus the workload so as to maximize productivity in the virtual environment.

On March 19, 2020, The company also issued a material notice to its investors describing the initial measures it was taking to address the global pandemic and inviting its investors to consider additional investment. The initial measures also included applying to federal US economic stimulus programs, under development in the US Congress at that time, but signed into law and funded in early April 2020. The Company applied for and received funding under the Payroll Protection Program (PPP) on April 9, 2020 in the amount of \$222,560. In accordance with the stipulations of the PPP, those funds, to be forgiven, must primarily be used for payroll, rent, and utilities for the Webster office. In addition, Ad Astra has requested and has received approval from NASA for an extension of the NextSTEP contract from June 30, 2020 to December 31, 2020.

Since only two of the 55 technical NextSTEP milestones remain to be completed, Ad Astra is currently negotiating with NASA for funding of a number of new tasks that allow VASIMR® progress to continue on several fronts without conflicting with the social distancing guidelines imposed by the Covid-19 lockdown. These tasks include design work on new rocket subsystems at the TRL-6 level capitalizing on advances from years of testing under the NextSTEP TRL-5 experiment campaigns. Much of this design work can be done in the virtual environment. Similarly, in Costa Rica, endeavoring to comply with social distancing requirements, Ad Astra's most recent activities on hydrogen have been refocused to projects designed primarily for virtual development and modeling.

Notwithstanding the above, some limited hands-on work has continued at both facilities. In Texas, the VX-200SS redesigned rocket core has been completed along with the demonstration in vacuum of the TRL-5 RF PPU completed earlier this year. As of the date of this report, the Houston team completed rocket test campaign 12 on July 31, 2020 with good results and is now in the process of testing the rocket core for campaign 13. Progress, however, is slow due to required staggering of personnel to avoid close social contact during these operations.

In Costa Rica, the hydrogen plant upgrade continues to move forward, albeit slowly for the same reasons. Most of the new hydrogen ecosystem components have arrived at Ad Astra's facility and are being prepared for installation by small teams of employees, deployed to the facility as needed to complete the required tasks. These are done in staggered shifts to avoid close contact.

As it has done in the past, Ad Astra will continue to pursue all options before us and to adapt to a world it is helping to change for the better.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 and December 31, 2019

<u>ASSETS</u>	<u>Sep 30, 2020</u>	<u>Dec 31, 2019</u>
Current assets:		
Cash	\$ 32,103	\$ 66,945
Accounts receivable	78,926	30,663
Prepaid expenses	<u>41,049</u>	<u>15,291</u>
Total current assets	<u>152,078</u>	<u>112,899</u>
Property and equipment, net	1,489,991	1,440,575
Other assets	<u>26,953</u>	<u>31,392</u>
Total assets	<u><u>\$ 1,669,022</u></u>	<u><u>\$ 1,584,866</u></u>
 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Notes payable, current portion	\$ 117,578	\$ 117,578
Notes payable, related party	685,750	607,000
Accounts payable	1,090,621	949,783
Accrued liabilities	1,148,517	1,012,047
Interest payable	<u>203,921</u>	<u>192,777</u>
Total current liabilities	3,246,387	2,879,189
Notes Payable, net of current portion	<u>1,639,167</u>	<u>1,484,674</u>
Total liabilities	<u>4,885,554</u>	<u>4,363,856</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; 3,736 and 3,236 shares issued and outstanding	37	32
Series E, \$0.01 par value, 2,694 shares authorized; 624 and 0 shares issued and outstanding	6	-
Common stock, \$0.01 par value, 75,000,000 shares authorized; 21,021,963 and 21,021,963 shares issued and outstanding	210,221	210,221
Additional paid-in capital	37,608,478	36,701,793
Accumulated deficit	<u>(41,035,278)</u>	<u>(39,691,043)</u>
Total stockholders' deficit	<u>(3,216,532)</u>	<u>(2,778,993)</u>
Total liabilities and stockholders' deficit	<u><u>\$ 1,669,022</u></u>	<u><u>\$ 1,584,866</u></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 PERIODS ENDED SEPTEMBER 30, 2020 AND DECEMBER 31, 2019

