

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Periods Ended September 30, 2021, and December 31,
2020

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2 Impact Statement of Covid-19 on Ad Astra's Operations

All of Ad Astra Rocket Company employees in the USA have been vaccinated and are back to regular office hours while still practicing social distancing and mask wearing. Mask wearing is required for all visitors and guests and, with few exceptions, tours to the facility have been suspended until further notice. All the Ad Astra Costa Rica staff have received at least one shot of the COVID-19 vaccine; the subsidiary is fully operational while still practicing social distancing and mask wearing and following all applicable government mandates and regulations. With few exceptions, tours to the Costa Rica facility have also been suspended until further notice.

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.

The NASA NextSTEP Contract was officially closed on June 30, 2021, by which time the Company had completed all 36 deliverables except for deliverables 31 (100-h test at 100 kW) and 32 (Rocket Core Inspection and Erosion Report). At the end of September 2021, endurance tests of the VX-200SS are still ongoing. Refer to Subsequent events for the latest performance recorded.

In Costa Rica, Ad Astra is continuing to grow the elements of its hydrogen business. The hydrogen plant upgrade (called the H70 Project) has been completed and tested. All new hydrogen ecosystem components arrived at Ad Astra's facility and were installed by small teams of employees, deployed to the facility as needed to complete the required tasks. Please refer to Subsequent Events for the latest results on Costa Rica's hydrogen ecosystem evolution.

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 PERIODS ENDED SEPTEMBER 30, 2021, AND DECEMBER 31, 2020

<u>ASSETS</u>	<u>Sep 30, 2021</u>	<u>Dec 31, 2020</u>
Current assets:		
Cash	\$ 87,509	\$ 89,034
Accounts receivable	2,465	45,339
Capital Lease - Building	39,609	
Prepaid expenses	<u>23,464</u>	<u>9,474</u>
Total current assets	<u>153,047</u>	<u>143,847</u>
Property and equipment, net	1,418,768	1,466,049
Other assets	26,056	29,361
LT Capital Lease – Building	<u>250,857</u>	<u>-</u>
Total assets	<u><u>\$ 1,848,728</u></u>	<u><u>\$ 1,639,257</u></u>
3.1.1.1 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Accounts payable	\$ 943,975	\$ 978,468
Accrued liabilities	397,460	1,219,976
Interest payable	217,181	207,263
Capital Lease – Building (Refer to Sec. 7.4)	39,609	-
Notes payable, current portion	87,583	126,078
Notes payable, related party	<u>709,305</u>	<u>691,162</u>
Total current liabilities	2,395,113	3,222,947
Notes Payable, net of current portion	1,562,753	1,664,463
Capital Lease – Building net of current portion (Refer to Sec. 7.4)	<u>250,857</u>	<u>-</u>
Total liabilities	<u>4,208,723</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 shares issued and outstanding	37	37
Series E, \$0.01 par value, 5,250 shares authorized; and 2,624 shares issued and outstanding	26	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	39,715,305	38,091,570
Accumulated deficit	<u>(42,285,588)</u>	<u>(41,549,996)</u>
Total stockholders' deficit	<u>(2,359,995)</u>	<u>(3,248,153)</u>
Total liabilities and stockholders' deficit	<u><u>\$ 1,848,728</u></u>	<u><u>\$ 1,639,257</u></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 SEPTEMBER 30, 2021, AND DECEMBER 31, 2020

	<u>Sep 30, 2021</u>	<u>Dec 31, 2020</u>
Research and development income	\$ 405,850	\$ 934,355
Operating expenses:		
Payroll expense	875,937	1,280,711
Professional fees	236,991	93,607
Other general and administrative expenses	<u>714,462</u>	<u>1,401,055</u>
Total operating expenses	1,827,390	2,775,373
Other income (expense):		
Interest income	0	5
Interest expense	(70,972)	(91,480)
Other income, net	<u>756,920</u>	<u>73,540</u>
Total other (expense) income, net	<u>685,948</u>	<u>(17,935)</u>
Net income (loss) before provision for income taxes	(835,601)	(1,858,953)
Provision for income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (735,592)</u>	<u>\$ (1,858,953)</u>
Basic and diluted income (loss) per share	<u>\$ (0.03)</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 SEPTEMBER 30, 2021, AND DECEMBER 31, 2020

