

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

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 **For the Period Ending: December 31, 2018** (the "Reporting Period")

As of December 31, 2018, and adjusted for all approved but pending issuances of certificates, the number of shares outstanding of our Common Stock was: 48,673,128

As of September 30, 2018, as adjusted, the number of shares outstanding of our Common Stock was:
47,643,128

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: X (Double-click and select "Default Value" to check)

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

Yes: ☐ No: X

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

Yes: ☐ No: X

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.

1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Adaptive Media, Inc. (4/15/2014 to 6/17/2014)
Praebius Communications, Inc. (12/30/2007 to 4/15/2014)

Date and state (or jurisdiction) of incorporation (also describe any changes to incorporation since inception, if applicable)
Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

Incorporated in Nevada on December 30, 1994 (Status: 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: ☒

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>12/31/2018</u>
Total shares outstanding:	<u>48,673,128</u>	as of date: <u>12/31/2018**</u>
Number of shares in the Public Float ² :	<u>14,972,000</u>	as of date: <u>12/31/2018</u>
Total number of shareholders of record:	<u>590</u>	as of date: <u>12/31/2018</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>12/31/2018</u>
Total shares outstanding:	<u>500,000</u>	as of date: <u>12/31/2018</u>

Transfer Agent

Name: VStock Transer
Phone: 212-828-8436
Email: info@vstocktransfer.com

Is the Transfer Agent registered under the Exchange Act?³ Yes: ☒ No: ☐

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.

³ To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

Describe any 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

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period**.

Disclosure under this item shall include, in chronological order, 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. Using the tabular format below, please describe these events.

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 years and any subsequent periods: ☐

Number of Shares outstanding as of 1/1/2017		Opening Balance: Common: 48,530,628 Preferred: 500,000		*Right-click the rows below and select "Insert" to add rows as needed.					
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 a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
<u>2017*</u>	<u>Cancel</u>	<u>200,000</u>	<u>Comm</u>	<u>n/a</u>	<u>Y</u>	<u>Dignitas; transferred to Robert Fleet</u>	<u>Contract – later cancelled</u>	<u>R</u>	<u>4(a)(2)</u>
<u>2017*</u>	<u>Cancel</u>	<u>237,500</u>	<u>Comm</u>	<u>n/a</u>	<u>Y</u>	<u>Dignitas; transferred to FNX Consulting</u>	<u>Contract – later canceled</u>	<u>R</u>	<u>4(a)(2)</u>
<u>2017*</u>	<u>Cancel</u>	<u>200,000</u>	<u>Comm</u>	<u>n/a</u>	<u>Y</u>	<u>Dignitas; transferred to Ira Gaines</u>	<u>Contract later cancelled</u>	<u>R</u>	<u>4(a)(2)</u>

<u>2017*</u>	<u>Cancel</u>	<u>100,000</u>	<u>Comm</u>	<u>n/a</u>	<u>Y</u>	<u>Dignitas; transferred to Lofton Family Trust</u>	<u>Contract – later cancelled</u>	<u>R</u>	<u>4(a)(2)</u>
<u>2017*</u>	<u>Cancel</u>	<u>150,000</u>	<u>Comm</u>	<u>n/a</u>	<u>Y</u>	<u>Dignitas; transferred to Richard Gostanian</u>	<u>Consulting contract – later cancelled</u>	<u>R</u>	<u>4(a)(2)</u>
<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 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 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>
Shares Outstanding on <u>12/31/2018</u> :	<u>Ending Balance:</u> Common: 48,673,128 Preferred: 500,000								

Example: A company with a fiscal year end of December 31st, in addressing this item for its quarter ended September 30, 2018, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2016 through September 30, 2018 pursuant to the tabular format above.

Use the space below to provide any additional details, including 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 will be forced to include them in litigation to cancel shares and to recover damages.

