

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Periods Ended March 31, 2021 and December 31, 2020

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

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2 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 to maximize productivity in the virtual environment.

The initial measures to address the global pandemic 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. The application for the PPP loan forgiveness was submitted to JP Morgan Chase (lender). On February 5, 2021, the loan forgiveness approval was granted. On March 18, 2021, Ad Astra Rocket Company received a second Payroll Protection Program (PPP) loan of \$165,677.

Since at the end of 2020, only two of the 55 major technical NextSTEP milestones remained to be completed (the 100-h test and the erosion measurement), NASA extended the period of performance of the NextSTEP Contract to June 30, 2021 in order to allow Ad Astra to complete the remaining milestones. The company is endeavoring to accomplish these objectives while continuing to make progress on several fronts without conflicting with the social distancing guidelines imposed by the Covid-19 pandemic. 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. Some of this design work can be done in the virtual environment. Similarly, in Costa Rica, Ad Astra is complying with national COVID-19 protocols and social distancing requirements while continuing to grow the elements of its hydrogen business.

Notwithstanding the above, some limited hands-on work has continued at both facilities. In Texas, the VX-200SS redesigned rocket core has entered the final phases of campaign 14. Most of the Houston team has now been fully vaccinated. Nonetheless, the company continues to observe masking and social distancing protocols to minimize exposure during these operations.

In Costa Rica, the hydrogen plant upgrade (the H70 project) continues to move forward, albeit slowly for the same reasons. All of the new hydrogen ecosystem components have arrived at Ad Astra's facility and are being installed 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.

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3 CONSOLIDATED BALANCE SHEETS FOR THE PERIODS ENDED MARCH 31, 2021 and December 31, 2020

<u>ASSETS</u>	<u>Mar 31, 2021</u>	<u>Dec 31, 2020</u>
Current assets:		
Cash	\$ 675,833	\$ 89,034
Accounts receivable	15,449	45,339
Capital Lease - Building	118,827	
Prepaid expenses	<u>12,977</u>	<u>9,474</u>
Total current assets	<u>823,086</u>	<u>143,847</u>
Property and equipment, net	1,458,350	1,466,049
Other assets	28,541	29,361
LT Capital Lease – Building	<u>\$ 250,857</u>	
Total assets	<u>\$ 2,560,834</u>	<u>\$ 1,639,257</u>
3.1.1.1 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Accounts payable	\$ 895,245	\$ 978,468
Accrued liabilities	1,309,539	1,219,976
Interest payable	210,533	207,263
Capital Lease – Building	118,827	
Notes payable, current portion	121,236	126,078
Notes payable, related party	<u>657,023</u>	<u>691,162</u>
Total current liabilities	3,312,403	3,222,947
Notes Payable, net of current portion	1,581,398	1,664,463
Capital Lease – Building net of current portion	<u>250,857</u>	
Total liabilities	<u>5,144,658</u>	<u>4,887,410</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	37
Series E, \$0.01 par value, 5,250 shares authorized; and 2,374 shares issued and outstanding	23	11
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	39,091,558	38,091,570
Accumulated deficit	<u>(41,885,667)</u>	<u>(41,549,996)</u>
Total stockholders' deficit	<u>(2,583,824)</u>	<u>(3,248,153)</u>
Total liabilities and stockholders' deficit	<u>\$ 2,560,834</u>	<u>\$ 1,639,257</u>

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

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4 CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE PERIODS ENDED MARCH 31, 2021 AND DECEMBER 31, 2020

	<u>Mar 31, 2021</u>	<u>Dec 31, 2020</u>
Research and development income	\$ 257,380	\$ 934,355
Operating expenses:		
Payroll expense	262,823	1,280,711
Professional fees	121,690	93,607
Other general and administrative expenses	<u>379,830</u>	<u>1,401,055</u>
Total operating expenses	764,343	2,775,373
Other income (expense):		
Interest income		5
Interest expense	(25,031)	(91,480)
Other income, net	<u>196,323</u>	<u>73,540</u>
Total other (expense) income, net	<u>171,292</u>	<u>(17,935)</u>
Net income (loss) before provision for income taxes	(335,671)	(1,858,953)
Provision for income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (335,671)</u>	<u>\$ (1,858,953)</u>
Basic and diluted income (loss) per share	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>
Basic 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.

