

SKYTRAN, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2022

INDEPENDENT AUDITOR'S REPORT

Board of Directors
SkyTran, Inc.

Opinion

We have audited the consolidated financial statements of skyTran, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses and cash flow deficits from operations and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the Company adopted ASC Topic 842, *Leases*, during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Board of Directors
Skytran Inc

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

SingerLewak LLP

May 16, 2023

SKYTRAN, INC.
BALANCE SHEET
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,963,620	\$ 16,407,432
Prepaid expenses and other current assets	<u>1,194,025</u>	<u>1,166,892</u>
Total current assets	<u>14,157,645</u>	<u>17,574,324</u>
Property and equipment, net (Note 4)	1,091,394	698,658
Right of use asset	491,664	-
Other assets	<u>168,765</u>	<u>127,583</u>
Total assets	<u>\$ 15,909,468</u>	<u>\$ 18,400,565</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 87,344	\$ 85,965
Related party payable (Note 6)	2,263,750	601,838
Accrued liabilities (Note 5)	<u>1,967,868</u>	<u>1,488,443</u>
Total current liabilities	<u>4,318,962</u>	<u>2,176,246</u>
Lease liability	<u>502,644</u>	<u>-</u>
Total liabilities	<u>4,821,606</u>	<u>2,176,246</u>
Stockholders' equity (Note 9)		
Series C preferred stock, \$0.001 par value; 45,847,750 shares authorized: 12,975,778 and zero shares issued and outstanding, respectively (\$14,999,999 liquidation preference)	12,976	-
Series B preferred stock, \$0.001 par value; 81,300,000 shares authorized: 25,662,888 shares issued and outstanding, respectively (\$31,668,004 liquidation preference)	25,663	25,663
Series AAA preferred stock, \$0.001 par value; 8,241,625 shares authorized: 8,241,625 shares issued and outstanding (\$9,065,788 liquidation preference)	8,242	8,242
Series AA preferred stock, \$0.001 par value; 12,847,013 shares authorized: 12,847,013 shares issued and outstanding (\$13,437,976 liquidation preference)	12,847	12,847
Series A preferred stock, \$0.001 par value; 932,557 shares authorized: 932,557 shares issued and outstanding (\$2,499,999 liquidation preference)	932	932
Common stock, \$0.001 par value; 175,500,000 and 114,300,000 authorized; 319,347 and 305,806 shares issued and outstanding, respectively	319	306
Additional paid-in capital	70,165,491	55,116,704
Accumulated deficit	<u>(59,138,608)</u>	<u>(38,940,375)</u>
Total stockholders' equity	<u>11,087,862</u>	<u>16,224,319</u>
Total liabilities and stockholders' equity	<u>\$ 15,909,468</u>	<u>\$ 18,400,565</u>

SKYTRAN, INC.
STATEMENT OF OPERATIONS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating expenses:		
Research and development	\$ 11,582,913	\$ 5,681,370
Selling, general and administrative	6,181,641	3,015,230
Related party expenses (Note 6)	<u>2,431,364</u>	<u>601,838</u>
	<u>20,195,918</u>	<u>9,298,438</u>
Loss from operations	<u>(20,195,918)</u>	<u>(9,298,438)</u>
Financial (expenses) income:		
Interest expense, net	-	(43,884)
Gain on modification/extinguishment of convertible debt	-	238,036
Other expense	<u>(1,515)</u>	<u>(26,591)</u>
	<u>(1,515)</u>	<u>167,561</u>
Loss before provision for income taxes	(20,197,433)	(9,130,877)
Income tax provision (Note 11)	<u>(800)</u>	<u>(796)</u>
Net loss	<u>\$ (20,198,233)</u>	<u>\$ (9,131,673)</u>

SKYTRAN, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
December 31, 2022 and 2021

