

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report
For the Years Ended December 31, 2020 and 2019

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, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended and the 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, 2020 and 2019, 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 4 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 4. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ham, Lysitz & Brezina LLP

Houston, Texas
March 11, 2021

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 89,034	\$ 66,945
Accounts receivable	45,339	30,663
Prepaid expenses	<u>9,474</u>	<u>15,291</u>
Total current assets	<u>143,847</u>	<u>112,899</u>
Property and equipment, net	1,466,049	1,440,575
Other assets	<u>29,361</u>	<u>31,392</u>
Total assets	<u><u>\$ 1,639,257</u></u>	<u><u>\$ 1,584,866</u></u>
 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Accounts payable	\$ 978,468	\$ 949,783
Accrued liabilities	1,219,976	1,012,047
Interest payable	207,263	192,777
Notes payable, current portion	126,078	117,578
Notes payable, related party	<u>691,162</u>	<u>607,000</u>
Total current liabilities	<u>3,222,947</u>	<u>2,879,185</u>
Notes Payable, net of current portion	<u>1,664,463</u>	<u>1,484,674</u>
Total liabilities	<u>4,887,410</u>	<u>4,363,859</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, 3,694 shares authorized; 1,124 and 0 shares issued and outstanding	11	-
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	38,091,570	36,701,793
Accumulated deficit	<u>(41,549,996)</u>	<u>(39,691,043)</u>
Total stockholders' deficit	<u>(3,248,153)</u>	<u>(2,778,993)</u>
Total liabilities and stockholders' deficit	<u><u>\$ 1,639,257</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 YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Research and development income	\$ 934,355	\$ 779,214
Operating expenses:		
Payroll expense	1,280,711	1,636,884
Professional fees	93,607	100,807
Other general and administrative expenses	<u>1,401,055</u>	<u>1,293,866</u>
Total operating expenses	2,775,373	3,031,557
Other income (expense):		
Interest income	5	23
Interest expense	(91,480)	(89,053)
Other income, net	<u>73,540</u>	<u>133,266</u>
Total other income (expense), net	<u>(17,935)</u>	<u>44,236</u>
Net loss before provision for income taxes	(1,858,953)	(2,208,107)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (1,858,953)</u>	<u>\$ (2,208,107)</u>
Basic and diluted loss per share	<u>\$ (0.09)</u>	<u>\$ (0.11)</u>
Basic and diluted weighted-average common 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 YEARS ENDED DECEMBER 31, 2020 AND 2019

	Preferred Stock								Common Stock		Additional Paid-In Capital	Accumulated Deficit During Development Stage	Total Stockholders' Deficit
	Class A		Class C		Class D		Class E		Shares	Amount			
	Shares		Shares	Amount	Shares	Amount	Shares	Amount					
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
Stock based compensation	-	-	-	-	-	-	-	-	-	-	45,000	-	45,000
Net income												(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)
Preferred stock issued for cash	-	-	-	-	500	\$ 5	1,124	\$ 11	-	-	1,299,184	-	1,299,200
Stock based compensation	-	-	-	-	-	-	-	-	-	-	90,593	-	90,593
Net loss												(1,858,953)	(1,858,953)
Balance as of December 31, 2020	369	\$ 4	26	\$ -	3,736	\$ 37	1,124	\$ 11	21,021,963	\$ 210,221	\$ 38,091,570	\$ (41,549,996)	\$ (3,248,153)

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

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (1,858,953)	\$ (2,208,107)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	125,579	147,400
Stock based compensation	90,593	45,000
Changes in operating assets and liabilities:		
Accounts receivable	(14,676)	(3,081)
Prepaid expenses	5,817	(1,337)
Other assets	(469)	(848)
Accounts payable and accrued liabilities	236,614	480,366
Interest payable	14,486	16,249
Interest payable, related party	<u>-</u>	<u>9,219</u>
Net cash used in operating activities	<u>(1,401,009)</u>	<u>(1,515,139)</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(148,553)</u>	<u>(299,754)</u>
Net cash used in investing activities	<u>(148,553)</u>	<u>(299,754)</u>
Cash flows from financing activities:		
Proceeds from notes payable	239,560	15,000
Payments on notes payable	(51,271)	(93,521)
Proceeds from notes payable, related party	108,750	602,000
Payments on notes payable, related party	(24,588)	-
Proceeds from issuance of preferred stock	<u>1,299,200</u>	<u>874,797</u>
Net cash provided by financing activities	<u>1,571,651</u>	<u>1,398,276</u>
Increase (decrease) in cash and cash equivalents	22,089	(416,617)
Cash and cash equivalents, beginning of year	<u>66,945</u>	<u>483,562</u>
Cash and cash equivalents, end of year	<u>\$ 89,034</u>	<u>\$ 66,945</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 58,138</u>	<u>\$ 63,516</u>
Non-cash Investing and Financing Activities:		
Preferred shares issued on conversion of related party note and interest payable	<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. Organization and Nature of Operations

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.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") under the accrual basis of accounting.

