

Disclosure Statement
(Pursuant to the Pink Basic Disclosure Guidelines & Instructions)

Adaptive Ad Systems, Inc.

(A Nevada Corporation)

4400 NE 77th Avenue
Vancouver, WA 98662
(310) 321-4958
info@aatv.co

SIC Code: 7319-02

Annual Report - Amendment 1

For the Reporting Period Ending:
December 31, 2019

As of December 31, 2019, and adjusted for all approved but pending issuances of certificates during the period, the number of shares outstanding of our Common Stock was: 48,563,128.

As of September 30, 2019, the number of shares outstanding of our Common Stock was: 48,763,128

As of Year-end 2019, the number of shares outstanding of our Common Stock was: 48,563,128.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐

No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐

No: ☒

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Yes: ☐

No: **X**

**1) Name of the issuer and its predecessors (if any).
Provide names used by predecessor entities and dates of the name changes.**

Adaptive Ad Systems, Inc. (6/17/2014 to current)
Adaptive Media, Inc. (4/15/2014 to 6/17/2014);
Praebius Communications, Inc. (12/30/2007 to 4/15/2014)
Synergetic Technologies, Inc. (12/1994 to 12/2007)

Date and state of incorporation and Issuer's current standing: Nevada, December 30, 1994; Active.

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years? Yes: ☐ No: **X**

2) Security Information

Trading symbol:	<u>AATV</u>	
Exact title and class of securities outstanding:	<u>Common</u>	
CUSIP:	<u>00650A100</u>	
Par or stated value:	<u>\$.001</u>	
Total shares authorized:	<u>500,000,000</u>	as of date: <u>12/31/2019</u>
Total shares outstanding:	<u>48,563,128</u>	as of date: <u>12/31/2019</u> ** (See page 3 herein)
Number of shares in the Public Float ² :	<u>14,972,000</u>	as of date: <u>12/31/2019</u>
Total number of shareholders of record:	<u>590</u>	as of date: <u>12/31/2019</u>

**Includes shares authorized by Board, but certificates not issued yet.

Additional class of securities (if any):

Trading symbol:	<u>n/a</u>	
Exact title and class of securities outstanding:	<u>Class A Preferred</u>	
CUSIP:	<u>n/a</u>	
Par or stated value:	<u>\$.001</u>	
Total shares authorized:	<u>100,000,000</u>	as of date: <u>12/31/2019</u>
Total shares outstanding:	<u>500,000</u>	as of date: <u>12/31/2019</u>

Transfer Agent: VStock Transfer (212) 828-8436; Email: info@vstocktransfer.com

Is the Transfer Agent registered under the Exchange Act? Yes: **X** No: ☐

Trading suspension orders issued by the SEC concerning the issuer or its predecessors: None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: None

3) Issuance History

Direct changes to the total shares outstanding of any class of the issuer's securities in the past two completed fiscal years and any interim period, including all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services.

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal

² "Public Float" shall mean the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding (a "control person"), or any affiliates thereof, or any immediate family members of officers, directors and control persons.