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5 CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT FOR THE PERIODS ENDED MARCH 31, 2021 AND DECEMBER 31, 2020

	Preferred Stock								Common Stock				Additional Paid-in Capital	Accumulated Deficit During Development	Total Stockholders Equity(Deficit)
	Series A		Series C		Series D		Series E		Class A		Class B				
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of Dec 31, 2020	369	4	26	0	3,736	37	1,124	\$ 11	0	0	21,021,963	210,221	38,091,570	(41,549,996)	(3,248,153)
Preferred Stock Issued for Cash of issuance cost of \$ 0							1,250	\$ 12					999,988		1,000,000
Compensatory Element of Stock Option Grant															
Net Gain(Loss)														(335,671)	(335,671)
Balance as of March 31, 2020	369	4	26	0	3,736	37	2,374	\$ 23	0	0	21,021,963	210,221	39,091,558	(41,885,667)	(2,583,825)

The accompanying notes are an integral part of consolidated financial statements

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6 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS ENDED MARCH 31, 2021 and DECEMBER 31, 2020

	<u>Mar 31, 2021</u>	<u>Dec 31, 2020</u>
Cash flows from operating activities:		
Net income (loss)	\$ (335,671)	\$ (1,858,953)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	27,267	125,579
Compensatory element of stock option grants		90,593
Changes in operating assets and liabilities:		
Accounts receivable	29,890	(14,676)
Prepaid expenses	(3,503)	5,817
Other assets	820	(469)
Accounts payable and accrued liabilities	6,340	236,614
Interest payable	3,270	14,486
Interest payable, related party	<u>-</u>	<u>-</u>
Net cash used in operating activities	<u>(271,587)</u>	<u>(1,401,009)</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(19,569)</u>	<u>(148,553)</u>
Net cash used in investing activities	<u>(19,569)</u>	<u>(148,553)</u>
Cash flows from financing activities:		
Payments on notes payable	(4,842)	(51,271)
Proceeds from notes payable	(83,065)	239,560
Proceeds from notes payable, related party	-	108,750
Payments on Notes payable, related party	(34,139)	(24,588)
Net proceeds from Issuance of preferred stock	<u>1,000,000</u>	<u>1,299,200</u>
Net cash provided by financing activities	<u>877,954</u>	<u>1,571,651</u>
Increase in cash and cash equivalents	586,799	22,089
Cash and cash equivalents, beginning of period	<u>89,034</u>	<u>66,945</u>
Cash and cash equivalents, end of period	<u>\$ 675,832</u>	<u>\$ 89,034</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 25,031</u>	<u>\$ 58,138</u>
Non-cash Investing and Financing Activities:		
Preferred shares issued on conversion of Note Payable-principle & interest related party	<u>\$ -</u>	<u>\$ -</u>

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

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7 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7.1 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, development and implementation of technology and manufactures prototypes and turn-key products and technology solutions for its customers based on its research and development, including work on advanced plasma technology, the Variable Specific Impulse Magnetoplasma Rocket (“VASIMR®”) and green Hydrogen production and storage systems, primarily for transportation.

7.1.1 Basis of Consolidation

The consolidated financial statements include the accounts of the Company’s direct, wholly owned subsidiaries: Ad Astra Rocket Company (Costa Rica) S.R.L. incorporated in Costa Rica, and Ad Astra Servicios Energeticos Y Ambientales, Inc. a Delaware corporation. The consolidated financial statements also include the accounts of the Company’s indirect, wholly owned subsidiary Ad Astra Servicios Energeticos y Ambientales AASEA, S.R.L., a Costa Rican corporation which is a direct, wholly owned subsidiary of Ad Astra Servicios Energéticos Y Ambientales, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial position, results of operations and cash flows of the Company’s foreign subsidiary are determined using the United States dollar as the functional currency.

7.1.2 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.

7.1.3 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.

7.1.4 Accounts 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. On March 31, 2021 and December 31, 2020, there was no allowance as management believes all accounts are collectible.

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7.1.5 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

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.

7.1.6 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 March 31, 2021 and December 31, 2020, the Company did not record any impairment expense related to long-lived assets.

7.1.7 Income Taxes

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	\$(390,380.00)	(21.00)	\$(463,703.00)	(21.00)
Change in valuation allowance	\$ 386,305.00	21.70	\$ 316,813.00	14.40
Stock based compensation	\$ 19,024.00	0.10	\$ 9,450.00	0.40
Tax accrual to return adjustments	\$ (14,949.00)	(0.80)	\$ 137,440.00	6.20
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

As of March 31, 2021, 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

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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.

7.1.8 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 \$0 and \$45,000 for and the periods ended March 31, 2021 and December 31, 2020 respectively, which consists of stock-based compensation expense related to employee and director stock option issuances.

7.1.9 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. On March 31, 2021 and December 2020, 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.