	Series C Preferred Stock		Series B Preferred Stock		Series AAA Preferred Stock		Series AA Preferred Stock		Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances at December 31, 2020	-	-	-	-	8,241,625	\$ 8,242	12,847,013	\$ 12,847	932,557	\$ 932	305,806	\$ 306	\$ 25,212,179	\$ (29,808,702)	\$ (4,574,196)
Issuance of Series B Preferred Stock for cash, net of issuance cost of \$27,179	-	-	22,131,208	22,131	-	-	-	-	-	-	-	-	25,624,230	-	25,646,361
Issuance of Series B Preferred Stock upon conversion of convertible notes	-	-	3,531,680	3,532	-	-	-	-	-	-	-	-	4,069,989	-	4,073,521
Employee stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	210,306	-	210,306
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,131,673)	(9,131,673)
Balances at December 31, 2021	-	-	25,662,888	\$ 25,663	8,241,625	\$ 8,242	12,847,013	\$ 12,847	932,557	\$ 932	305,806	\$ 306	\$ 55,116,704	\$ (38,940,375)	\$ 16,224,319
Issuance of Series C Preferred Stock for cash, net of issuance cost of \$40,440	12,975,778	12,976	-	-	-	-	-	-	-	-	-	-	14,946,583	-	14,959,559
Exercise of stock options	-	-	-	-	-	-	-	-	-	-	13,541	13	4,185	-	4,198
Employee stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	98,019	-	98,019
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(20,198,233)	(20,198,233)
Balances at December 31, 2022	12,975,778	12,976	25,662,888	25,663	8,241,625	8,242	12,847,013	12,847	932,557	932	319,347	319	70,165,491	(59,138,608)	11,087,862

SKYTRAN, INC.
STATEMENT OF CASH FLOWS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Net loss	\$ (20,198,233)	\$ (9,131,673)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	224,065	88,652
Stock-based compensation expense	98,019	210,306
Noncash operating lease expense	370,908	-
Change in fair value of derivative liability	-	11,171
Gain on modification/extinguishment of convertible debt	-	(238,036)
Changes in operating assets and liabilities		
Prepaid expenses and other current assets	(27,133)	(299,918)
Other assets	(41,182)	(36,076)
Accounts payable	1,379	(1,138,973)
Related party payable	1,661,912	601,838
Accrued liabilities	486,697	444,314
Lease liability	(367,200)	-
Net cash used in operating activities	<u>(17,790,768)</u>	<u>(9,488,395)</u>
Cash flows from investing activities		
Purchase of property and equipment	(616,801)	(537,252)
Net cash used in investing activities	<u>(616,801)</u>	<u>(537,252)</u>
Cash flows from financing activities		
Proceeds from issuance of Series C preferred stock	14,959,559	-
Proceeds from issuance of Series B preferred stock, net of issuance cost	-	25,646,361
Proceeds from convertible promissory notes	-	350,000
Proceeds from exercise of stock options	4,198	-
Repayment of capital lease	-	(20,965)
Repayment of financed insurance payable	-	(20,353)
Net cash provided by financing activities	<u>14,963,757</u>	<u>25,955,043</u>
Net (decrease) increase in cash and cash equivalents	(3,443,812)	15,929,396
Cash and cash equivalents:		
Beginning	16,407,432	478,036
Ending	<u>\$ 12,963,620</u>	<u>\$ 16,407,432</u>
Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	\$ -	\$ 1,018
Income taxes	<u>\$ 800</u>	<u>\$ 796</u>
Supplemental schedule of noncash investing and financing activities		
Series B preferred stock issued upon conversion of convertible promissory notes	<u>\$ -</u>	<u>\$ 4,073,521</u>

SKYTRAN, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 1 – DESCRIPTION OF BUSINESS

SkyTran, Inc. (the “Company”) was incorporated in the state of Delaware on January 10, 2011. The Company is developing a patented, high-speed, low-cost, elevated Personal Rapid Transit (PRT) system. The skyTran network of computer-controlled vehicles employs Magnetic Levitation technology, which can transport passengers in a fast, safe, green and economical manner. The Company is currently focused on its technical development and constructing full-scale test platforms.

As of December 31, 2022, the Company has a majority stockholder that owns 62.83% of the fully diluted equity of the Company.

NOTE 2 – GOING CONCERN

As shown in the accompanying financial statements, the Company has suffered recurring operating losses and negative cash flows from operations and as of December 31, 2022, had an accumulated deficit of \$59,138,608. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

Management believes that operating losses and negative cash flows from operations will continue in the foreseeable future as the Company continues to devote significant efforts to growing the Company’s customer base and developing its product. Management plans to continue to finance the Company’s operations with a combination of equity issuances, debt arrangements and revenue. However, there is no assurance that such additional capital can be raised and at terms that are advantageous to the Company. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates and such differences could be material. The Company’s most significant estimates relate to the valuation of its common stock, stock options, warrants and valuation of the embedded derivative in its convertible notes.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Continued)Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, skyTran, Ltd. This subsidiary ended all its operations by the end of December 2020. In December 2022, the Board of Directors signed a Liquidation Resolution. Intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency Translation

The functional currency of the Israeli subsidiary (skyTran, Ltd.) is the U.S. dollar. Non-monetary assets are translated into U.S. dollars at historical rates and monetary assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average rates of exchange prevailing during the year. Foreign exchange gains and losses are recorded in other income (expenses) in the consolidated statements of operations.