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe any issuance of promissory notes, convertible notes or convertible debentures **in the past two completed fiscal years and any subsequent interim period.**

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

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
<u>10/2018</u>	<u>\$35,107</u>	<u>\$38,000</u>	<u>0</u>	<u>10/2022</u>	<u>n/a</u>	<u>Kubota Corp.</u>	<u>Equipment purchase</u>
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

Use the space below to provide any additional details, including footnotes to the table above:

Other than described above, no new notes were issued in the past two years.

4) Financial Statements

A. The following financial statements were prepared in accordance with:

- ☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by (name of individual)⁴:

Name: Mainstreet Consulting & Accounting Services (Kevin Orton)
Title: Owner
Relationship to Issuer: Services Provider

Provide the financial statements described below for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

- C. Balance sheet;
D. Statement of income;
E. Statement of cash flows;
F. Financial notes; and
G. Audit letter, if audited [Not applicable]

⁴ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial statements in a separate report as described above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to OTCIQ in the field below.

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

The purpose of this section is to provide a clear description of the issuer's current operations. In answering this item, please include the following:

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no 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").

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. Describe any subsidiaries, parents, or affiliated companies, if applicable, and a description of their business contact information for the business, officers, directors, managers or control persons. Subsidiary information may be included by reference

See above.

- C. Describe the issuers' principal products or services, and their markets

See above.

6) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership. If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

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

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Using the tabular format below, please provide 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/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	14,695,000	Common	30.1%	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	23.7%	
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

8) Legal/Disciplinary History

A. Please identify 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; or

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. Describe briefly 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

Please provide the 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

Accountant

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

Investor Relations Consultant - Not Applicable

Other Service Providers

Provide the name of any other service provider(s), including, counsel, advisor(s) or consultant(s) **that assisted, advised, prepared or provided information with respect to this disclosure statement**, or provided assistance or services to the issuer during the reporting period.

Name: - Not Applicable

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities).

The certifications shall follow the format below:

I, J. Michael Heil, certify that:

1. I have reviewed this Annual Report 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 4, 2019

/s/ J. Michael Heil [CEO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Principal Financial Officer:

I, J. Michael Heil certify that:

1. I have reviewed this Annual Report of Adpative 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 4, 2019

/s/ J. Michael Heil [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

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

	DECEMBER 31, 2018	DECEMBER 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,831,585	\$ 1,298,673
Accounts Receivable - Trade (Net)	2,089,752	1,462,362
Interest Receivable	45,470	45,854
Short Term Notes	367,330	388,590
Short Term Notes - Related Party	1,557,716	809,044
Prepaid Expenses	896,335	380,000
Total	<u>6,788,188</u>	<u>4,384,523</u>
EQUIPMENT (Net)	2,165,826	1,515,166
NOTES RECEIVABLE - LONG TERM	87,000	87,000
OTHER LONG TERM ASSETS	<u>183,571</u>	<u>1,098</u>
TOTAL ASSETS	<u>\$ 9,224,585</u>	<u>\$ 5,987,787</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Cash Overdraft	\$ 56,821	\$ -
Accounts Payable	710,684	299,407
Accrued Interest	155,154	154,935
Taxes Payable	948,053	247,200
Prepaid Revenue	14,900	-
Short Term Notes Payable - Related Party	386,275	450,323
Short Term Notes Payable	17,500	19,500
Current Portion - Long Term Debt	9,500	-
Total	<u>2,298,887</u>	<u>1,171,365</u>
LONG TERM DEBT		
Notes Payable	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, 48,673,128 and 47,730,628 Shares Issued and Outstanding	48,673	47,731
Additional Paid in Capital	4,576,950	4,398,642
Treasury Stock	(460,808)	-
Retained Earnings	<u>2,734,777</u>	<u>369,548</u>
Total	<u>6,900,092</u>	<u>4,816,422</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 9,224,585</u>	<u>\$ 5,987,787</u>