Number of Shares as of <u>1/1/2018</u>	<u>Opening Balance:</u> Common: 47,643,128 Preferred: 500,000								
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at discount to market at time of issuance?	Individual/ Entity Shares were issued to.	Reason for share issuance OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
<u>10/1/2018</u>	<u>Issuance</u>	<u>200,000</u>	<u>Comm</u>	<u>\$20k</u>	<u>Y</u>	<u>Ira Gains</u>	<u>Consulting</u>	<u>R</u>	<u>4(a)(2)</u>
<u>12/23/2018</u>	<u>Issuance</u>	<u>250,000</u>	<u>Comm</u>	<u>\$43.75k</u>	<u>Y</u>	<u>Mainstreet Consulting & Accounting (Kevin E. Orton)</u>	<u>Accounting services</u>	<u>R</u>	<u>4(a)(2)</u>
<u>12/23/2018</u>	<u>Issuance</u>	<u>250,000</u>	<u>Comm</u>	<u>\$43.75k</u>	<u>Y</u>	<u>Corporate Advisory Group Inc (Nathan W. Drage)</u>	<u>Corporate advisory services</u>	<u>R</u>	<u>4(a)(2)</u>
<u>12/31/2018</u>	<u>Issuance</u>	<u>330,000</u>	<u>Comm</u>	<u>\$115.5k</u>	<u>N</u>	<u>Rainer Poertner</u>	<u>Consulting services</u>	<u>R</u>	<u>4(a)(2)</u>
<u>6/2019</u>	<u>Issuance</u>	<u>90,000</u>	<u>Comm</u>	<u>\$45k</u>	<u>N</u>	<u>Rainer Poertner</u>	<u>Consulting</u>	<u>R</u>	<u>4(a)(2)</u>
<u>12/2019</u>	<u>Canceled</u>	<u>500,000</u>	<u>Comm</u>	<u>\$225k</u>	<u>n/a</u>	<u>Steven Wheeler</u>	<u>Repurchase</u>	<u>R</u>	<u>n/a</u>
<u>12/2019</u>	<u>Canceled</u>	<u>1,000,000</u>	<u>Comm</u>	<u>n/a</u>	<u>n/a</u>	<u>MTJ LLC</u> <u>Tiffany Mahoney</u>	<u>Shareholder Contribution</u>	<u>F</u>	<u>n/a</u>
<u>12/2019</u>	<u>Issuance</u>	<u>1,300,000</u>	<u>Comm</u>	<u>\$541.4k</u>	<u>N</u>	<u>Jospeh M. Heil</u>	<u>Debt Conversion</u>	<u>R</u>	<u>4(a)(2)</u>
Shares as of: <u>12/31/2019:</u>	<u>Ending Balance:</u> Common: 48,563,128 Preferred: 500,000								

years and any subsequent periods: ☐

Footnotes to the table above: During the second quarter of 2016, the Company contingently issued 1,500,000 shares for a prepaid consulting contract for future business consulting and market development. The shares delivered were to be held pending completion of all contingencies to the contract. The Company later learned that the shares were sold to third parties prior to fulfillment of contingencies. Consequently, the Company demanded either return of the shares or payment of consideration. The Company has received 887,500 shares back from transferees (identified above). Dignitas also represented to the Company that over 450,000 additional shares would be returned for cancellation by year-end 2017. That did not occur. The Company currently anticipates commencing litigation in the near future. For transferees who fail to return the shares, or pay for the shares received, the Company may be forced to include them in litigation to cancel shares and to recover damages.

B. Debt Securities, Including Promissory and Convertible Notes

Information regarding any outstanding promissory notes, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities.

Check box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

<u>Date of Issuance</u>	<u>Outstanding Balance (\$)</u>	<u>Principle Amount at Issuance (\$)</u>	<u>Interest Accrued (\$)</u>	<u>Maturity Date</u>	<u>Conversion Terms</u>	<u>Name of Noteholder</u>	<u>Reason for Issuance</u>
10/20/2018	\$27,661	\$38,000	0	10/2022	n/a	Kubota Corp.(1)	Equipment Purchase

Notes to Chart: (1) Kabota Corp. is an international equipment manufacturer with revenue exceeding 1.2 Trillion Yen. Controlling person unknown.

4) Financial Statements

A. The following financial statements were prepared in accordance with: **U.S. GAAP**

B. The financial statements for this reporting period were prepared by the following³: Mainstreet Consulting & Accounting Services (Kevin Orton, Owner); Relationship to Issuer: Service Provider

Financial statements described below have been provided for the most recent fiscal year or quarter.

C. Balance sheet;

D. Statement of income;

E. Statement of cash flows;

F. Financial notes; and

G. Audit letter, if audited [Not applicable]

Financial statements of the Company have been attached to this disclosure statement. [Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.]

5) Issuer's Business, Products and Services

A. Summary of Issuer's business operations.

Adaptive Ad Systems, Inc. ("the Company") represents the consolidated and merged companies Praebius Communications, Inc., which was incorporated in Nevada in December 1994 and Adaptive Media, Inc., which was incorporated in Nevada in March of 2013. Additionally, the Company had previously acquired the operations of Ad Systems, Inc., a Utah corporation organized in 1984, which developed the foundational intellectual property of the Company's ad insertion technology. Since 2015, the Company also owns and operates Adaptive Broadband, an Oregon wireless broadband business. Adaptive Broadband acquired the customer base of Speedpal, a similar business which had been providing services in Oregon and Washington since 2003, and continues to expand service areas and customers. Thus, the Company, functioning as a holding company, is the product of merging or acquiring several longstanding business entities, assets and new state of the art technology. As a result of these combined activities, the Company is currently cash flow positive and profitable.