Use of Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes its estimates are reasonable.

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 upon 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.

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, 2020 and 2019, there was no allowance as management believes all accounts are collectible. During the years ended December 31, 2020 and 2019, no bad debt expense was recorded.

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

2. 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, 2020 and 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 years ended December 31, 2020 and 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

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") topic 718-10, "*Accounting for Stock-Based Compensation*", requires companies to estimate the fair value of stock 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 \$90,593 and \$45,000 for the years ended December 31, 2020 and 2019, respectively, which consists of stock-based compensation expense related to employee and director stock option issuances.

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

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Revenue and Cost Recognition, continued

Research, Design and Development Income, continued

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, 2020 and 2019 the Company was party to various milestone revenue contracts as discussed in Note 11 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 years ended December 31, 2020 and 2019, the Company recorded \$64,084 and \$85,856, respectively, 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, 2020 and 2019 were \$586,620 and \$1,434,678, respectively, and were included as a component of other general and administrative expenses in the consolidated statements of operations.

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.

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

2. Summary of Significant Accounting Policies, continued

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 vested stock options or convertible preferred stock. At December 31, 2020 and 2019, stock options and convertible preferred stock with equivalent shares of common stock, as presented in the table below, 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.

	<u>Common Stock Equivalents</u>	
	<u>2020</u>	<u>2019</u>
Stock options	55,000	102,800
Preferred stock options - Series A	1,107,000	1,107,000
Preferred stock options - Series C	78,000	78,000
Preferred stock options - Series D	373,600	323,600
Preferred stock options - Series E	112,400	-
Total	<u>1,726,000</u>	<u>1,611,400</u>

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The guidance in this update supersedes Topic 840, *Leases*. Implementation of 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, 2021). Management is currently evaluating the impact of the guidance on its consolidated financial statements and related disclosures.

3. Impact of Coronavirus Disease 2019 ("COVID-19") on Company Operations

Both in its operation in the United States as well as Costa Rica, the Company is observing 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, Texas where the Company's United States facility 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 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 U.S. economic stimulus programs under development by the United States Congress at that time and publicly available on April 3, 2020. On April 9, 2020, the Company applied for and received its funds from a loan under the Paycheck Protection Program ("PPP") in the amount of \$222,560. Under the program, PPP loan amounts will qualify for forgiveness if used for payroll and qualified business expenses. The PPP loan forgiveness application was submitted during February 2021, to the Small Business Administration ("SBA") and was ultimately forgiven subsequent to year end as described in Note 17.

In addition, the Company's contract with a U.S. government entity for the research and development of the technology for the VASIMR® engine ("NextSTEP") has termed as of December 31, 2020. The Company is currently negotiating with this entity for additional funding for a number of new tasks that would allow VASIMR® development progress to continue on several fronts, without conflicting with the social distancing guidelines imposed by the COVID-19 lockdown, since only two of the 55 technical NextSTEP milestones remain to be completed. These new tasks include design work on new rocket subsystems for the VASIMR® engine at the state of technological demonstration level as defined by the contract ("TRL-6") in order to capitalize on advances

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Impact of COVID-19 on Company Operations, continued

from years of testing under the NextSTEP technological development experimental campaigns ("TRL-5") as much of this new design work could be performed in a virtual environment. Similarly, in Costa Rica, endeavoring to comply with social distancing requirements, the Company'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 Company has redesigned its rocket core and has completed the testing of this new rocket core for the campaign as defined in the contract. Additional campaign work was officially started in December 2020 but has been progressing at a slower pace 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 the Company'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.

4. 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, 2020 and 2019, the Company had net losses of \$1,858,953 and \$2,208,107, respectively. The Company has a working capital deficiency of \$3,079,100 and \$2,766,286, at December 31, 2020, and 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 2 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® amounting to \$0 and \$160,236, respectively, for the years ended December 31, 2020 and 2019. In addition the Company through its VASMIR® research has gained significant experience in hydrogen transport systems, which the Company plans to continue marketing to various customers. For the years ended December 31, 2020 and 2019 the Company recorded research, design and development income on the statements of operations of \$934,355 and \$618,978, related to hydrogen transport systems or other complimentary technologies.

