ADAPTIVE AD SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS

DECEMBER 31, 2015 AND 2014

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
FOR THE PERIODS

	DECEMBER 31, 2015	DECEMBER 31, 2014
ASSETS		
CURRENT ASSETS		
Cash	$ 517,207	$ 1,004,957
Accounts Receivable (Net)	726,858	598,435
Interest Receivable	6,527	-
Short Term Loans	229,000	35,500
Total	1,479,592	1,638,892
EQUIPMENT (Net)	792,385	610,408
OTHER LONG TERM ASSETS	1,804	1,804
TOTAL ASSETS	$ 2,273,781	$ 2,251,104
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 158,369	$ 188,133
Accrued Interest	132,750	117,166
Short Term Notes Payable - Related Party	380,834	438,075
Short Term Notes Payable	54,500	162,500
Total	726,453	905,874
STOCKHOLDERS' EQUITY		
Preferred Stock, $.001 Par Value, 100,000,000 Shares Authorized 500,000 Shares Outstanding	500	-
Common Stock, $.001 Par Value, 500,000,000 Shares Authorized, 46,480,628 and 45,080,628 Shares Issued and Outstanding	46,481	45,081
Additional Paid in Capital	3,774,892	3,714,792
Retained Earnings (Deficit)	(2,274,545)	(2,414,643)
Total	1,547,328	1,345,230
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,273,781	$ 2,251,104

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE PERIODS

	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014
REVENUES	$ 2,591,812	$ 3,575,572
COST OF REVENUES	804,326	897,273
GROSS PROFIT	1,787,486	2,678,299
EXPENSES		
Accounting	1,000	17,800
Advertising	796	-
Cable System Repairs and Maintenance	225,778	138,787
Commissions	346,075	207,859
Computer Software	1,444	1,386
Consulting	30,240	124,304
Contract Services	10,724	2,029
Fuel	4,051	-
Insurance	3,302	-
Legal	84,077	149,990
Legal Filings	10,820	-
Miscellaneous	3,732	578
Office	11,631	6,347
Outside Services	252,396	377,342
Payroll & Payroll Taxes	379,034	304,961
Postage and Shipping	7,579	8,695
Publications	995	-
Repair	15,134	22,880
Rent	67,583	38,846
Research & Development	23,500	-
Services Charges	7,723	2,864
Telephone	12,666	6,791
Travel	130,721	147,855
Transfer Agent	6,788	-
Utilities	727	-
Total Operating Expenses	1,638,516	1,559,314
NET OPERATING INCOME	148,970	1,118,985
OTHER NON OPERATING INCOME/EXPENSES		
Miscellaneous Income	-	798
Interest Income	6,712	22
Interest Expense	(15,584)	(38,953)
Net Non Operating Income/(Expenses)	(8,872)	(38,133)
NET PROFIT/(LOSS) BEFORE TAXES	$ 140,098	$ 1,080,852
TAXES	-	-
NET PROFIT/(LOSS)	$ 140,098	$ 1,080,852
NET PROFIT/(LOSS) PER SHARE OF COMMON STOCK	$ 0.0030	$ 0.0308
FULLY DILUTED EARNINGS PER SHARE	$ 0.0030	$ 0.0308
BASIC AVERAGE SHARES OUTSTANDING	45,979,795	35,097,347
FULLY DILUTED AVERERAGE SHARES OUTSTANDING	46,079,795	35,097,347