The Company is engaged in the cable television (CATV) and online media advertising business, which provides the majority of the Company's revenue. To pursue its business plans, the Company develops, manufactures, markets, deploys, and operates its proprietary video ad-insertion technology. The Company's technology is primarily "cloud-based," which allows the Company to manage thousands of locations from a central hub with a minimal number of employees. This operational structure provides competitive scalability in the markets it pursues.

The Company's proprietary technology enables the Company to build and create new business revenue segments in the traditional CATV industry and generate revenue by deploying its ad-insertion technology in previously un-served and under-served markets. Together, these segments comprise a potential market opportunity of more than thirty million households (referred to in the industry as "subscribers").

The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

Utilizing technology developed by the Company over a period exceeding three decades, the Company is already a leading turnkey technology-based provider of CATV ad insertion equipment and ad-sales to small cable television operators. The Company is also an independent provider of DMA (Designated Market Area) based Cable TV advertising sales and commercial delivery in the United States. Furthermore, the Company is actively creating many un-wired markets, particularly in University Campuses and Multi-Dwelling-Units (MDU's).

The Company's main objective is to 1) create "advertising avails" inventory on all major CATV networks across the country where previously there was no inventory, and 2) provide reliable and high quality representation for the newly-created advertising inventory. In conducting its business, the Company also provides media solutions for local, regional and national advertisers by inserting advertising into major CATV networks such as ESPN, MTV, DISCOVERY, CNN, LIFETIME, A&E, FOX NEWS, TNT and SPIKE, as well as providing advertising solutions to a large un-served market by utilizing proprietary technologies.

With the mainstream acceptance and explosion of internet services, many television and advertising industry watchers predicted that traditional television advertising would soon become a thing of the past. That was twenty years ago. Despite the evolution of video technology with its availability on multiple platforms and through multiple services, television advertising remains a robust and a growing source of revenue for the Company.

The Company provides advertising insertion products and services to cable television head-ends that are either conventional or consumer satellite systems, as well as any streaming or IP delivery systems. Our services include acquiring advertising sales from local, regional and national advertisers, scheduling, and traffic and billing. The Company's operations are primarily carried out in-house. There are over 210 designated marketing areas in the United States and the Company has deployed over 160 systems into over one hundred of these markets in approximately 34 states.

The Company does not sell its technology and, therefore, installs its own proprietary software and servers and maintains full ownership and control pursuant to long-term contracts. Such contracts create an exclusive relationship between the cable television or digital video provider and the Company.

Due to the growth of mobile technology (smart phones, tablets, etc.), today's advertisers are learning the value of splitting their advertising spending between CATV and on-line streaming media, as well as over-the-top (OTT) video streaming. The Company intends to continue development of its products and services to meet the needs of customers as technology and customer needs evolve. To remain relevant and competitive, the Company continues to invest in research and development of new products, technologies, and services.

B. Description of subsidiaries, parents, or affiliated companies, (if applicable), and business contact information for the business, officers, directors, managers or control persons. See descriptions above. All contacts are via the Company at address above.

C. Description of Issuers' principal products or services, and their markets. See above.

D. Subsequent Events - Covid19 Pandemic

At the time this report was prepared, the world was experiencing the effects of a world-wide pandemic. Thus, the United States was experiencing substantial economic, financial, and social upheaval as a result of the Covid19 virus. These events, including "shelter in home" orders and recommendations in a large percentage of the country, have resulted in massive layoffs of employees across all industries, as well as material constriction of capital resources and reserves. Consequently, many companies have been forced to shut down operations until it is safe for employees to return to work. Some companies have been able to continue operations through remote-working by some employees. The Company is in the latter category.

The Company has not adopted any reductions in workforce and currently maintains operations through all employees utilizing remote access technology. The Company conducts audio and video conference calls as needed to maintain operations.