Risks and Uncertainties

The Company's future results of operations involve a number of risks and uncertainties. The Company is subject to risks common to technology companies, including but not limited to new technology innovations, rapid technological change, uncertainty of market acceptance, competition, dependence on key personnel, strategic relationships, dependence on key suppliers, protection of proprietary technology, product liability and compliance with government regulations. To establish and maintain profitable operations, the Company must successfully design, develop, manufacture and market its transportation system. There can be no assurance that the transportation system under development can be developed or built at an acceptable cost and with appropriate performance characteristics, or that such system will be successfully marketed, if at all. These factors could have a material adverse effect on the Company's future financial results, financial position and cash flows.

Concentration of Credit Risk

Substantially all the Company's cash and cash equivalents are held by two financial institutions, which at times, may exceed the insured limit. It is of the opinion of management that there is little risk related to these concentrations due to the creditworthiness of the financial institutions where the cash balances are maintained.

Cash Equivalents

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents. Cash equivalents may be invested in money market funds, certificates of deposit or other interest-bearing accounts.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 8 – DEBT (Continued)Convertible Promissory Notes (Continued)

In January 2021, the Company issued a convertible promissory note for \$350,000 at an interest rate of 8%. The notes mature upon written request from investor at any time following 12 months from the date of issuance or upon the occurrence and during the continuance of an event of default. The notes are convertible into preferred stock at the price paid by investors to purchase preferred stock in the next qualified financing round. In February 2021, this note plus related accrued interest of \$ 2,148 were converted into 303,822 shares of Series B preferred stock at \$1.159 per share (the Series B closing price).

NOTE 9 – STOCKHOLDERS' EQUITY

At December 31, 2021, the authorized capital stock of the Company consisted of 114,300,000 shares of common stock with a par value of \$0.001 per share and 103,261,384 shares of preferred stock with par value of \$0.001 per share, of which 932,557 shares are designated as "Series A Preferred Stock," 12,847,013 of which are designated as "Series AA Preferred Stock," 8,241,625 are designated as "Series AAA Preferred Stock" and 81,300,000 shares are designated as "Series B Preferred Stock". Series A, AA and AAA preferred stock are designated as "Junior Preferred Stock".

In October 2022, the Company amended and restated their Certificate of Incorporation to increase the number of authorized common stock from 114,300,00 shares to 175,500,000 shares and to increase the number of authorized preferred stock from 103,261,384 shares to 149,168,945, designating 45,847,750 shares as "Series C Preferred Stock."

Convertible Preferred Stock

The Company entered into a Series B Stock and Note Purchase Agreement in December 2020, which the first close was comprised of convertible notes discussed in Note 8.

The second closing will occur if the Company satisfies (or if the majority stockholder shall wave) all the Milestone Conditions per the purchase agreement. If the second closing is completed, then subject to the satisfaction of other conditions set forth in the EST Project Plan, then the third closing will occur. If the third closing is completed, then subject to the satisfaction of any other conditions set forth in the EST Project Plan, the fourth close shall occur. The third closing will be an aggregate amount equal to the lesser of (i) \$26,000,000 and (ii) 50% of the difference of (A) total estimated costs projected to be incurred by the Company pursuant to the EST Project Plan, minus (B) the second closing offering amount, unless otherwise agreed upon and specified in writing by the Company and the majority stockholder. The fourth closing will be an aggregate amount equal to lesser of (i) \$27,000,000 and (ii) 50% of the difference of (A) total estimated costs projected to be incurred by the Company pursuant to the EST Project Plan, minus (B) the second closing offering amount, unless otherwise agreed upon and specified in writing by the Company and the majority stockholder.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 9 – STOCKHOLDERS' EQUITY (Continued)Convertible Preferred Stock (Continued)

As part of the Series B Stock and Note Purchase Agreement made in December 2020, the Company is obligated to pay a one-time cash bonus to certain service providers who are continuously employed by the Company on a full-time basis from December 2020 to February 2022. Such bonus is to be an amount in cash equal to 30% of such service providers annual compensation in effect as of August 31, 2020. As of December 31, 2021, \$410,900 was included in accrued liabilities in the consolidated balance sheet and paid during the year ended December 31, 2022.