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIODS

	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31. 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 140,098	$ 1,080,852
Adjustments to Reconcile Net Income	-	
Depreciation	295,897	240,263
To Net Cash (Used)/Provided by Operations		
Increase (Decrease) in Current Assets:		
Receivables	(134,428)	(272,100)
Short Term Loans - Related Party	-	4,700
Short Term Loans	(193,500)	(35,500)
Increase (Decrease) in Liabilities:		-
Accounts Payable	(27,726)	39,359
Accrued Interest	15,584	(396,717)
Short Term Loans	(165,241)	(56,200)
Net Cash Provided by Operating Activities	(69,316)	604,657
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	-	(1,804)
Purchase of Equipment and Other Assets	(480,982)	(303,555)
Net Cash (Used) by Investing Activities	(480,982)	(305,359)
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of Common Stock	25,000	-
Paydown of Loans Payable	-	(1,047,213)
Salaries Paid From Stock Issuance	37,000	-
Loan (and Interest) Paid from Stock Issuance	-	1,451,012
Net Cash Provided by Financing Activities	62,000	403,799
NET INCREASE (DECREASE) IN CASH	(488,298)	703,097
CASH AT BEGINNING OF PERIOD	1,005,505	301,860
CASH AT END OF PERIOD	$ 517,207	$ 1,004,957
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period For:		
Interest	$ -	$ 17,889
Income Taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
For the Year Ended December 31, 2015		
Stock Issued to Officer/Director and Employees for Services	$37,000	
(1,350,000 Common Shares and 500,000 Preferred Shares)		
Stock Options Issued to Employees for Services and Performance Incentive		
(2,400,000 Options at $1.00 Per Share 25% Vested Every Six Months, Three Year Expiration)	N/A	

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2015

	PREFERRED STOCK	PAR	COMMON STOCK	PAR	ADDITIONAL PAID IN CAPITAL	RETAINED DEFICIT
BALANCE, JANUARY 1, 2014	-	-	462,502	$ 463	$ 1,803,398	$ (3,495,495)
ACQUISITION OF ADAPTIVE MEDIA, INC.	-	-	30,518,126	30,518	674,482	-
CONVERSION OF DEBT WITH INTEREST	-	-	14,100,000	14,100	1,236,912	-
NET INCOME FOR THE PERIOD	-	-	-	-	-	1,080,852
BALANCE, DECEMBER 31, 2014	-	-	45,080,628	45,081	3,714,792	(2,414,643)
COMMON SHARES ISSUED FOR EMPLOYEES	-	-	1,350,000	1,350	25,650	-
PREFERRED SHARES ISSUED FOR OFFICER/DIRECTOR	500,000	500	-	-	9,500	-
COMMON SHARES ISSUED FOR CASH	-	-	50,000	50	24,950	-
NET INCOME FOR THE PERIOD	-	-	-	-	-	140,098
ENDING BALANCE, DECEMBER 31, 2015	500,000	$ 500	46,480,628	$ 46,481	$ 3,774,892	$ (2,274,545)

ADAPTIVE AD SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Operations

Adaptive Ad Systems, Inc. was created in the state of Nevada under the name of Synergetic Technologies, Inc. on December 30, 1994 (The Company). The Company has effected several name changes over the years – Synergetic Technologies, Inc. (1994-2007, Praebius Communications, Inc. (2007 to 2014), Adaptive Media, Inc. (2014), and the current name of Adaptive Ad Systems, Inc. (changed on June 17, 2014).

The Company is involved in the ad media business, catering to smaller cable and television operations throughout the United States. It also started a local internet service company in and around the northwest part of Oregon.

The Company currently has three operating subsidiaries - Ad Systems, Inc., Adaptive Media, Inc. and Adaptive Broadband, Inc. Ad Systems and Adaptive Media were created as subsidiaries over the years to operate its ad media business. Ad Systems and Adaptive Media were created when the name of the company was Praebius Communications. The names and subsidiaries were retained for contractual, administrative, and name recognition purposes. Adaptive Broadband was created in December 2014 to operate the internet operations. All subsidiaries are 100% owned by the Company and are reported under the consolidated operations as Adaptive Ad Systems, Inc.

Basis of Presentation

The Company prepares its financial statements inconformity with generally accepted accounting principles in the US. In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair statement of the financial position at December 31, 2015, the results of operations and cash flows for the year then ended have been made.

Use of Estimates

The preparation of financial statements inconformity with accounting principles generally accepted in the US requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The Company's balance sheets include the following financial instruments: cash, short term notes receivable, accounts receivable – trade, accounts payable – trade, deposits, interest receivables and payables, loans from related party and non-related parties. The carrying amounts of current assets and current liabilities approximate their fair value due to the relatively short period of time between the origination of these instruments and their expected realization. The carrying values of the notes payable to related party approximates fair value based on borrowing rates currently available to the Company for instruments with similar terms and remaining maturities.