With few exceptions, almost all industries and companies will have their revenue and net profits negatively affected by the world-wide pandemic. Likewise, the Company will be affected to some degree, though the question of how much remains uncertain at this moment.

Notwithstanding the foregoing, the Company currently has capital reserves sufficient to meet operational requirements for the next twelve months.

6) Issuer's Facilities

The Company's primary offices are leased office space in Vancouver, Washington, Salem, Oregon and Mesa, Arizona. The Company also leases flex-office space in other locations as needed from time to time. The Company does not own any physical facilities. Additionally, the Company has tower leases in various locations, with total monthly obligations not currently exceeding \$3,500 per month.

7) Officers, Directors, and Control Persons

Information regarding any person or entity owning 5% or more of the issuer, as well as any officer, and any director of the company, regardless of the number of shares they own. If any listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information of an individual representing the corporation or entity in the note section.

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer, Director or Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
J. Michael Heil	CEO, Pres, CFO	Salem, Oregon	15,995,000	Common	32.9%	Preferred shares are entitled to 100 votes per share.
			500,000	Preferred	100%	
Willmark Investments LLC (Bryant Cragun)	5+% owner	Scottsdale, Arizona & Manilla, Philippines	11,559,063	Common	23.8%	
—	—	—	—	—	—	—
—	—	—	—	—	—	—

8) Legal/Disciplinary History

A. Whether any of the persons listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses): No
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities: No
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated: No
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities: No

B. Description of any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities: None

9) Third Party Providers

Name, address, telephone number and email address of each of the following outside providers:

Securities Counsel Procopio, Hargreaves & Savitch LLC
12544 High Bluff Drive, Suite 300, San Diego, CA 92101

Accounting Mainstreet Consulting & Accounting Services, Inc.
299 South Main, Suite 1300, Salt Lake City, Utah 84111

Investor Relations Consultant - N/A

10) Issuer Certification

Principal Executive Officer: I, J. Michael Heil, certify that:

1. I have reviewed this **Annual Report - Amendment 1** of Adaptive Ad Systems, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 30, 2020. /s/ J. Michael Heil, CEO

Principal Financial Officer: I, J. Michael Heil certify that:

1. I have reviewed this **Annual Report - Amendment 1** of Adaptive Ad Systems, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

April 6, 2020. /s/ J. Michael Heil, CFO

ADAPTIVE AD SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	DECEMBER 31 2019	DECEMBER 31, 2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,060,072	\$ 1,831,585
Accounts Receivable - Trade (Net)	1,082,134	2,089,752
Interest Receivable	60,473	45,470
Advances to Affiliates	117,730	24,340
Short Term Notes - Related Party	466,764	1,440,715
Prepaid Expenses	<u>61,674</u>	<u>896,335</u>
Total	3,848,847	6,328,197
EQUIPMENT (Net)	2,721,973	2,273,121
NOTES RECEIVABLE - LONG TERM	87,000	87,000
INVESTMENT IN SUBSIDIARIES	1,889,359	173,659
OTHER LONG TERM ASSETS	<u>17,993</u>	<u>9,912</u>
TOTAL ASSETS	<u>\$ 8,565,172</u>	<u>\$ 8,871,889</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Cash Overdraft	\$ 45,716	\$ 56,821
Accounts Payable	172,020	710,684
Accrued Interest	-	155,154
Advances from Affiliates	46,147	-
Taxes Payable	792,659	809,952
Prepaid Revenue	14,758	14,900
Short Term Notes Payable - Related Party	-	386,275
Short Term Notes Payable	17,500	17,500
Current Portion - Long Term Debt	<u>7,304</u>	<u>9,500</u>
Total	1,096,104	2,160,786
LONG TERM DEBT		
Notes Payable	20,357	25,606
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, 48,563,128 and 48,673,128 Shares Issued and Outstanding	48,563	48,673
Additional Paid in Capital	4,902,931	4,576,950
Treasury Stock	(225,000)	(460,808)
Retained Earnings	<u>2,721,717</u>	<u>2,520,182</u>
Total	7,448,711	6,685,497
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 8,565,172</u>	<u>\$ 8,871,889</u>