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 or additional projects using the Company's knowledge of hydrogen transport systems.

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.

5. Accounts Receivable

Accounts receivable at December 31, 2020 and 2019 were \$45,339 and \$30,663, respectively, and relate to various research, design and development project contracts and revenue from speaking and consulting engagements.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Other Assets

Other assets comprise the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Deposits	\$ 12,977	\$ 16,391
Patent	3,035	-
License	12,501	15,001
Inventory	848	-
Total	<u>\$ 29,361</u>	<u>\$ 31,392</u>

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, 2020 and 2019. The license included in other assets is an intangible asset obtained from a United States (U.S.) government agency that allows the Company to use certain technologies in the development of its advanced plasma rocket propulsion technology.

7. Property and Equipment

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

December 31, 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	148,553	-	611,898
Land and building	1,000,000	-	-	1,000,000
Other	145,228	-	-	145,228
	8,097,495	148,553	-	8,246,048
Less accumulated depreciation	<u>(6,656,920)</u>	<u>(123,079)</u>	<u>-</u>	<u>(6,779,999)</u>
Net property and equipment	<u>\$ 1,440,575</u>	<u>\$ 25,474</u>	<u>\$ -</u>	<u>\$ 1,466,049</u>

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	145,228	-	-	145,228
	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 \$123,079 and \$144,900 was recognized during the years ended December 31, 2020 and 2019, respectively.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Accrued Liabilities

Accrued liabilities comprise the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Deferred salaries	\$ 774,171	\$ 674,853
Other wages payable	15,446	9,011
Payroll taxes and benefits	192,897	170,789
Legal contingency	150,000	150,000
Other	<u>87,462</u>	<u>7,394</u>
	<u>\$ 1,219,976</u>	<u>\$ 1,012,047</u>

9. Notes Payable and Long-Term Debt

The Company had the following notes payable and notes payable, related party at December 31, 2020 and 2019:

	<u>2020</u>	<u>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.	\$ 681,412	\$ 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 December 31, 2020, the note was uncollateralized.	7,493	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 December 31, 2020, the note was uncollateralized.	155,207	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 December 31, 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 monthly principal and interest payments of \$2,588 due through 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, 2020 the Company does not anticipate opting out of the purchase agreement.	135,084	146,774
Note payable to a bank, bearing interest at a variable rate, currently 3% per year (as of December 31, 2020), which can be adjusted quarterly, and due in total monthly payments of \$6,906, including interest, through May 2032. At December 31, 2020, the note is guaranteed by an officer of the Company.	845,197	860,017

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Notes Payable and Long-Term Debt, continued

	<u>2020</u>	<u>2019</u>
Note payable to a bank, bearing interest at a fixed rate of 1% per year, due in April of 2022. This is a PPP loan issued under the CARES Act by the U.S. government in response to the COVID-19 pandemic. At December 31, 2020, the note was uncollateralized.	222,560	-
Note payable to a bank, bearing interest at variable rate of 6% per year, due on December 1, 2022. This loan was a bridge loan to finance the Company's required Costa Rica's Holiday pay benefit.	<u>17,000</u>	<u>-</u>
	2,481,703	2,209,252
Less current maturities	<u>(817,240)</u>	<u>(724,578)</u>
Total long-term debt, net of current maturities	<u>\$ 1,664,463</u>	<u>\$ 1,484,674</u>

At December 31, 2020, future minimum principal payments remaining on notes payable and notes payable, related party, are as follows:

<u>Year</u>	
2021	\$ 817,240
2022	834,153
2023	87,375
2024	91,554
2025 and after	<u>651,381</u>
	<u>\$ 2,481,703</u>

The Company's weighted average interest rate on outstanding short-term debt obligations for the years ended December 31, 2020 and 2019 was 4.73% and 4.08%, respectively.

10. 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. During the years ended December 31, 2020 and 2019, stock options of 3,000 shares for each active board member for each year were approved for members of the Board, totaling 21,000 and 24,000, respectively.