In February 2021, the Company amended the Series B Preferred Stock and Note Purchase Agreement to waive milestone conditions set by the investor in connection to the second closing, lowering the aggregate second closing offering, adjusting conditions with the investor related to third closing round, change the usage of proceeds from the sale of the shares and various other changes.

In February 2021, with the second closing, the Company issued 22,131,208 shares of Series B preferred stock at \$1.159 per share for cash proceeds net of issuance costs of \$25,651,417.

In February 2021, the Company issued 2,350,435 shares of Series B preferred stock at \$1.10 per share and 1,181,245 shares of Series B preferred stock at \$1.159 per share, upon conversion of convertible promissory notes and accrued interest of \$3,954,614.

In October 2022, the Company entered into a Series C Preferred Stock Purchase Agreement and issued 12,975,778 shares of Series C preferred stock at \$1.156 per share for cash proceeds of \$14,999,999. The Company, the majority stockholder and other stockholders agreed that neither the Company nor the majority stockholder shall have any obligation to consummate the Third Closing or the Fourth Closing under the Series B Stock and Note Purchase Agreement discussed above. The majority stockholder may elect to purchase up to an aggregate of 32,871,972 additional shares of Series C preferred stock on the same terms and conditions set forth in the Series C Preferred Stock Purchase Agreement.

As of December 31, 2022, the rights and preferences, privileges and restrictions of the Preferred Stock are set forth in the Company's Amended and Restated Articles of Incorporation and are summarized as follows:

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 9 – STOCKHOLDERS’ EQUITY (Continued)Voting

Each share of preferred stock has voting rights equal to an equivalent number of shares of common stock into which it is convertible. So long as shares of preferred stock remain outstanding, the holders of Series B and Series C preferred stock shall be entitled, voting together as a single class on an as-converted basis, to elect five directors, the holders of common stock shall be entitled, voting separately as a class to elect one director, and the holders of shares of common stock and preferred stock, voting together, shall be entitled to elect the remaining directors (the “Mutual Designee Directors”).

Dividends

The holders of the outstanding shares of preferred stock are entitled to receive, when and if declared by the Board of Directors, a noncumulative dividend. Such dividends are payable in preference to any dividends for common stock declared by the Board of Directors at a dividend rate of \$0.2145 per annum for each share of Series A preferred stock, \$0.0837 per annum for each share of Series AA preferred stock, \$0.0880 per annum for each share of Series AAA preferred stock, \$0.09872 per annum for each share of Series B preferred stock and \$0.09248 per annum for each share of Series C preferred stock. After the full amount of any dividends for preferred stock, any additional dividends shall be distributed among all holders of common stock. No dividends have been declared to date.

Conversion Rights

Each share of preferred stock is convertible, at the option of the holder, at any time, into shares of common stock determined by dividing the original issue price by the conversion price. The initial conversion price per share of the preferred stock is the original issue price subject to adjustment from time to time for recapitalizations, stock splits, reorganizations and other equity restructuring transactions. The conversion price is equal to \$2.6808 with respect to the Series A preferred stock, \$1.0460 with respect to the Series AA preferred stock, \$1.1000 with respect to Series AAA preferred stock, \$1.234 with respect to the Series B preferred stock and \$1.156 per share with respect to Series C preferred stock.

Conversion is automatic, immediately upon: (i) the closing of an underwritten public offering resulting in aggregate proceeds not less than \$30,000,000 or (ii) the consent from a majority of the holders of outstanding shares of preferred stock.

Liquidation Rights

Upon liquidation, dissolution, or winding up of the Company, the holders of Series C preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of Series B preferred stock, Junior Preferred Stock and common stock, an amount equal to the sum of (A) the original issue price for the Series C preferred stock and (b) all declared but unpaid dividends on such shares. If assets are not sufficient to permit such payment, payment will be made ratably among the holders of the Series C preferred stock in proportion to the full amounts to which they would otherwise be entitled.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 9 – STOCKHOLDERS' EQUITY (Continued)

Upon completion of the distributions of the full amount for Series C preferred stock, the holders of Series B preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Junior Preferred Stock and common stock, an amount equal to the sum of (A) the original issue price for the Series B preferred stock and (B) all declared but unpaid dividends on such shares. If assets are not sufficient to permit such payment, payment will be made ratably among the holders of the Series B preferred stock in proportion to the full amounts to which they would otherwise be entitled.