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

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

	YEAR ENDED DECEMBER 31, 2019	YEAR ENDED DECEMBER 31, 2018
REVENUES	\$ 4,377,317	\$ 7,942,786
COST OF REVENUES	<u>1,220,057</u>	<u>1,617,081</u>
GROSS PROFIT	3,157,260	6,325,705
EXPENSES		
Advertising & Promotion	14,211	3,693
Bad Debt	10,762	306,250
Cable System Repairs & Maintenance	398,814	431,097
Cable System Management	54,171	-
Car Repair	12,610	-
Commissions	168,950	394,225
Computer Repair & Supplies	6,255	3,345
Consulting	285,250	332,700
Credit Card Charges	9,394	-
Fuel	8,863	11,112
Insurance	19,237	28,010
Legal & Legal Filings	16,099	73,383
Miscellaneous	8,543	3,593
Office	21,222	16,840
Outside Services	604,121	619,956
Payroll & Payroll Taxes	906,026	795,570
Postage and Shipping	22,109	19,265
Professional and Consulting Services	31,907	12,259
Rent	68,963	67,206
Research & Development	51,750	-
Services Charges	2,004	9,348
Telephone & Internet	40,825	23,584
Travel	183,656	137,920
Transfer Agent	10,863	9,243
Utilities	6,464	5,098
Web Domain	5,039	-
Total Operating Expenses	<u>2,968,108</u>	<u>3,303,697</u>
NET OPERATING INCOME	189,152	3,022,008
OTHER NON OPERATING INCOME/EXPENSES		
Interest Income	72,099	37,799
Interest Expense	(6,144)	(1,513)
Miscellaneous Income	-	7,000
Loss on Investment	-	(342,990)
Net Non Operating Income/(Expenses)	<u>65,955</u>	<u>(299,704)</u>
NET PROFIT/(LOSS) BEFORE TAXES	255,107	2,722,304
TAXES	<u>53,572</u>	<u>571,670</u>
NET PROFIT/(LOSS)	<u>\$ 201,535</u>	<u>\$ 2,150,634</u>
NET PROFIT/(LOSS) PER SHARE OF COMMON STOCK	<u>\$ 0.0041</u>	<u>\$ 0.0450</u>
FULLY DILUTED EARNINGS PER SHARE	<u>\$ 0.0041</u>	<u>\$ 0.0450</u>
BASIC AVERAGE SHARES OUTSTANDING	<u>48,598,545</u>	<u>47,799,794</u>
FULLY DILUTED AVERAGE SHARES OUTSTANDING	<u>48,598,545</u>	<u>47,799,794</u>

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

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

	YEAR ENDED DECEMBER 31, 2019	YEAR ENDED DECEMBER 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 201,535	\$ 2,150,634
Adjustments to Reconcile Net Income		
Depreciation and Amortization	795,389	572,516
To Net Cash (Used)/Provided by Operations		
Increase (Decrease) in Current Assets:		
Receivables	1,007,618	(627,390)
Interest Receivable	(15,003)	384
Advances to Affiliates	(93,390)	-
Short Term Loans	973,951	(727,412)
Prepaid Expenses	834,661	(516,335)
Increase (Decrease) in Liabilities:		
Accounts Payable	(549,769)	468,097
Accrued Interest	155,154	219
Advances from Affiliates	46,147	-
Taxes Payable	(17,293)	700,853
Prepaid Revenue	(142)	14,900
Short Term Loans	(7,445)	(56,548)
Net Cash Provided by Operating Activities	3,331,413	1,979,918
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Long Term Assets	(8,081)	-
Issuance of Notes Receivable - Long Term	-	25,606
Purchase of Equipment and Other Assets	(1,244,241)	(1,405,649)
Investment in Subsidiaries	(1,715,700)	-
Loss on Investment	-	214,595
Net Cash (Used) by Investing Activities	(2,968,022)	(1,165,448)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Common Stock to Pay Expenses and Prepaid Expenses	20,250	223,000
Cancellation of Stock from Original Issuance for Prepaid Expenses, Notes and Interest Receivables	-	(504,558)
Issuance of Common Stock for Debt Forgiveness	(155,154)	-
Net Cash Provided by Financing Activities	(134,904)	(281,558)
NET INCREASE (DECREASE) IN CASH	228,487	532,912
CASH AT BEGINNING OF PERIOD	1,831,585	1,298,673
CASH AT END OF PERIOD	\$ 2,060,072	\$ 1,831,585
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period For:		
Interest	\$ 6,144	\$ 2,159
Income Taxes	\$ 80,000	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
For the Year Ended December 31:		
Stock Issued/(Cancelled) for Prepaid Expenses and Other Expenses (Net)	\$ 561,679	\$ 39,500