Common Stock Equivalents	<u>2021</u>	<u>2020</u>
Stock options	55,000	55,000
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	373,600
Preferred stock options - Series E	237,400	112,400
Total	<u>1,851,000</u>	<u>1,726,000</u>

7.1.10 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.

7.2 Revenue and Cost Recognition

7.2.1 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.

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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 based on 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 March 31, 2021 and December 31, 2020 the Company was party to various milestone revenue contracts as discussed in Note 13 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 March 31, 2021 the company recorded \$257,380 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.

7.2.2 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 March 31, 2021 and December 31, 2020, were \$190,988 and \$586,620, respectively.

7.3 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.

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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.

7.4 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.

Going Concern

While the Company remains in its developing stage, it has been able to generate only small amounts of revenue from core operations, experiencing historical net losses, negative cash flows from operating activities, and a negative working capital. During the periods ended March 31, 2021 and December 31, 2020 the Company had net loss of \$335,671, and \$1,858,953, respectively. The Company has a working capital deficiency of \$2,897,318 and \$3,079,100, on March 31, 2021, and December 31, 2020, respectively. To offset this deficiency, the Company has partially 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.

Notwithstanding the above, 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 7.1 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 VASIMR[®] and hydrogen transport systems of \$257,380 and \$934,355 recorded as research, design, and development income on the statement of operations for the periods ended March 31, 2021 and December 31, 2020, respectively.

While the VASIMR[®] 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.

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8 Accounts Receivable

Accounts Receivable, on March 31, 2021 and December 31, 2020, were \$15,449 and \$45,339, respectively, and relate to various research, design and development project contracts and revenue from speaking and consulting engagements.

9 Other Assets

Other assets, on March 31, 2021 and December 31, 2020, was comprised of the following:

	Mar 31, 2021	Dec 31, 2020
Deposits	\$ 12,976	\$ 12,977
Ad Astra Patent Registration Cost	2842	3,035
NASA License Amortization	11875	12,501
Inventory	<u>848</u>	<u>848</u>
Total	<u>\$ 28,541</u>	<u>\$ 29,361</u>

The NASA 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 \$ 625 and \$2,500 during the periods ended March 31, 2021 and December 31, 2020, respectively.

10 Property and Equipment

Property and equipment on March 31, 2021 and December 31, 2020, and related activity for the years then ended, were as follows:

March 31, 2021

<u>Description</u>	<u>2020</u>	<u>Transfers in</u>	<u>Transfers out</u>	<u>2021</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	\$ 611,898	\$ 19,568	-	\$ 631,466
Land and building	\$ 1,000,000	-		\$ 1,000,000
Other	<u>\$ 145,228</u>	<u>-</u>	<u>-</u>	<u>\$ 145,228</u>
	\$ 8,246,048	\$ 19,568		\$ 8,265,616
Less accumulated depreciation	<u>\$ (6,779,999)</u>	<u>\$ (27,268)</u>	<u>-</u>	<u>\$ (6,807,266)</u>
<u>Net property and equipment</u>	<u>\$ 1,466,049</u>	<u>\$ (7,699)</u>	<u>\$ -</u>	<u>\$ 1,458,350</u>

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December 31, 2020

<u>Description</u>	<u>2019</u>	<u>Transfers in</u>	<u>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	\$ (6,656,920)	\$ (123,079)		\$ (6,779,999)
Net property and equipment	<u>\$ 1,440,575</u>	<u>\$ 25,474</u>		<u>\$ 1,466,049</u>

Depreciation and amortization expense of \$27,267 and \$123,079 was recognized during the periods ended March 31, 2021 and December 31, 2020.

11 Accrued Liabilities

Accrued liabilities, on March 31, 2021 and December 31, 2020, were comprised of the following:

	Mar 31, 2021	2020
Deferred salaries	\$ 816,581	\$ 774,171
Other wages payable	8,957	15,446
Payroll taxes and benefits	216,647	192,897
Legal contingency	150,000	150,000
Other	<u>117,354</u>	<u>87,462</u>
	<u>\$ 1,309,539</u>	<u>\$ 1,219,976</u>

12 Notes Payable and Long-Term Debt

12.1 Line of Credit, Related Party

On 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 on December 31, 2018 was due on demand with interest rate of 3.25%, which was the "prime" interest rate on 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. On March 31, 2021, the accrued interest of \$210,533 related to this line of credit remains outstanding and is due on demand.

