ADAPTIVE AD SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND YEAR ENDED

MARCH 31, 2016 AND DECEMBER 31,2015

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

	MARCH 31, 2016	DECEMBER 31, 2015
ASSETS		
CURRENT ASSETS		
Cash	$ 513,087	$ 517,207
Accounts Receivable (Net)	981,578	726,858
Interest Receivable	9,127	6,527
Short Term Loans	248,900	229,000
Prepaid Expenses	47,500	-
Total	1,800,192	1,479,592
EQUIPMENT (Net)	921,031	792,385
OTHER LONG TERM ASSETS	2,404	1,804
TOTAL ASSETS	$ 2,723,627	$ 2,273,781
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 216,605	$ 160,369
Accrued Interest	136,627	132,750
Short Term Notes Payable - Related Party	363,763	380,873
Short Term Notes Payable	54,500	54,500
Total	771,495	728,492
STOCKHOLDERS' EQUITY		
Preferred Stock, $.001 Par Value, 100,000,000 Shares Authorized 500,000 Shares Outstanding	500	500
Common Stock, $.001 Par Value, 500,000,000 Shares Authorized, 46,630,628 and 46,480,628 Shares Issued and Outstanding	46,631	46,481
Additional Paid in Capital	3,849,742	3,774,892
Retained Earnings (Deficit)	#REF!	#REF!
Total	#REF!	#REF!
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	#REF!	#REF!

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED MARCH 31, 2016	THREE MONTHS ENDED MARCH 31, 2015
REVENUES	$ 1,013,617	$ 596,254
COST OF REVENUES	267,254	212,494
GROSS PROFIT	746,363	383,760
EXPENSES		
Accounting	-	1,000
Advertising	640	-
Cable System Repairs and Maintenance	29,054	23,700
Commissions	84,370	73,597
Computer Software and Repair	578	513
Consulting	8,000	14,550
Contract Services	-	3,901
Credit Card Charges	1,084	-
Fuel	956	618
Insurance	1,744	1,843
Legal	34,116	45,186
Legal Filings	650	3,730
Miscellaneous	16	1,500
Office	3,159	5,556
Outside Services	72,397	56,424
Payroll & Payroll Taxes	116,586	70,818
Postage and Shipping	5,119	2,249
Publications	2,331	995
Repair	3,909	1,337
Rent	11,619	29,224
Research & Development	11,100	-
Services Charges	461	1,529
Telephone	1,765	5,232
Travel	19,113	27,998
Transfer Agent	3,608	848
Utilities	312	122
Total Operating Expenses	412,687	372,470
NET OPERATING INCOME	333,676	11,290
OTHER NON OPERATING INCOME/EXPENSES		
Interest Income	2,600	66
Interest Expense	(4,433)	(4,397)
Net Non Operating Income/(Expenses)	(1,833)	(4,331)
NET PROFIT/(LOSS) BEFORE TAXES	$ 331,843	$ 6,959
TAXES	-	-
NET PROFIT/(LOSS)	$ 331,843	$ 6,959
NET PROFIT/(LOSS) PER SHARE OF COMMON STOCK	#REF!	$ 0.0002
FULLY DILUTED EARNINGS PER SHARE	#REF!	N/A
BASIC AVERAGE SHARES OUTSTANDING	#REF!	45,075,628
FULLY DILUTED AVERERAGE SHARES OUTSTANDING	#REF!	N/A