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

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

	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
REVENUES	\$ 7,942,786	\$ 4,095,090
	-	-
COST OF REVENUES	<u>1,607,200</u>	<u>1,188,569</u>
GROSS PROFIT	6,335,586	2,906,521
EXPENSES		
Advertising	3,693	7,627
Bad Debt	306,250	82,234
Cable System Repairs and Maintenance	246,947	198,945
Commissions	394,225	236,695
Computer Software and Repair	3,345	5,141
Consulting	332,700	60,300
Contract Services	12,259	32,558
Donations	-	1,522
Fuel	11,112	8,828
Insurance	28,010	13,559
Legal	69,536	56,809
Legal Filings	3,847	9,645
Miscellaneous	1,364	4,043
Office	16,840	8,849
Outside Services	619,956	473,398
Payroll & Payroll Taxes	795,570	584,616
Postage and Shipping	19,265	14,663
Publications	1,690	2,585
Repair	184,150	107,794
Rent	67,206	57,384
Research & Development	-	-
Services Charges	9,348	6,645
Taxes	1,970	773
Telephone	23,584	24,292
Training	-	355
Travel	137,920	128,638
Transfer Agent	9,243	10,678
Utilities	<u>5,098</u>	<u>2,517</u>
Total Operating Expenses	3,305,127	2,141,093
NET OPERATING INCOME	3,030,459	765,428
OTHER NON OPERATING INCOME/EXPENSES		
Interest Income	37,799	31,467
Interest Expense	(2,159)	(1,202)
Miscellaneous Income	<u>9,000</u>	<u>-</u>
Net Non Operating Income/(Expenses)	44,640	30,265
NET PROFIT/(LOSS) BEFORE TAXES	\$ 3,075,099	\$ 795,693
TAXES	<u>(709,870)</u>	<u>(226,000)</u>
NET PROFIT/(LOSS)	<u>\$ 2,365,229</u>	<u>\$ 569,693</u>
NET PROFIT/(LOSS)		
PER SHARE OF COMMON STOCK	<u>\$ 0.0495</u>	<u>\$ 0.0118</u>
FULLY DILUTED EARNINGS PER SHARE	<u>\$ 0.0495</u>	<u>\$ 0.0118</u>
BASIC AVERAGE SHARES OUTSTANDING	<u>47,799,795</u>	<u>48,330,628</u>
FULLY DILUTED AVERAGE SHARES OUTSTANDING	<u>47,799,795</u>	<u>48,330,628</u>

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

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

	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 2,365,229	\$ 569,693
Adjustments to Reconcile Net Income		
Depreciation and Amortization	572,516	511,727
To Net Cash (Used)/Provided by Operations		
Increase (Decrease) in Current Assets:		
Receivables	(627,390)	(377,434)
Interest Receivable	384	(23,785)
Short Term Loans	(727,412)	(844,044)
Prepaid Expenses	(516,335)	411,629
Increase (Decrease) in Liabilities:		
Accounts Payable	468,097	66,468
Accrued Interest	219	11,809
Taxes Payable	700,853	226,000
Prepaid Revenue	14,900	-
Short Term Loans	(56,548)	181,104
Net Cash Provided by Operating Activities	<u>2,194,513</u>	<u>733,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	-	-
Issuance of Notes Receivable - Long Term	25,606	(24,000)
Purchase of Equipment and Other Assets	(1,405,649)	(932,488)
Net Cash (Used) by Investing Activities	<u>(1,380,043)</u>	<u>(956,488)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Common Stock to Pay Expenses and Prepaid Expenses	223,000	-
Cancellation of Stock from Original Issuance for Prepaid Expenses, Notes and Interest Receivables	(504,558)	(400,000)
Net Cash Provided by Financing Activities	<u>(281,558)</u>	<u>(400,000)</u>
NET INCREASE (DECREASE) IN CASH	532,912	(623,321)
CASH AT BEGINNING OF PERIOD	<u>1,298,673</u>	<u>1,921,994</u>
CASH AT END OF PERIOD	<u>\$ 1,831,585</u>	<u>\$ 1,298,673</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Period For:		
Interest	\$ 2,159	\$ -
Income Taxes	\$ 9,016	\$ -
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)	\$ 39,500	\$ (400,000)