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12.2 Notes Payable

The Company had the following notes payable on March 31, 2021 and December 31, 2020:

	<u>Mar 31, 2020</u>	<u>Dec 31, 2020</u>
Demand notes payable to an officer of the Company. The note bears no interest, is uncollateralized and the principal balance is due on demand.	\$ 657,023	\$ 681,412
Demand notes payable to a director of the Company. This note was paid in full on February 8, 2021	0	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. On February 2, 2021 this loan was paid in full.	0	7,493
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. On March 31, 2021, the note was uncollateralized.	149,650	155,207
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 March 31, 2021, 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 March 31, 2021, the Company does not anticipate opting out of the purchase agreement. No principal payments were made during this period.	135,084	135,084
Note payable to a bank, bearing interest at a variable rate, currently 3% per year (as of March 31, 2021), which can be adjusted quarterly, and due in total monthly payments of \$6,906, including interest, through May 2032. On Mar 31, 2021, the note is guaranteed by an officer of the Company.	829,287	845,197
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. This loan was forgiven on Feb. 5, 2021	0	222,560
Note payable to a bank, bearing interest at a fixed rate 1% per year, due March 18, 2023. This is the 2 nd Paycheck Protection Program loan issued under the CARES Act.	165,677	
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 help with Costa Rica's 13 th month salaries (as required) during the COVID-19 pandemic.	14,937	17,000
Total	<u>2,359,658</u>	<u>2,481,703</u>
Less current maturities	<u>(778,260)</u>	<u>(817,240)</u>
Total long-term debt, net of current maturities	<u>\$ 1,581,398</u>	<u>\$ 1,664,463</u>

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On March 31, 2021, future minimum principal payments remaining under our notes payable are as follows:

<u>Year</u>	
2021	\$ 778,260
2022	713,649
2023 and after	867,749
	<u>\$ 2,359,658</u>

The Company's weighted average interest rate on outstanding short-term debt obligations for the periods ended March 31, 2021 and December 31, 2020 was 3.89% and 4.73%, respectively.

12.3 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 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	7.46
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, March 31, 2021	<u>35,750</u>	<u>\$ 7.41</u>

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The weighted-average remaining life and weighted-average exercise price of outstanding options on March 31, 2021 were 1.3 years and \$8.66. The exercise prices for outstanding options ranged from \$6.00 to \$10.00 on March 31, 2021 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. 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. Stock options have not been granted as of March 31, 2021. For stock options granted in 2020, the following assumptions were used for the period ended March 31, 2021 and December 31, 2020:

	<u>2020</u>	<u>2021</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 March 31, 2021, there was \$65,000 of unrecognized expense remaining related to non-vested stock-based compensation arrangements.

13 Milestone Revenue Contracts

The Company received a contract from a U.S. government entity that contained 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 were 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. 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 March 31, 2021 and December 31, 2020, the Company recorded \$160,236 and \$0, respectively, of revenue related to this project. As of March 31, 2021, \$320,473 remains in contingent milestone payments under the contract with the final deadline of June 30, 2021.

The Company 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 \$531,112 if all milestones were met. 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

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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 period ended March 31, 2021, these projects were completed and \$97,144 was recorded as research and development income in the statement of operations. As of March 31, 2021 \$0, in 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. 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. As of March 31, 2021 \$0, in 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 February 22, 2021 to February 26, 2021 and totaled \$6,987 if all milestones were met. The contract outlined a milestone schedule of 1 week resulting in contingent payments of \$2,795 to \$4,192 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. 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. As of March 31, 2021 \$0, in contingent milestone payments remain under the contracts.

The Company has received a contract from a Costa Rican entity that contained milestone payments for performing the conceptual design of a renewable energy system for an educational

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campus in Costa Rica. The contract was originally effective for the period from February 12, 2021 to March 19, 2022 and totaled \$13,000.00 if all milestones were met. The contract outlined a milestone schedule of 5 weeks resulting in contingent payments of \$5,200.00 to \$7,800.00 per achieved milestone. Due to delays in the delivery of information from the customer, the project has been paused and the schedule extended until October 1, 2021. The milestone criteria required the Company to analyze the expected demand of the customer's new educational campus, the potential for renewable energy generation at that location and create a conceptual design for the integration of renewable energy technologies within the existing design. 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. 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. As of March 31, 2021 \$5,200 in contingent milestone payments remain under the contract.

The Company has received a contract from a Costa Rican bank that is structured on consulting billable hours for acting as consultants in hydrogen technology for the evaluation of a potential new project presented to the customer. The contract is effective for the period between November 9, 2019 and November 9, 2024 and totaled up to \$155,738 if all the allocated billable hours are executed within the contract period. The contract outlines a rate of \$95/hour + VAT that Ad Astra can bill to the customer when executing tasks related to the contract's scope. The milestone criteria require the Company to evaluate the technical and financial merits of a hydrogen project proposed to the customer, as well as execute any other task related to the Company's hydrogen expertise that is requested by the Customer. The contract was determined by the Company to be a consultancy contract. These projects have been recorded as consulting upon the completion of the billable hours and receipt of payment on the statement of operations. As of March 31, 2021 \$155,738 in potential billable payments remain under the contract.