	<u>Sep 30, 2020</u>	<u>Dec 31, 2019</u>
Research and development income	\$ 663,841	\$ 779,214
Operating expenses:		
Payroll expense	1,020,826	1,636,884
Professional fees	87,247	100,807
Other general and administrative expenses	<u>896,074</u>	<u>1,293,866</u>
Total operating expenses	2,004,147	3,031,557
Other income (expense):		
Interest income		23
Interest expense	(66,027)	(89,053)
Other income, net	<u>62,098</u>	<u>133,266</u>
Total other (expense) income, net	<u>(3,929)</u>	<u>44,236</u>
Net income (loss) before provision for income taxes	(1,344,235)	(2,208,107)
Provision for income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (1,344,235)</u>	<u>\$ (2,208,107)</u>
Basic and diluted income (loss) per share	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>
Basic weighted-average shares outstanding	<u>21,021,963</u>	<u>21,021,963</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND DECEMBER 31, 2019

	Preferred Stock								Common Stock				Stock	Additional	Accumulated	Total
	Series A		Series C		Series D		Series E		Class A		Class B		Subscription	Paid-in	Deficit	Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	Capital	During	Equity(Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	Capital	Development	Equity(Deficit)
Balance as of Dec 31, 2018	369	4	26	0	1,422	14			0	0	21,021,963	210,221	0	35,206,014	(37,482,936)	(2,066,683)
Preferred Stock Series D Issued for Cash/Net of issuance cost of \$ 0					1,814	18								1,450,779		1,450,797
Common Stock Issued for Cash/Net of issuance costs of \$0																0
Compensatory Element of Stock Option Grant														45,000		45,000
Net Gain (Loss)															(2,208,107)	(2,208,107)
Balance as of Dec 31, 2019	369	4	26	0	3,236	32	0	0	0	0	21,021,963	210,221	0	36,701,793	(39,691,043)	(2,778,993)
Preferred Stock Series D Issued for Cash/Net of issuance cost of \$ 0					500	5								399,995		400,000
Preferred Stock Series E Issued for Cash/Net of issuance cost of \$ 0							624	6						499,190		499,196
Common Stock Issued for Cash/Net of issuance costs of \$ 0																0
Compensatory Element of Stock Option Grant														7,500		7,500
Net Gain(Loss)															(1,344,235)	(1,344,235)
Balance as of September 30, 2020	369	4	26	0	3,736	37	624	6	0	0	21,021,963	210,221	0	37,608,478	(41,035,278)	(3,216,532)

The accompanying notes are an integral part of consolidated financial statements

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 and DECEMBER 31, 2019

	<u>Sep 30, 2020</u>	<u>Dec 31, 2019</u>
Cash flows from operating activities:		
Net income (loss)	\$ (1,344,235)	\$ (2,208,107)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	11,238	144,900
Loss from disposal of fixed assets	-	-
Compensatory element of stock option grants	7,500	45,000
Changes in operating assets and liabilities:		
Accounts receivable	(48,263)	(3,081)
Prepaid expenses	(25,758)	(1,337)
Other assets	4,439	1,652
Accounts payable and accrued liabilities	277,304	480,366
Interest payable	11,144	16,249
Interest payable, related party	-	9,219
Net cash used in operating activities	<u>(1,106,631)</u>	<u>(1,515,139)</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(60,654)</u>	<u>(299,754)</u>
Net cash used in investing activities	<u>(60,654)</u>	<u>(299,754)</u>
Cash flows from financing activities:		
Payments on notes payable	(68,067)	(93,521)
Proceeds from notes payable	222,560	15,000
Proceeds from notes payable, related party	78,750	602,000
Net proceeds from Issuance of preferred stock	<u>899,200</u>	<u>874,797</u>
Net cash provided by financing activities	<u>1,132,443</u>	<u>1,398,276</u>
Increase in cash and cash equivalents	(34,842)	416,617
Cash and cash equivalents, beginning of period	<u>66,945</u>	<u>483,562</u>
Cash and cash equivalents, end of period	<u>\$ 32,103</u>	<u>\$ 66,945</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 31,611</u>	<u>\$ 63,516</u>
Non-cash Investing and Financing Activities:		
Preferred shares issued on conversion of Note Payable-principle & interest related party	<u>\$ -</u>	<u>\$ 576,000</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 Energeticos 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 September 30, 2020 and December 31, 2019, 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
Renewable Energy 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 periods ended September 30, 2020 and December 31, 2019, 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 periods ended September 30, 2020 and December 31, 2019.