	Preferred Stock								Common Stock		Additional Paid-in Capital	Accumulated Deficit During Development	Total Stockholders Equity(Deficit)
	Series A Shares	Amount	Series C Shares	Amount	Series D Shares	Amount	Series E Shares	Amount	Class B Shares	Amount			
Balance as of Dec 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)
Preferred Stock Issued for Cash							1,500	\$ 15			1,199,985		1,200,000
of issuance cost of \$ 0													
Compensatory Element of Stock Option Grant											423,750		423,750
Net Gain(Loss)												(735,592)	(735,592)
Balance as of Sep. 30, 2021	369	\$ 4	26	\$ -	3,736	\$ 37	2,624	\$ 26	21,021,963	\$ 210,221	\$ 39,715,305	\$ (42,285,588)	\$ (2,359,995)

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 SEPTEMBER 30, 2021, and DECEMBER 31, 2020

	<u>Sep 30, 2021</u>	<u>Dec 31, 2020</u>
Cash flows from operating activities:		
Net income (loss)	\$ (735,592)	\$ (1,858,953)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	70,937	125,579
Compensatory element of stock option grants	423,750	90,593
Changes in operating assets and liabilities:		
Accounts receivable	42,874	(14,676)
Prepaid expenses	(13,990)	5,817
Other assets	3,305	(469)
Accounts payable and accrued liabilities	(857,009)	236,614
Interest payable	<u>9,918</u>	<u>14,486</u>
Net cash used in operating activities	<u>(1,055,807)</u>	<u>(1,401,009)</u>
Cash flows from investing activities:		
Leasehold improvement	(23,656)	
Purchases of equipment	<u>-</u>	<u>(148,553)</u>
Net cash used in investing activities	<u>(23,656)</u>	<u>(148,553)</u>
Cash flows from financing activities:		
Payments on notes payable	(140,205)	(51,271)
Proceeds from notes payable	-	239,560
Proceeds from notes payable, related party	-	108,750
Payments on Notes payable, related party	18,143	(24,588)
Net proceeds from Issuance of preferred stock	<u>1,200,000</u>	<u>1,299,200</u>
Net cash provided by financing activities	<u>1,077,938</u>	<u>1,571,651</u>
Increase (decrease) in cash and cash equivalents	(1,525)	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>87,509</u>	<u>89,034</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ <u>70,972</u>	\$ <u>58,138</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 Energéticos 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 Energéticos 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 September 30, 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 September 30, 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)	(21.00)	(463,703)	(21.00)
Change in valuation allowance	386,305	21.70	316,813	14.40
Stock based compensation	19,024	0.10	9,450	0.40
Tax accrual to return adjustments	(14,949)	(0.80)	137,440	6.20
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

As of September 30, 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 \$423,750 and \$90,593 for and the periods ended September 30, 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 September 30, 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	262,400	112,400
Total	<u>1,876,000</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.

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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 infrastructure and 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 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 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 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 contract's performance obligation.

During the periods ended September 30, 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 monthly. During the period ended September 30, 2021, the company recorded \$405,850 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.

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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 September 30, 2021, and December 31, 2020, were \$291,791 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.

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 complying with the ruling by recognizing the company headquarters building lease.

8 Accounts Receivable

Accounts Receivable, on September 30, 2021, and December 31, 2020, were \$2,465 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 September 30, 2021, and December 31, 2020, was comprised of the following:

	Sep 30, 2021	Dec 31, 2020
Deposits	\$ 12,977	\$ 12,977
Ad Astra Patent Registration Cost	2,454	3,035
NASA License	10,625	12,501
Inventory	<u>0</u>	<u>848</u>
Total	<u>\$ 26,056</u>	<u>\$ 29,361</u>

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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 \$1,875 and \$2,501 during the periods ended September 30, 2021 and December 31, 2020, respectively.