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED MARCH 31, 2016	THREE MONTHS ENDED MARCH 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 331,843	$ 6,959
Adjustments to Reconcile Net Income		
Depreciation and Amortization	85,504	59,266
To Net Cash (Used)/Provided by Operations		
Increase (Decrease) in Current Assets:		
Receivables	(257,320)	(2,964)
Short Term Loans	(19,900)	6,500
Prepaid Expenses	(50,000)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	56,236	15,153
Accrued Interest	3,877	4,397
Short Term Loans	(13,737)	-
Net Cash Provided by Operating Activities	136,503	89,311
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	(600)	-
Purchase of Equipment and Other Assets	(215,023)	(109,350)
Net Cash (Used) by Investing Activities	(215,623)	(109,350)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Common Stock to Pay Expenses	25,000	-
Issuance of Common Stock to Pay for Prepaid Expenses	50,000	-
Paydown of Loans Payable	-	(73,968)
Net Cash Provided by Financing Activities	75,000	(73,968)
NET INCREASE (DECREASE) IN CASH	(4,120)	(94,007)
CASH AT BEGINNING OF PERIOD	517,207	1,004,957
CASH AT END OF PERIOD	$ 513,087	$ 910,950
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period For:		
Interest	$ -	$ -
Income Taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
For the Three Months Ended March 31:		
Stock Issued for Prepaid Expenses	$ 50,000	-
Stock Issued for Legal Expenses	$ 25,000	-

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD JANUARY 1, 2014 TO MARCH 31, 2016

	PREFERRED STOCK	PAR	COMMON STOCK	PAR	ADDITIONAL PAID IN CAPITAL	RETAINED DEFICIT
BALANCE, JANUARY 1, 2014	-	-	462,502	$ 463	$ 1,803,398	#REF!
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	#REF!
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
BALANCE, DECEMBER 31, 2015	500,000	500	46,480,628	46,481	3,774,892	#REF!
COMMON SHARES ISSUED FOR INCENTIVE FOR NEW CONTRACT	-	-	100,000	100	49,900	-
COMMON SHARES ISSUED FOR LEGAL SERVICES	-	-	50,000	50	24,950	-
NET INCOME FOR THE PERIOD	-	-	-	-	-	331,843
BALANCE, MARCH 31, 2016	500,000	$ 500	46,630,628	$ 46,631	$ 3,849,742	#REF!

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

ADAPTIVE AD SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Organization and Business Operations</u>

Adaptive Ad Systems, Inc. is a Nevada corporation originally incorporated under the name of Synergetic Technologies, Inc. on December 30, 1994 (The Company). The Company has been an active corporation from its inception and 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 video media advertising business in the cable tv, television and streaming media markets throughout the United States, and ad media business, with emphasis on catering to smaller cable and television operations throughout the United States. It also operates wireless internet service providing broadband, telephone and video services.

The Company currently has three operating subsidiaries - Ad Systems, Inc., Adaptive Media, Inc. and Adaptive Broadband, Inc. Ad Systems and Adaptive Media operates its advertising business. Adaptive Ad Systems and Adaptive Media were created when Company name change occurred. Ad Systems, Inc. and subsidiaries were retained for contractual, administrative, and name recognition purposes. All subsidiaries are 100% owned by the Company and are reported under the consolidated operations as Adaptive Ad Systems, Inc.

<u>Basis of Presentation</u>

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 March 31, 2016, the results of operations and cash flows for the year then ended have been made.

<u>Use of Estimates</u>

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 Company 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.

During the first quarter of 2016, the Company issued 100,000 common shares as an incentive for a new five year contract with additional customers. The Company also issued 50,000 shares of common shares for legal services. The stock was estimated to be valued at $.50 based on current purchases of common stock. The 100,000 shares issued for the new contract was capitalized as prepaid expenses and is being amortized over the life of the new contract.

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 March 31, 2016.

The Company currently has the following classes of equipment: computer and computer software used for installations at local television station locations and for selected centralized ad insertion operations (depreciated over 4 years), leasehold improvements (depreciated over 5 years), and transportation equipment (depreciated over 7 years). Current depreciation expense for the three months ended March 31, 2016 is $83,004.

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. Any valuation of common stock issuances are valued at recent common stock purchases for cash.

Leases for Virtual Offices

In order to minimize fixed costs and maintain streamlined and efficient operations, the Company has strategically located four virtual offices around the country and is currently on a month by month occupancy with such leases. The Company also has a 2,000 square foot operating office/warehouse in Salem, Oregon where the broadband subsidiary operates. The lease is month to month and costs $1,000 per month.