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

ADAPTIVE AD SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

	PREFERRED STOCK	PAR	COMMON STOCK	PAR	ADDITIONAL PAID IN CAPITAL	RETAINED DEFICIT/ EARNINGS
BALANCE, JANUARY 1, 2017	500,000	\$ 500	47,730,628	\$ 47,731	\$ 4,398,642	\$ (180,145)
NET INCOME FOR THE PERIOD	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>549,693</u>
BALANCE, DECEMBER 31, 2017	500,000	500	47,730,628	47,731	4,398,642	369,548
COMMON STOCK CANCELLED DURING THE PERIOD			(87,500)	(88)	(43,662)	
COMMON STOCK ISSUED DURING THE PERIOD			1,030,000	1,030	221,970	
NET INCOME FOR THE PERIOD	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,365,229</u>
BALANCE, DECEMBER 31, 2018	<u>500,000</u>	<u>\$ 500</u>	<u>48,673,128</u>	<u>\$ 48,673</u>	<u>\$ 4,576,950</u>	<u>\$ 2,734,777</u>

SEE ACCOMPANYING FOOTNOTES TO FINANCIAL STATEMENTS

ADAPTIVE AD SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2018

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 to private homes and businesses in the northwest Oregon and southern Washington area. Ad Systems and Adaptive Media operates function as the operating entities for the Company’s nation-wide advertising 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.

Basis of Presentation

The Company prepares its financial statements in conformity 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, 2018, 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 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 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 2018 tax year been estimated at \$710,000 with a book tax liability of \$660,000 and a current payment due in 2019 of \$60,000. 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 \$660,000 is based on a change in accounting method for tax purposes 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 change has made a substantial change in the current tax liability that is estimated to be paid. The estimate is only based on preliminary projections and may change as Company management also has

other elections that can be made to change the estimated current tax liability to be paid in 2019.

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. At December 31, 2018 and December 31, 2017, there were no financial instruments that were convertible to common stock, in particular, the preferred stock.

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).

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 was never fulfilled and the Company pressed the contractor to cancel the contract and 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 the current year with a bad debt expense of \$306,250. The Company is now considering the legal options among one is to file a lawsuit and demand that the shares be cancelled through a court order.

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 \$223,000 based on the value of the common stock (restricted in various forms) at the time of issuance.

Treasury Stock

The Company purchased 400,000 shares of common stock from an investor in the first quarter of 2018. The shares are being held as treasury stock until the Company decides to either resale the stock or cancel the shares.

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 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 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, 2018.

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 5 to 7 years). Current depreciation expense for the year 2018 is \$572,516.

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 offs (related to periods before 2016) in 2017 of approximately \$5,000 and another estimate of bad debt write offs of \$30,000 in 2018 (related to periods between January 1, 2016 and June 30, 2017).

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 real estate the loans were used to purchase. These loans carry a simple interest rate of 3%. It is expected that third party refinance will occur this coming year and the loans will be paid off. These loans provide the Company with higher interest rates than those offered by banks, with minimum risk.

Another loan is a revolving loan from the principle shareholder where funds are loaned and paid back on an as needed basis depending on cash flow. Currently the Company has been profitable for the last couple of years and the cash flow has been sufficient to have the loan balance paid below zero so that now a receivable exists as of December 31, 2018. The balance in years past has exceeded over \$1,000,000 (payable) and is now just over \$650,000 as a receivable. The Company has made no demand on the collection of the receivable since the account was in a payable position for many years in the past and liquidity for the Company was of prime importance for the Company.

Short Term Loans

The Company has entered into several loan arrangements for individuals and other companies that have a close relationship with AATV in 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.

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.

Notes Payable – Long Term

During the third quarter, the Company purchased a piece of equipment that will be used in various locations in excavation of site preparation for various construction sites of 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 (0% financing). The principle payments of the loan are as follows:

2019	\$9,500
2020	9,500
2021	9,500
2022	6,606

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 \$1,000 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 \$2,700 to \$3,500 per month range.

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, 2017, 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 plans to commence litigation in the future if circumstances don't change.