10 Property and Equipment

Property and equipment on September 30, 2021, and December 31, 2020, and related activity for the years then ended, were as follows:

September 30, 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	\$23,656	-	1,594,038
Renewable energy equipment	611,898		-	611,898
Land and building	1,000,000		-	1,000,000
Other	<u>145,228</u>		<u>-</u>	<u>145,228</u>
	8,246,048	23,656		8,269,704
Less accumulated depreciation	<u>(6,779,999)</u>	<u>(70,937)</u>		<u>(6,850,936)</u>
<u>Net property and equipment</u>	<u>\$ 1,466,049</u>	<u>\$(47,281)</u>	<u>\$</u>	<u>\$ 1,418,768</u>

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	<u>145,228</u>		<u>-</u>	<u>145,228</u>
	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>
<u>Net property and equipment</u>	<u>\$ 1,440,575</u>	<u>\$ 25,474</u>	<u>-</u>	<u>\$ 1,466,049</u>

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Depreciation and amortization expense of \$70,937 and \$123,079 was recognized during the periods ended September 30, 2021, and December 31, 2020.

11 Accrued Liabilities

Accrued liabilities, on September 30, 2021, and December 31, 2020, were comprised of the following:

	Jun 30, 2021	Dec 31, 2020
Deferred salaries	\$ 28,849	\$ 774,171
Other wages payable	13,858	15,446
Payroll taxes and benefits	155,391	192,897
Legal contingency	150,000	150,000
Other	<u>49,362</u>	<u>87,462</u>
	<u>\$ 397,460</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 September 30, 2021, the accrued interest of \$217,181 related to this line of credit remains outstanding and is due on demand.

12.2 Notes Payable

The Company had the following notes payable on September 30, 2021, and December 31, 2020:

	<u>September 30, 2021</u>	<u>Dec 31, 2020</u>
Demand notes payable to an officer of the Company. The notes are uncollateralized, and the principal balance and accrued interest is due on demand. The notes bear interest at rates ranging from 0.25% to 8.75% per year.	\$ 709,305	\$ 681,412
Demand notes payable to a director of the Company. This note was paid in full on February 8, 2021.	-	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.	-	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 September 30, 2021, the note was uncollateralized.		

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	138,421	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% on September 30, 2021, due October 2022. Accrued interest on this note since 2019, was \$45,953, the note is uncollateralized.	408,000	408,000
Note payable to a solar panel equipment manufacturer, bearing interest at a fixed rate of 9.50% per year, with principal and interest of \$2,588 due in monthly installments until April 2026. The loan is collateralized with the purchased equipment. The Company has the option to opt out of the purchase agreement with no penalties or fees if proper four-month notice is given to the equipment manufacturer. As of September 30, 2021, the Company does not anticipate opting out of the purchase agreement. No principal payments were made during this period.	129,428	135,084
Note payable to a bank, bearing interest at a variable rate, currently 3% per year (as of September 30, 2021), which can be adjusted quarterly, and due in total monthly payments of \$6,906, including interest, through May 2032. On Sep 30, 2021, the note is guaranteed by an officer of the Company.	797,781	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.	-	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. Loan forgiveness application has been submitted	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.	11,029	17,000
Total	<u>2,359,641</u>	<u>2,481,703</u>
Less current maturities	<u>(796,888)</u>	<u>(817,240)</u>
Total long-term debt, net of current maturities	<u>\$ 1,562,753</u>	<u>\$ 1,664,463</u>

On September 30, 2021, future minimum principal payments remaining under our notes payable are as follows:

<u>Year</u>	
2021	\$ 796,888
2022	785,098
2023	87,035
2024	91,216
2025 and after	<u>599,404</u>
	<u>\$ 2,359,641</u>

The Company's weighted average interest rate on outstanding short-term debt obligations for the periods ended September 30, 2021, and December 31, 2020, was 3.64% and 4.73%, respectively.

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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, September 30, 2021	<u>146,000</u>	<u>8.0</u>

The weighted-average remaining life and weighted-average exercise price of outstanding options on September 30, 2021, were 1.3 years and \$8.66. The exercise prices for outstanding options ranged from \$6.00 to \$10.00 on September 30, 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
\$8.00	125,000	125,000	10 years	\$ 8.00	\$ 8.00
	<u>180,000</u>	<u>160,750</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. As of September 30, 2021, 5,000 Stock options have been granted to key employees. For stock options granted in 2020, the following assumptions were used for the period ended September 30, 2021, and December 31, 2020:

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	<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 September 30, 2021, there was \$88,489 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 June 30, 2021.

While as of September 30, 2021, 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 September 30, 2021, and December 31, 2020, the Company recorded \$288,236 and \$160,236, respectively, of revenue related to this project.