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD JANUARY 1, 2018 TO DECEMBER 31, 2019

	PREFERRED STOCK	PAR	COMMON STOCK	PAR	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS
BALANCE, JANUARY 1, 2018	500,000	500	48,530,628	48,530	4,617,280	369,548
COMMON STOCK CANCELLED DURING THE PERIOD	-	-	(887,500)	(887)	(349,300)	-
COMMON STOCK ISSUED DURING THE PERIOD	-	-	1,030,000	1,030	308,970	-
NET INCOME FOR THE PERIOD	-	-	-	-	-	2,150,634
BALANCE, DECEMBER 31, 2018	500,000	\$ 500	48,673,128	\$ 48,673	\$ 4,576,950	\$ 2,520,182
COMMON STOCK ISSUED DURING THE PERIOD FOR SERVICES	-	-	90,000	90	20,160	-
COMMON STOCK ISSUED FOR REDEMPTION OF DEBT AND INTEREST	-	-	1,300,000	1,300	540,129	-
COMMON STOCK CANCELLED FROM VOLUNTARY ACTION OF SHAREHOLDER			(1,000,000)	(1,000)	1,000	
COMMON STOCK CANCELLED FROM TREASURY STOCK HOLDINGS			(500,000)	(500)	(235,308)	
NET INCOME FOR THE PERIOD	-	-	-	-	-	201,535
BALANCE, DECEMBER 31, 2019	500,000	\$ 500	48,563,128	\$ 48,563	\$ 4,902,931	\$ 2,721,717

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

ADAPTIVE AD SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Operations

Adaptive Ad Systems, Inc. is a Nevada corporation originally incorporated under the name of Synergetic Technologies, Inc. on December 30, 1994 (hereafter “The Company”). The Company has been an active corporation from its inception and has completed 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, catering to smaller cable and television operations. The Company 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. Adaptive Broadband, Inc. was created in 2015 to operate its wireless and broadband business which provides services to private homes and businesses in the northwest Oregon and southern Washington area. Ad Systems and Adaptive Media function as the operating entities for the Company’s nation-wide advertising and ad insertion business. Additionally, these subsidiaries have been maintained 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. In 2019, the Company organized a minority owned subsidiary, Adaptive HDMO to handle some of the real estate holdings of the Company and manage some of the financial affairs and problems of the holdings and other financial affairs of the Company.

In 2020, the Company organized another wholly owned subsidiary – Adaptive TV – to test and design the prospects cable television of through the country and possible international cable coverage to select markets and specific cable viewers.

Basis of Presentation

The Company prepares its financial statements in conformity with generally accepted accounting principles in the United States (“US”). In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair statement of the financial position at September 30, 2019, the results of operations and cash flows for the months and years presented have been made.

Use of Estimates

The preparation of financial statements in conformity 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 any 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 measuring fair value. Three levels of inputs were used to measure fair value.

Level 1: Quotes of 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 deferred tax liability for the 2019 tax year has been estimated of \$53,000 (\$20,000 paid currently) and a total deferred tax liability of approximately \$790,000. There was an adjustment in the estimated future tax liability timing difference due to the change in the corporate tax rate in the new tax law enacted for 2018. The deferred tax liability of \$790,000 is based on a change in accounting method for tax purposes in 2018 from accrual method to cash basis. The IRS has recently relaxed its administrative rulings on changing from accrual to cash basis with an automatic approval subject to review by staff. The Company has made the choice to apply for this change in cash basis reporting based on these changes. The estimated taxes for 2019 on a cash basis is undetermined at this time. The estimate may change as Company management has other elections that can be made to change the tax liability to be paid for the year 2019 and for future years.

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. There are currently no stock options or other convertible debt or stock instruments that the Company has outstanding. Thus, basic outstanding shares and fully diluted shares are the same at December 31, 2018 and 2019.