Fair Value Measurement

All financial and nonfinancial assets and liabilities were recognized or disclosed at fair value in the financial statements. This value was evaluated on a recurring basis (at least annually). Generally accepted accounting principles in the US define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. The accounting principles also established a fair value hierarchy which require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measure fair value. Three levels of inputs were used to measure fair value.

Level 1: Quotes market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that were corroborated by market data.

Level 3: Unobservable inputs that were not corroborated by market data.

Income Taxes

The Company accounts for income taxes using the liability method. As such, deferred tax assets and liabilities are recorded based on the differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purpose, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

The Company has not recognized any deferred tax assets in association with capital losses incurred from marketable equity securities transactions, due to tax limitations and uncertainties concerning its ability to generate taxable income in future periods. The tax benefit for the periods presented is offset by a valuation allowance (100%) established against deferred tax assets arising from the securities capital losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not. The Company has net operating loss carryforwards of approximately $2,000,000 resulting in a tax benefit that will be used in the current years, but is offset by the uncertainty of such losses being used in the future.

Earnings per Share

Basic earnings (loss) per share calculations are determined by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share are determined by dividing net income (loss) by the weighted average number of shares and options (as if exercised) available at the end of the year.

Cash and Cash Equivalents

The majority of cash is maintained in major financial institutions in the United States. Deposits with this bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed on demand and, therefore, bear minimal risk. The Company considers all highly liquid investments purchased with an original maturity of six months or less to be cash equivalents.

Stock Issuances

In the first quarter 2015, the Board issued 1,350,000 shares of common stock and 500,000 shares of preferred stock to various key employees as performance rewards over the years. The value of the preferred stock was $10,000 and the common stock was $27,000. The value was placed at current trading values (very limited in volume) and the restrictive nature of the stock issued.

Recently Issued Accounting Pronouncements

The Company has adopted the Financial Accounting Standards Board (FASB) Accounting Standards. Codification (ASC) 105-10, Generally Accepted Accounting Principles – Overall (ASC 105-10), which was formerly known as SFAS 168, ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. Rules and interpretive releases of the Securities and Exchange (SEC) under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of grandfathered, non-SEC accounting literature not included in the Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASUs). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the codification, provide background information about the guidance and provide the basis of conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

In May 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IRFSs, which results in common requirements for measuring fair value and for disclosing information.

Revenue Recognition

The Company will recognize revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition (ASC 605-10), which requires that four basic criteria must be met before revenue

can be recognized: (1) persuasive evidence of an arrangement exits, (2) delivery has occurred, (3) the selling price is fixed and determinable, and (4) collectability is reasonably assured.

Property and Equipment

Property and Equipment is stated at cost. Depreciation is computed by the straight-line method over estimated useful lives. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation period is warranted. Based on its most recent analysis, the Company believes that no impairment of property and equipment exists at December 31, 2015.

The Company currently has the following classes of equipment: computer and computer software (depreciated over 4 years), leasehold improvements (depreciated over 5 years), and transportation equipment (depreciated over 7 years).

Accounts Receivable

The Company has accounts receivable with well-established advertising and marketing agencies that have routinely proven their reliability on payment over the years. With this record of established collections, the Company does not estimate its bad debt but only writes off uncollectable receivables on a case by case basis as identified by management. There were no uncollected receivables in 2015.

Short Term Loans

The Company has made several non-affiliate loan transactions. The loans mature within the next year and earn the Company interest at a 5% APR.

Short Term Loans – Related Party

The Company has received several ongoing loans over the years to manage cash flow planning and needs. Such loans are carry a 5% interest rate and are payable upon demand.

Stock Options

At the time the shares of common stock were issued to employees of the Company in May 2015 (see previous footnote), the Company also issued 2,400,000 stock options to the same employees. The options are exercisable at $1.00 and vest at a rate of 25% of the options every six months, fully vesting the options after 24 months. The options expire in three years.

There is no reasonable valuation of the options since there is no options market for the Company and the price of the stock is so thinly traded and unrealistic as to any other valuation method as to the value of the stock compared to the current quoted market value of the stock. Therefore, no cost has been associated with the issuance of the options.