14 Related Party Transactions

During the period ended March 31, 2021 and December 31, 2020, the Company obtained notes payable of \$657,023 and \$681,412, respectively, from an officer of the Company bearing no interest and is due on demand; see Notes Payable and Long-term Debt Note 12, and Stockholders' Deficit in Note 5 for additional related party disclosures.

15 Stockholders' Deficit

15.1 Common Stock

The Company's Certificate of Incorporation authorizes issuance of 75,000,000 shares of \$0.01 par value common stock. On March 31, 2021 and December 31, 2020, 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

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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.

In 2010, the Company was authorized by the Superintendencia General de Valores de Costa Rica ("Sugeval") to undertake a Restricted Public Offering ("RPO") of its Common Stock. This offering was conducted under Costa Rican law outside of the United States of America. The Company 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 March 31, 2021 or December 31, 2020.

15.2 Series A Preferred Stock

On March 31, 2021 and December 31, 2020, the Company had 2,200 shares authorized and 369 shares issued and outstanding of \$0.01 par value Series A preferred stock ("Series A"). Series A has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. Series A is convertible into Common Stock any time at the option of the holder at a price determined by dividing the Series A original issue price by the Series A conversion price in effect at the time of conversion. The Series A conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem Series A for cash at any time after the five year anniversary date of the issuance at a redemption price calculated by multiplying the Series A original issue price by one plus the Prime Rate (as reported by Bloomberg, L.P.) on the date of redemption times the number of years from the applicable Series A original issue date until the date of such calculation with a partial year being expressed by dividing the number of days which have passed since the most recent anniversary by 365, plus all declared but unpaid dividends.

During the periods ended March 31, 2021 and December 31, 2020 the Company did not issue any shares of Series A Preferred Stock.

On March 31, 2021 and December 31, 2020 there were no accumulated, undeclared dividends.

15.3 Series C Preferred Stock

On March 31, 2021 and December 31, 2020, 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 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

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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 March 31, 2021 and December 31, 2020, the Company did not issue any shares of Series C Preferred Stock.

On March 31, 2021 and December 31, 2020, there were no accumulated and undeclared dividends.

15.4 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 Corporation's 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.

On March 31, 2021, the Company had 4,000 shares authorized and 3,736 issued and outstanding. On December 31, 2020, 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 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 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.

On March 31, 2021 and December 31, 2020, there were no accumulated and undeclared dividends.

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15.5 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.

On March 31, 2021, the Company had 5,250 shares authorized and 2,374 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 March 31, 2021, the Company sold 1,250 shares of Series E Preferred Stock at \$800 per share for cash totaling \$1,000,000 in proceeds.

16 Commitments

16.1 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 on Aug 2020 adjusting the monthly rent to \$13,203. In addition, the lessor has increased the operating/maintenance cost to \$7,533 per month as of Dec. 31, 2020, increasing the total monthly rent payment to \$20,736.

Rent expense for the periods March 31, 2021 and December 31, 2020 totaled \$39,609, and \$214,598.

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>

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16.2 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 March 31, 2021, the Company is still 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

Subsequent events have been evaluated through May 18, 2021 which is the date the consolidated financial statements were available to be issued. Status of the NASA NextSTEP Contract.

On December 31, 2020 (Contract NNH15CN86C completion date), Ad Astra Rocket Company provided NASA with a report and briefing on the company's most recent accomplishments on the remaining contract deliverables.

On January 14, 2021, NASA notified Ad Astra that it considered items 31b, 33, 34, and 36 as complete. An invoice was issued as noted on note 13.

Items 31c, 32 and 35 are still pending and NASA notified Ad Astra of NASA's willingness to be invoiced for these items, should they be successfully completed by June 30, 2021.

Ad Astra has submitted a plan for completing the pending milestones and is endeavoring to complete them in the first half of 2021 and move the technology forward to its next maturation phase. The inauguration of the Leo-Labs radar was celebrated on April 22, 2021. The radar support structure was the work of Ad Astra Costa Rica subsidiary and is dubbed to be the most advanced radar in the world.

On April 15, 2021, Ad Astra received an invoice from the Building lease entity for \$18,331.33 for 2020 NNN reconciliation. This invoice is currently under review and it is expected to be reduced. Leasing management has accepted to be paid in monthly installments.

Management has evaluated subsequent events through May 18, 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.