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 \$7,500 and \$45,000 for the periods ended September 30, 2020 and December 31, 2019 respectively, 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 September 30, 2020 and December 31, 2019, stock options pertaining to 10,000 and 50,000 shares of common stock 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.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

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.

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 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 the 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 periods ended September 30, 2020 and December 31, 2019 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-materials research, design and development contracts is recognized over time as the service is provided and are generally billed on a monthly basis. During the period ended September 30, 2020 the company recorded \$663,841 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 periods ended September 30, 2020 and December 31, 2019, were \$509,098 and \$1,434,678, respectively.

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 periods ended September 30, 2020 and December 31, 2019 the Company had net loss of \$1,344,234, and \$2,208,107, respectively. The Company has a working capital deficiency of \$3,094,307 and \$2,766,286, at September 30, 2020, and December 31, 2019, 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 \$663,841 and \$779,214 recorded as research, design and development income on the statement of operations for the periods ended September 30, 2020 and December 31, 2019, respectively.

2. Going Concern, continued

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 September 30, 2020 and December 31, 2019, were \$78,926 and \$30,663, respectively, and relate to various research, design and development project contracts and revenue from speaking and consulting engagements.

4. Other Assets

Other assets, at September 30, 2020 and December 31, 2019, was comprised of the following:

	<u>Sep 30, 2020</u>	<u>Dec 31, 2019</u>
Deposits	\$ 12,977	\$ 16,391
License	13,127	15,001
Inventory	849	
Total	<u>\$ 26,953</u>	<u>\$ 31,392</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 \$1,875 and \$2,500 during the periods ended September 30, 2020 and December 31, 2019, respectively.

5. Property and Equipment

Property and equipment at September 30, 2020 and December 31, 2019, and related activity for the years then ended, were as follows:

Sep 30, 2020

<u>Description</u>	<u>2019</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2020</u>
Computer and software	\$ 671,853	\$ -	\$ -	\$ 671,853
Laboratory equipment	4,143,710	-	-	4,143,710
Machine shop equipment	102,396	-	-	102,396
Leasehold improvements	1,570,963	-	-	1,570,963
Renewable energy equipment	463,345	145,874	-	609,219
Land and building	1,000,000	-	-	1,000,000
Other	<u>145,228</u>	<u>-</u>	<u>-</u>	<u>145,228</u>
	8,097,495	145,874	-	8,243,672
Less accumulated depreciation	<u>(6,656,920)</u>	<u>(96,458)</u>	<u>-</u>	<u>(6,753,378)</u>
Net property and equipment	<u>\$ 1,440,575</u>	<u>\$ 49,416</u>	<u>\$ -</u>	<u>\$ 1,489,991</u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Property and Equipment, continued

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>

Depreciation and amortization expense of \$96,458 and \$144,900 was recognized during the periods ended September 30, 2020 and December 31, 2019.

6. Accrued Liabilities

Accrued liabilities, at September 30, 2020 and December 31, 2019, was comprised of the following:

	<u>Sep 30, 2020</u>	<u>Dec 31, 2019</u>
Deferred salaries	\$ 731,606	\$ 674,853
Other wages payable	16,609	9,011
Payroll taxes and benefits	195,117	170,789
Legal contingency	150,000	150,000
Other	<u>55,185</u>	<u>7,394</u>
	<u>\$ 1,148,517</u>	<u>\$ 1,012,047</u>

7. Notes Payable and Long-Term Debt

Line of Credit, Related Party

At December 31, 2018, the Company had a \$408,000 line of credit with a company 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 of 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 September 30, 2019, the accrued interest of \$203,921 related to this line of credit remain outstanding and is due on demand.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Notes Payable and Long-Term Debt, continued

Notes Payable

The Company had the following notes payable at September 30, 2020 and December 31, 2019 :