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 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 September 30, 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

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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 September 30, 2021, \$155,738 in potential billable payments remain under the contract.

14 Related Party Transactions

As of the periods ended September 30, 2021, and December 31, 2020, the Company was obligated on notes payable of \$709,305 and \$681,412, respectively, payable to an officer of the Company, which are payable on demand. The notes bear interest at rates ranging from 0.25% to 8.75% per year. The notes are convertible at the option of the holder into shares of capital stock of the Company at conversion prices equal to the market price of the capital stock at the time of conversion. See Notes Payable and Long-term Debt Note 12 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 September 30, 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 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 September 30, 2021, or December 31, 2020.

15.2 Series A Preferred Stock

On September 30, 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

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

During the periods ended September 30, 2021, and December 31, 2020, the Company did not issue any shares of Series A Preferred Stock.

On September 30, 2021, and December 31, 2020, there were no accumulated, undeclared dividends.

15.3 Series C Preferred Stock

On September 30, 2021, and December 31, 2020, 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 periods ended September 30, 2021, and December 31, 2020, the Company did not issue any shares of Series C Preferred Stock.

On September 30, 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 September 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 September 17, 2019, the number of authorized Series D shares were increased to 4,000 shares.

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On September 30, 2021, the Company had 4,000 shares authorized and 3,736 issued and outstanding. On December 31, 2020, the Company had 3,736 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 September 30, 2021, and December 31, 2020, there were no accumulated and undeclared dividends.

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 September 30, 2021, the Company had 5,250 shares authorized and 2,624 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.

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During the period ended September 30, 2021, the Company sold 1,500 shares of Series E Preferred Stock at \$800 per share for cash totaling \$1,200,000 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 Common Area Maintenance (CAM) cost to \$7,533 per month as of Jan 31, 2021, increasing the total monthly lease obligation to \$20,736.

Rent expense for the periods September 30, 2021, and December 31, 2020, totaled \$121,767, and \$214,598; CAM charges are included

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><u>\$ 411,720</u></u>

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 September 30, 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 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 September 30, 2021, and December 31, 2020, the Company had net loss of \$735,592, and \$1,858,953, respectively. The Company has a working capital deficiency of \$2,650,066 and \$3,079,100, on September 30, 2021, and December 31, 2020, respectively. To offset this deficiency, the

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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.

The Company has received contracts from government entities and others that contribute to the Company's strategic initiatives, as described in the Revenue and Cost Recognition section of Note 1 Summary of Significant Accounting Policies of this report. These have resulted in sources of income from research, design and development contracts related to technologies derived from the VASMIR® and hydrogen transport systems of \$405,850 and \$934,355 recorded as research, design, and development income on the statement of operations for the periods ended September 30, 2021, and December 31, 2020, respectively.

While the VASMIR® rocket is not commercially viable in its current form, the Company expects to continue to be able to source additional research, design and development projects and income from these entities in the upcoming year.

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.

18 Subsequent Events

Subsequent events have been evaluated through November 8, 2021, which is the date the consolidated financial statements were available to be issued.

On October 18, 2021, a consulting project with a US based company in partnership with NASA was approved for \$100,000 in revenue; the project involved 2 weeks of research and data collection. The H70 project is completed, and the formal inauguration is currently under discussion; possible dates have not been determined.

The Company has received a contract from a Costa Rican entity that contained milestone payments for performing consulting services related to analyzing the Costa Rican potential for the development of green hydrogen and derivative green products. The contract is effective for the period from October 20, 2021, to November 29, 2021, and totaled \$13,816.00 if all milestones were met.

On October 22, 2021, the AARC headquarters building lease was amended to a life of 5 years starting November 1, 2021 and ending October 31, 2026; this new agreement consists of a monthly rent of \$16,200 for the periods of Nov. 1, 2021 to Oct. 31, 2023; and the monthly rent of \$18,225 for the periods of Nov. 1, 2023 to Oct. 31, 2026. Currently, the monthly common area charges remain the same at \$7,533.

On October 25, 2021, the PPP loan forgiveness application was submitted; forgiveness of the loan is expected as all requirements were met by the organization.

From October 1st and as of November 8, 2021, a total of \$850,400 USD has been received for the issuance of 813 Series E shares.

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Management has evaluated subsequent events through November 8, 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.