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
Granted	24,000	\$ 8.00
Forfeited/cancelled	<u>(43,500)</u>	<u>\$ (7.87)</u>
Outstanding, December 31, 2019	102,800	\$ 7.31
Granted	21,000	\$ 8.00
Forfeited/cancelled	<u>(68,800)</u>	<u>\$ (7.67)</u>
Outstanding, December 31, 2020	<u>55,000</u>	<u>\$ 7.64</u>
Exercisable, December 31, 2020	<u>35,750</u>	<u>\$ 7.41</u>

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Stock Incentive Plan, continued

The weighted-average remaining life and weighted-average exercise price of outstanding options at December 31, 2020 were 9.4 years and \$7.69. The exercise prices for outstanding options were \$6.00 or \$8.00 at December 31, 2020 and information relating to such options follows:

<u>Exercise Price</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>
\$6.00	10,000	10,000	4.3 years	\$ 6.00	\$ 6.00
\$8.00	45,000	25,750	9.4 years	\$ 8.00	\$ 8.00
	<u>55,000</u>	<u>35,750</u>			

During the year ended December 31, 2020, the Company granted 21,000 stock options. No stock options were granted during the year ended December 31, 2019. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of stock options expensed under the Plan was \$90,593 for the year ended December 31, 2020 and \$45,000 for the year ended December 31, 2019. For stock options granted in 2020, the following assumptions were used for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Dividend Yield	0%	0%
Expected Volatility	33%	33%
Weighted Average Risk-Free Interest Rates	0.83%	1.74%
Expected Life in Years	10	10

As of December 31, 2020, there was \$65,000 of unrecognized expense remaining related to non-vested stock based compensation arrangements.

11. Milestone Revenue Contracts

The Company has received a contract from a U.S. 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 total \$9.06 million if all milestones are met. The Company received various no cost contract extensions to the contract, however, it is now completed as of December 31, 2020.

While as of December 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 years ended December 31, 2020 and 2019, the Company recorded \$0 and \$160,236, respectively, of revenue related to this project. As of December 31, 2020, \$320,473 remains in contingent milestone payments under the contracts.

The Company has received a contract from a U.S.-based entity that contained milestone payments for the manufacturing and delivery of a steel structure for the support of a ground radar apparatus. The contract was effective for the period from July 2, 2020 to November 29, 2020 and totaled \$562,655 if all milestones were met.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Milestone Revenue Contracts, continued

On January 5, 2021, the project schedule was extended until the end of February 2021 and additional funds totaling up to \$250,000 was approved, the project extension was completed and the remaining approved project funds were invoiced by the Company in February 2021. The original contract outlined a milestone schedule of 4 months resulting in contingent payments of \$27,788 to \$117,997 per achieved milestone. The milestone criteria required the Company to procure the raw material required for manufacturing the structure, subcontract services to cut it into the required length, set up a fabrication shop where these parts are welded, paint the structural elements with protective coatings and deliver them to the project site for installation. The contract was 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. During the year ended December 31, 2020, these projects were completed and \$562,655 was recorded as research and development income in the statement of operations.

The Company has received a contract from a Colombian entity that contained milestone payments for consultancy services regarding the conceptual design of a green hydrogen refueling station interconnected to an existing solar power plant, servicing a small fleet of urban buses. The contract was effective for the period from July 1, 2020 to October 6, 2020 and totaled \$31,500 if all milestones were met. The contract outlined a milestone schedule of 9 weeks resulting in contingent payments of \$11,813 to \$15,750 per achieved milestone.

The milestone criteria required the Company to collect and review information from an existing solar power plant operated by the client as well as the proposed public transit bus routes selected, develop a conceptual design for the implementation of a hydrogen-based clean transportation solution, and develop a preliminary schedule and budget for the development of the contract. The contract was 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. During the year ended December 31, 2020, these projects were completed and \$31,500 was recorded as research and development income in the statement of operations. As of December 31, 2020, no contingent milestone payments remain under the contracts.

The Company has received a contract from a Costa Rican entity that contained milestone payments for upgrading the existing Costa Rican Hydrogen Transportation Ecosystem to add to it the capability of refueling hydrogen vehicles following the H70 standard. The contract was effective for the period from April 3, 2019 to April 3, 2022 and totaled \$765,000 if all milestones were met. The contract outlined a milestone schedule of 11 months resulting in contingent payments of \$25,000 to \$474,660 per achieved milestone. The milestone criteria required the Company to design, procure, import, install, integrate and commission all the elements required to add the capability of H70 service to the existing Costa Rica Hydrogen Transportation Ecosystem. The contract was 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.

During the year ended December 31, 2020, these projects were completed and \$270,116 was recorded as research and development income in the statement of operations. As of December 31, 2020, no contingent milestone payments remain under the contracts.