	<u>Sept 30, 2020</u>	<u>Dec 31, 2019</u>
Demand notes payable to an officer of the Company. The note bears no interest, is uncollateralized and the principle balance is due on demand.	\$ 676,000	\$ 607,000
Demand notes payable to a director of the Company. The note bears no interest, is uncollateralized and the principle balance is due on demand.	9,750	-
Note payable to a bank, bearing interest at a fixed rate of 6.5% per year and with principal and interest due in total monthly installments of \$460 through June 2022. At Sep 30, 2020, the note was uncollateralized.	9,146	12,735
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 \$129,680 is due. At Sep 30, 2020, the note was uncollateralized.	160,287	174,726
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 3.25% at Sep 30, 2020, due October, 2022. Accrued interest on this note was \$32,693 and the note was uncollateralized.	408,000	408,000
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 September 30, 2020 the Company does not anticipate opting out of the purchase agreement.	139,555	146,774
Note payable to a bank, bearing interest at a variable rate, currently 3% per year (as of September 30, 2020), which can be adjusted quarterly, and due in total monthly payments of \$6,906, including interest, through May 2032. At September 30, 2020, the note is guaranteed by an officer of the Company.	817,197	860,017
Note payable to a bank, bearing interest at a fixed rate of 1% per year, due in April of 2022. This is a Paycheck Protection Program loan issued under the CARES Act by the US government in response to the Covid-19 pandemic. If certain criteria are met under the loan agreement, all or a portion of this loan may be forgiven before it becomes due.	<u>222,560</u>	<u>-</u>
	2,442,495	2,209,252
Less current maturities	<u>(803,328)</u>	<u>(724,578)</u>
Total long-term debt, net of current maturities	<u>\$ 1,639,167</u>	<u>\$ 1,484,674</u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Notes Payable and Long-Term Debt, continued

Notes Payable

At September 30, 2020, future minimum principal payments remaining under our notes payable are as follows:

<u>Year</u>	
2020	\$ 940,223
2021	107,000
2022 and after	<u>1,395,272</u>
	<u>\$ 2,442,495</u>

The Company's weighted average interest rate on outstanding short-term debt obligations for the periods ended September 30, 2020 and December 31, 2019 was 4.72% and 4.08%, respectively. The Company's weighted average effective rate on outstanding short-term debt obligations for the periods ended September 30, 2020 and December 31, 2019 was 3.58% and 4.18%, respectively.

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, 2018	122,300	\$ 7.18
Forfeited/cancelled	<u>(43,500)</u>	<u>(6.67)</u>
Outstanding, December 31, 2019	78,800	7.46
Forfeited/cancelled	<u>(49,000)</u>	<u>(6.73)</u>
Outstanding, September 30, 2020	<u>29,800</u>	<u>8.66</u>
Exercisable, September 30, 2020	<u>29,800</u>	<u>\$ 8.66</u>

The weighted-average remaining life and weighted-average exercise price of outstanding options at September 30, 2020 were 1.8 years and \$8.66. The exercise prices for outstanding options ranged from \$6.00 to \$10.00 at September 30, 2020 and information relating to such options follows:

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock Incentive Plan, continued

<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	10,000	10,000	4.7 years	\$ 6.00	\$ 6.00
\$6.68 - \$12.00	<u>19,800</u>	<u>19,800</u>	0.3 years	\$ 10.00	\$ 10.00
	<u>29,800</u>	<u>29,800</u>			

During the periods ended September 30, 2020 and December 31, 2019, the Company did not grant any options. The fair value of options expensed under the Plan was \$7,500, for the period ended September 30, 2020 and \$45,000 for the period ended December 31, 2019.

As of September 30, 2020, there was no unrecognized expense remaining 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 was originally 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 it is now effective to December 31, 2020. While as of March 31, 2020 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 5 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. 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 on the statement of operations. During the periods ended September 30, 2020 December 31, 2019, the Company recorded \$0 and \$160,236, respectively, of revenue related to this project. As of September 30, 2020, \$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, its 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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

milestones are substantive. These projects are recorded as research, design and development income upon the completion of the milestone criteria and receipt of payment on the statement of operations. During the period ended September 30, 2020, the Company recorded \$663,840 of revenue related to this and other projects. As of September 30, 2020, no contingent milestone payments remain under the contracts.