Cash and Cash Equivalents and Possible Risks on Cash Deposits

All cash accounts of the Company are maintained in a major financial institution 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/Prepaid Expenses

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 stock was estimated to be valued at \$.50 based on current purchases of common stock when the stock was issued. 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 (5 years - \$10,000 per year). This prepaid expense will be fully amortized in 2020.

During the second quarter of 2016, the Company contingently issued 1,500,000 shares for a prepaid consulting contract for future business and market development. The contingent contract becomes null and void if the contract terms are not met. The stock was valued at \$.50 per share (\$750,000) based on current cash purchases of common stock through existing and new stockholders.

The issuance was classified as a prepaid expense and will be either expensed or cancelled depending on the results of the contract. The shares delivered were to be held by the consultant pending completion of all contingencies to the contract. The contract, however, was never fulfilled and the Company canceled the contract and demanded return the shares. To date, 887,500 shares have been returned, but the remaining shares are still outstanding. The prepaid expense that represent the outstanding shares were written off in 2018 with a bad debt expense of \$306,250. The Company is now considering the legal options, of which one is to file a lawsuit and demand that the shares be cancelled through a court order. (See Legal Matters below)

Stock Issuances for Contract Services

During the fourth quarter of 2018, the Company issued 1,030,000 shares of common stock for past (expensed) and future services (prepaid) that has or will be performed for the Company by consultants and employees of the Company. These stock transactions were valued at \$310,000 based on the value of the common stock (restricted in various forms) at the time of issuance.

During the second quarter of 2019, the Company issued 90,000 shares of common stock for past services (expensed currently). This stock transaction was valued at \$20,250 based on the value of the common stock trading history and the restrictions placed on the stock and the current limited market for selling Company stock in the marketplace.

Stock Issuances for Redemption of Short-Term Notes of a Related Party

During the fourth quarter of 2019, the Company issued 1,300,000 shares of stock for cancellation of short-term notes of \$386,275 and accrued interest of \$155,154 with a related party. The debt has existed dating back to early 2000's and the Company decided to redeem the debt with a stock issuance.

Stock Cancellations

During the year, the Company had two cancellations of stock: 1) 1,000,000 shares were cancelled voluntarily by a shareholder for no consideration, and 2) Treasury Stock that was purchased in the fourth quarter 2018 (500,000 shares) was later cancelled in the fourth quarter (2019).

Treasury Stock

The Company purchased 500,000 shares of common stock from an investor in the fourth quarter of 2018. The shares are being held as treasury stock until the Company decides to either resale the stock or cancel the shares and returned to treasury. In the fourth quarter of 2019, those shares were canceled. Additionally, there still remains 500,000 shares held as treasury stock that will canceled in the second quarter of 2019.

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 Commission (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 Financial Accounting Standards Board (“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, 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 exists, (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, 2019.

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 to 7 years), leasehold improvements (depreciated over 5 years), office furniture and fixtures (depreciated over 7 years), and transportation equipment (depreciated over 5 to 7 years).

The Company is currently working on the construction of towers in the broadband business in the state of Oregon which will greatly expand the coverage and type of similar services to broadband, such as cell phone reception and cable television programming. Some assets have entered service in 2018 and more will go on line in 2019 and future years. It is uncertain when these services will be available since the construction is ongoing and the license procurement for such services will be lengthy. Current depreciation expense for the year 2019 is \$795,389.

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 was an estimate of bad debt write off \$30,000 in 2018 (related to periods between January 1, 2017 and December 31, 2017). There has been no further write offs of receivables in 2019.

Short Term Loans-Related Party

The Company has made several non-affiliate and affiliate loan transactions. Two loans were made last year and are secured by properties that the loans were used to purchase. These loans carry a simple interest rate of 3%, which provides the Company with rates of return not currently available at financial institutions. It is expected that third party refinance will be available in 2020.