Upon completion of the distributions of the full amount for Series B preferred stock, the holders of the Junior Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the common stock, an amount equal to the sum of (A) the original issue price for the relevant series of preferred stock and (B) all declared but unpaid dividends on such shares. If assets are not sufficient to permit such payment, payment will be made ratably among the holders of the convertible preferred stock in proportion to the full amounts to which they would otherwise be entitled.

Following the payment of this liquidation amount, all of the remaining proceeds available for distribution to stockholders shall be distributed among the holders of common stock pro rata based on the number of shares of common stock held by each. The original issue price shall mean \$2.6808 per share for Series A preferred stock, \$1.0460 per share for Series AA preferred stock, \$1.1000 per share for Series AAA preferred, \$1.234 per share for Series B preferred stock and \$1.156 per share for Series C preferred stock (each as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like).

Redemption

The preferred stock is not redeemable.

Additional rights of stockholders as set forth in the Stockholder Agreement are as follows:

Founder and Employee Liquidity

If the Company shall complete the EST Project in accordance with the EST Project Plan to the reasonable satisfaction of the majority stockholder, then the Company shall send written notice of such event (Project Completion Notice) to each of the individual founders and employees of the Company set forth as the Redeeming Shareholders. Each Redeeming Shareholder shall have the right to cause the Company or the majority stockholder to redeem or purchase from such Redeeming Stockholder shares of common stock at a price per share of \$2.20 (subject to adjustment for any stock splits, stock dividends, combinations, recapitalizations). Each Redeeming Stockholder may elect to exercise the right by delivering written notice no later than 30 days following delivery of the Project Completion Notice.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 9 – STOCKHOLDERS’ EQUITY (Continued)**Put Option

If at any time during the period ending on the earlier of (a) the date on which the majority stockholder’s Pro Rata Portion is 50% or less, and (b) the completion by the Company of an IPO, each stockholder shall have the right to sell all, but no less than all, of its shares of the Company, and the Company shall purchase such shares for a per share purchase price equal to the Put Price. The Put Price means a per share price equal to the quotient obtained by dividing (a) 400% of the total aggregate cash proceeds received by the Company in connection with the issuance and sale of equity securities of the Company since the date of the Company’s inception by (b) the fully diluted shares.

The Company has reserved shares of common stock for future issuance at December 31, 2022:

Series C, B, AAA, AA, and A preferred stock conversion	60,721,588
Options outstanding	6,594,281
Options for future issuance under Stock Incentive Plan	2,393,879
Warrants to purchase common stock	<u>1,062,832</u>
Total	<u>70,772,580</u>

NOTE 10 – STOCK-BASED COMPENSATION

In 2011, the Company established its 2011 Stock Incentive Plan (the “2011 Plan”), which provides for the granting of stock options to employees, directors and consultants of the Company. The 2011 permits the Company to grant up to 9,224,097 shares of the Company’s common stock. Options granted under the 2011 Plan may be either incentive stock options (ISO) or non-statutory stock options (NSO), stock appreciation rights, dividend equivalent right, restricted stock and restricted stock units.

In 2021, the 2011 Plan ended and the Company established the 2021 Equity Incentive Plan (the “2021 Plan”), which provides for the granting of ISOs, NSOs, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants of the Company. The maximum aggregate number of shares subject to the 2021 Plan is (i) 3,277,873 shares, plus (ii) any share subject to the stock options or similar awards granted under the 2011 Plan that expire or otherwise terminate without having been exercised in full and share issued pursuant to awards granted under the 2011 Plan that are forfeited to or repurchased by the Company, with the maximum shares added to the 2021 Plan equal to 5,950,000 shares.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 10 – STOCK-BASED COMPENSATION (Continued)**

ISOs may be granted only to Company employees (including officers and directors who are employees). NSOs may be granted to Company employees and consultants. Options under the 2021 Plan may be granted for periods of up to ten years (five years for options granted to holders of 10% or more). The exercise price of an option shall not be less than 100% of the estimated fair market value of the shares on the date of grant, as determined by the Board of Directors. The per share exercise price will be no less than one hundred ten percent (110%) of the fair market value per share on the date of grant for any incentive stock option granted to an employee who owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company.