10. Related Party Transactions

During the period ended September 30, 2020 and December 31, 2019, the Company obtained notes payable of \$676,000 and \$607,000, respectively, from an officer of the Company bearing no interest and is due on demand; see Notes Payable and Long Term Debt Note 7, and Stockholders' Deficit in Note 12 for additional related party disclosures.

11. 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 September 30, 2020 and December 31, 2019, the Company had 21,021,963 shares of common stock issued and outstanding, respectively. 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.

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 the period ending September 30, 2020 or December 31, 2019.

Series A Preferred Stock

At September 30, 2020 and December 31, 2019, the Company had 2,200 shares authorized and 370 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 periods ended September 30, 2020 and December 31, 2019 the Company did not issue any shares of Series A Preferred Stock.

At September 30, 2020 and December 31, 2019 there were no accumulated, undeclared dividends.

Series C Preferred Stock

At September 30, 2020 and December 31, 2019, the Company had 1,000 shares authorized and 25 issued and outstanding, of \$0.01 par value Series C preferred stock ("Series C"). Series C has a liquidation preference

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stockholders' Deficit, continued

Series C Preferred Stock

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 periods ended September 30, 2020 and December 31, 2019, the Company did not issue any shares of Series C Preferred Stock.

At September 30, 2020 and December 31, 2019, there were no accumulated and undeclared dividends.

Series D Preferred Stock

On October 15, 2018 the Company had 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 September 30, 2020 the Company had 4,000 shares authorized and 3,736 issued and outstanding. At December 31, 2019 the Company had 3,236 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 shares at a conversion rate of 100 common shares for each Series D share if the 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 period ended September 30, 2020, the Company sold 500 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 \$400,000. The Company recorded no issuance costs related to this exercise.

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 to 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.

At September 30, 2020 and December 31, 2019, there were no accumulated and undeclared dividends.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

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Series E Preferred Stock

On June 22, 2020 the Company's Board of Directors approved a Unanimous Written Consent resolution authorizing the creation of 2,964 shares of \$0.01 par value Series E preferred stock ("Series E"). Effective June 24, 2020 the Company registered with the State of Delaware the Certificate of Designations creating the Series E shares.

At September 30, 2020 the Company had 2,964 shares authorized and 624 issued and outstanding. At December 31, 2019 the Company had no Series E shares issued and outstanding. Series E has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series E is convertible by the holder into Common Stock at any time from the Company at a price determined by dividing the Series E original issue price by the Series E conversion price in effect at the time of conversion.

The Series E conversion price is equal to the original issue price per share divided by 100. Series E stock becomes mandatorily convertible to common shares at a conversion rate of 100 common shares for each Series E share if the 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 period ended June 30, 2020, the Company sold 312 shares of Preferred E stock pursuant to stock subscription agreements with an individual investor at a price of \$800 per share resulting in cash proceeds of \$249,600. The Company recorded no issuance costs related to this exercise.

During the period ended September 30, 2020, the Company sold 312 shares of Preferred E stock pursuant to stock subscription agreements with an individual investor at a price of \$800 per share resulting in cash proceeds of \$249,600. The Company recorded no issuance costs related to this exercise.

12. Commitments

Operating Leases

In December 2019, the Company renewed its lease agreement for office and laboratory space in Webster, Texas. The term of the agreement is for thirty-six months beginning at the end of its current lease in August 2020. Base rent for the three years beginning in August 1, 2020 and ending July 31, 2023 is \$14,012 per month.

Rent expense for the periods September 30, 2020 and December 31, 2019 totaled \$39,609, and \$215,110.

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	\$ 39,609
2021	\$ 159,245
2022	\$ 159,245
2020	<u>93,230</u>
	<u>\$ 451,329</u>

13. 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 September 30, 2020, the Company is still involved in a regulatory tax matter with the taxing

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

14. Subsequent Events

Subsequent events have been evaluated through December 4, 2020 which is the date the consolidated financial statements were available to be issued.

On November 10, 2020, AARC Costa Rica accepted a contract with Banco Nacional de Costa Rica, for consulting services in the production of Hydrogen industry for the determination of the viability of Hydrogen business financing. An estimate total of contract at maximum being 95,000,000 colones (\$159,530 USD); and estimated time of contract is 1,600 hours which may expand over the life of 4 years.