Another loan is a revolving loan from the principle owner, wherein funds are loaned and paid back on an as-needed basis depending on cash flow. Currently the Company has been profitable for the last several years and the cash flow has been sufficient to have the loan balance paid below zero, therefore currently a receivable exists as of December 31, 2019. The balance in years past has exceeded over \$1,000,000 (payable), without interest, and is now fluctuating around \$1,400,000, as a receivable, based on the cash flow needs of the business as a receivable. The Company has made no demand on the collection of the receivable because 1) the loan was in a payable position for many years in the past, without interest, when liquidity was of prime importance for the Company, and 2) the principal made no demands on the Company. Prior to year-end 2019, the receivable was assigned to a minority owned subsidiary for management and collection. It is secured by an issuance of 1,300,000 shares of common stock used to redeem an old liability (see earlier note) that was on the books for a number of years. It is expected that this stock will be sufficient to retire the account receivable over the next five years.

Loans issued to/received by Affiliates

The Company has entered into several loan arrangements for individuals and other companies that have a close relationship with AATV in connection with working on projects that have a mutual benefit to all parties. Some loans are interest bearing from 5% to 8% and others are non-interest bearing depending on the anticipated loan periods and relationships of the projects. Such loans provide the Company with rates of return not currently available at financial institutions.

Notes Receivable – Long Term

The Company entered into long term loans (2 years) to a foreign corporation with a 9% interest rate. The loan is secured by the corporation and by real estate that the corporation owns. The loan maybe extended on a year to year basis.

Notes Payable – Long Term

During the third quarter 2018, the Company purchased a piece of equipment that will be used in various locations in excavation for site preparation at various construction sites with towers for their broadband business in Oregon. The equipment was purchased for \$58,000 with a \$20,000 down payment and payments of \$791 over four years for the balance of the note (9% financing). The principle payments of the loan are as follows:

2020	9,500
2021	9,500
2022	6,651

Leases for Shared Offices and Other Working Locations/Tower Rental Locations

The Company has strategically located flex-space office in Vancouver, Washington that acts as Company headquarters and is currently on a year to year occupancy.

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 \$2,000 per month. The wireless and broadband subsidiary also has short term leases in various parts of its operating territory where space is rented to install towers and operating equipment for the wireless signal for paying customers. All of the leases are generally month to month (some yearly) and the expense of such arrangements vary in the \$5,000 to \$6,000 per month range depending on expansion or relocation moves that are made constantly based on need of coverage for broadband service through the region.

Legal Matters

During the second quarter of 2016, the Company contingently issued 1,500,000 shares for a prepaid consulting contract for future business consulting and market development. The shares delivered were to be held pending completion of all contingencies to the contract. Due to information received in the fall of 2016 regarding transfer of shares prior to fulfillment of contingencies, the Company demanded return of the shares or payment of consideration. As of December 31, 2019, the Company had received 887,500 shares back from transferees. Dignitas has represented to the Company that the remaining shares would be returned for cancellation. That has not occurred. The Company is currently evaluating its intentions to commence litigation in the future if circumstances don't change.

2018 Accounting Changes

Upon review of the December 31, 2018 financial statements, some adjustments were made to revise the net income of the year based on a review of advances made to a corporation that offered services of a research and development nature. The intention of the advances were to have the research and development result in various related improvement to industries to the Company's focus of business (mostly television/broadband and advertising insertion technology). Once development was to come to fruition, the Company would acquire the contracting corporation as a wholly owned subsidiary.

Upon that review, it was decided to write off the investment and expense it in the year of 2018. This resulted in a change of net income for the 2018 year from \$2,365 million to \$2.151 million (post tax affect).

Subsequent Events – Covid19 Pandemic

At the time this report was prepared, the world was experiencing the effects of a world-wide pandemic. Thus, the United States was experiencing substantial economic, financial, and social upheaval as a result of the Covid19 virus. These events, including "shelter in home" orders and recommendations in a large percentage of the country, have resulted in massive layoffs of employees across all industries, as well as material constriction of capital resources and reserves. Many companies have been forced to shut down operations until it is safe for employees to return to work. Some companies have been able to continue operations through remote-working by some employees. The Company is in the latter category. The Company has not adopted any reductions in workforce and currently maintains operations through all employees utilizing remote access technology. The Company conducts audio and video conference calls as needed to maintain operations.

With few exceptions, almost all industries and companies will have their revenue and net profits negatively affected by the world-wide pandemic. Likewise, the Company will be affected to some degree that remains uncertain at this moment. However, the Company currently has capital reserves sufficient to meet operational requirements for the next twelve months.