The Company has received a contract from an international development bank based in the U.S. that contained milestone payments for imparting a virtual training course on green hydrogen technologies. The contract was effective for the period from August 3, 2020 to August 21, 2020 and totaled \$6,000 if all milestones were met. The contract outlined a milestone schedule of 3 weeks resulting in contingent payments of \$2,400 to \$3,600 per achieved milestone. The milestone criteria required the Company to prepare a virtual training course to be delivered to the customer's personnel, including visual material, the software platform to execute the course, the recording of the presentations and the delivery of additional reference documentation. The contract was 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. During the year ended December 31, 2020, these projects were completed and \$6,000 was recorded as research and development income in the statement of operations. As of December 31, 2020, no contingent milestone payments remain under the contracts.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Milestone Revenue Contracts, continued

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 years ended December 31, 2020 and 2019, the Company recorded \$0 and \$533,122, respectively, in revenue related to this project.

12. Related Party Transactions

During the years ended December 31, 2020 and 2019, the Company has two outstanding notes payable totaling \$681,412 and \$607,000, respectively, from an officer of the Company bearing no interest and due upon demand. During the year ended December 31, 2020, the Company obtained a note payable of \$9,750 from a director of the Company bearing no interest and due upon demand.

13. 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, 2020 and 2019, 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.

Significant components of the Company's deferred tax assets and liabilities were as follows at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 6,817,584	\$ 6,472,927
Non-deductible accruals	237,633	194,765
Basis difference in property and equipment	<u>(128,156)</u>	<u>(126,936)</u>
Total deferred tax assets, net	<u>6,927,061</u>	<u>6,540,756</u>
Valuation allowance	<u>(6,927,061)</u>	<u>(6,540,756)</u>
Deferred tax assets, net	<u>\$ -</u>	<u>\$ -</u>

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Income Taxes, continued

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, 2020 and 2019 is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
(Benefit) expense for income tax				
at federal statutory rate	\$ (390,380)	(21.0)	\$ (463,703)	(21.0)
Change in valuation allowance	386,305	21.7	316,813	14.4
Stock based compensation	19,024	0.1	9,450	0.4
Tax accrual to return adjustments	(14,949)	(0.8)	137,440	6.2
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

As of December 31, 2020, for U.S. federal income tax reporting purposes, the Company has approximately \$32,464,687 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 from 2018 to 2020 totaling approximately \$4,274,877 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.

14. 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, 2020 and 2019, the Company had 21,021,963 shares of common stock issued and outstanding, respectively. The Company may issue any authorized but unissued shares of common stock at prices and other terms as approved by the Board of Directors.

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 during the years ended December 31, 2020 and 2019.

Series A Preferred Stock

At December 31, 2020 and 2019, 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.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Stockholders' Deficit, continued

Series A Preferred Stock, continued

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, 2020 and 2019 the Company did not issue any shares of Series A Preferred Stock.

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

Series C Preferred Stock

At December 31, 2020 and December 31, 2019, 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, 2020 and 2019, the Company did not issue any shares of Series C Preferred Stock.

At December 31, 2020 and 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 December 31, 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 year ended December 31, 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 year 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.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Stockholders' Deficit, continued

Series D Preferred Stock, continued

During the year ended December 31, 2019, the Company converted \$576,000 of outstanding debt to a related party into 720 shares of Preferred Series 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 December 31, 2020 and 2019, there were no accumulated and undeclared dividends.

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 December 31, 2020, the Company had 2,964 shares authorized and 1,124 issued and outstanding. At December 31, 2019 the Company had no Preferred 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 year ended December 31, 2020, the Company sold 1,124 shares of Series E Preferred Stock at \$800 per share for cash totaling \$899,200 in proceeds.

15. 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 on August 1, 2020 and ending July 31, 2023 is \$14,012 per month. An amendment was made to the lease in August 2020 adjusting the monthly rent to \$13,203. In addition, the lessor has increased the operating/maintenance cost to \$7,533 per month; increasing the total monthly rent payment to \$20,736.

Rent expense for the years ended December 31, 2020 and 2019 totaled \$214,598 and \$215,110, respectively.

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>
2021	\$ 159,245
2022	159,245
2023	<u>93,230</u>
	<u>\$ 411,720</u>

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. 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, 2020, 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.

17. Subsequent Events

On January 5, 2021, the project schedule for the ground radar apparatus was extended until the end of February 2021 and additional funds totaling up to \$250,000 were approved.

On February 5, 2021, the PPP loan obtained through a financial institution for \$222,550 was fully forgiven by the SBA.

In February 2021, the Company sold 375 shares of Series E preferred stock pursuant to stock subscription agreements with an individual investor at a price of \$800 per share resulting in cash proceeds of \$300,000.

Management has evaluated subsequent events through March 11, 2021, which is the date the consolidated financial statements were available to be issued and has determined that there were no significant subsequent events requiring additional disclosure in the notes to the consolidated financial statements except as described in the previous two paragraphs.