Stock option activity for the years ended December 31, 2022 and 2021, is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2020	6,096,707	\$ 0.27	7.64
Granted	1,177,000	\$ 0.31	
Cancelled/forfeited	(373,879)	\$ 0.28	
Balance, December 31, 2021	6,899,828	\$ 0.28	7.15
Exercised	(13,541)	\$ 0.31	
Cancelled/forfeited	(292,006)	\$ 0.28	
Balance, December 31, 2022	6,594,281	\$ 0.28	6.13
Vested and expected to vest at December 31, 2022	6,594,281	\$ 0.28	6.13
Exercisable at December 31, 2022	5,782,972	\$ 0.24	5.78

The weighted-average grant date fair value per share of options granted during the year ended December 31, 2021 was \$0.17. The weighted-average grant date fair value per share of options granted during the year ended December 31, 2022, was \$0.24. As of December 31, 2022, unamortized compensation costs related to these stock options totaled \$35,134 and will be recognized over a weighted average period of 1.06 years. The fair value of shares vested during the years ended December 31, 2022 and 2021, was \$98,019 and \$189,069, respectively.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 10 – STOCK-BASED COMPENSATION (Continued)**

The calculated fair value option grants were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for the year ended December 31,:

	2021
Expected dividend yield (1)	0%
Risk-free interest rate (2)	0.35%
Expected volatility (3)	60%
Expected life (in years) (4)	6.25

- (1) The Company has no history or expectation of paying cash dividends on its common stock.
- (2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.
- (3) The Company has estimated the expected volatility of its share price based on the share price volatility of similar publicly traded entities.
- (4) The expected life represents the period of time that options granted are expected to be outstanding and was estimated using the simplified method and essentially equates to the weighted average of the vesting term and contractual life of the options.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022****NOTE 11 – INCOME TAXES**

The provision for income taxes consisted of the following for the years ended December 31,:

	<u>2022</u>	<u>2021</u>
Current:		
State	\$ 800	\$ 796
Foreign	-	-
Total current	<u>800</u>	<u>796</u>
Deferred:		
State	-	-
Foreign	-	-
Total provision	<u>\$ 800</u>	<u>\$ 796</u>

Deferred tax assets (liabilities) consisted of the following for the years ended December 31,:

	<u>2022</u>	<u>2021</u>
Net operating loss carryforwards	\$ 13,337,909	\$ 9,946,637
Credit carryforwards	2,039,935	2,005,004
Capitalized costs	1,896,585	-
Other	<u>561,935</u>	<u>(22,552)</u>
 Total gross deferred income tax assets	 17,836,364	 11,929,089
 Valuation allowance	 <u>(17,836,364)</u>	 <u>(11,929,089)</u>
 Net deferred tax assets	 <u>\$ -</u>	 <u>\$ -</u>

As of December 31, 2022, the Company had federal and state net operating loss carryforwards (NOL) of approximately \$45,499,000 and \$54,173,000, respectively. The federal net operating loss carryforwards begin expiring in 2031, and the state net operating loss carryforwards begin to expire in 2031. The federal net operating loss carryforwards generated in 2019 - 2022 of \$33,892,082, have an unlimited carryover period.

As of December 31, 2022, the Company had federal and state tax research and development credit carryforwards of \$1,234,000 and \$1,726,250, respectively. The federal credits will begin expiring in 2039 and the state credits have an unlimited carryforward period. As of December 31, 2022 and 2021, refundable payroll tax of approximately \$867,139 and \$908,175 was included in prepaid expenses and other current assets in the consolidated balance sheet.

SKYTRAN, INC.**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 11 – INCOME TAXES (Continued)

Due to uncertainties surrounding realization of the Company's net deferred tax assets, the Company has recorded a full valuation allowance against its net deferred tax assets.

The effective tax rate of the Company's provision for income taxes differs from the federal statutory rate for December 31, 2021 and 2020 principally due to the change in the valuation allowance. The change in the valuation allowance was an increase of \$5,907,275 and \$2,676,473 for the years ended December 31, 2022 and 2021, respectively.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. Due to ownership changes since inception, the Company's net operating losses may be limited as to their usage. In the event the Company has additional changes in ownership, utilization of the carryforwards could be further restricted.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company's formation due to the complexity and cost associated with such a study and the fact that there may be additional such ownership changes in the future.

The Company's tax returns since inception are subject to examination by federal and state taxing authorities.

NOTE 12 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 16, 2023, the date on which the consolidated financial statements were available to be issued.