

THE SMART TIRE COMPANY, LLC

Audited Financial Statement For The Years Ended December 31, 2020



To Management
The Smart Tire Company LLC.
Upland, CA

We have audited the accompanying financial statements of The Smart Tire Company, LLC (a state of Delaware limited liability company) which comprise the balance sheet as of December 31, 2020, and the related income statement, statement of changes in members' equity, and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Smart Tire Company, LLC as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Jason M. Tyra, CPA, PLLC
Dallas, TX
April 30, 2021

SMART TIRE COMPANY, LLC
BALANCE SHEET
DECEMBER 31, 2020

ASSETS

CURRENT ASSETS

Cash	\$	576
		<hr/>
TOTAL CURRENT ASSETS		576
		<hr/>
TOTAL ASSETS		576
		<hr/>

LIABILITIES AND MEMBERS' EQUITY

MEMBERS' EQUITY

Contributed Capital	2,100
Retained Earnings (Deficit)	(1,524)
	<hr/>
TOTAL MEMBERS' EQUITY	576
	<hr/>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 576
	<hr/>

SMART TIRE COMPANY, LLC
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

Operating Expense

Advertising	1,500
General & Administrative	24
	<hr/>
	1,524
Net Income from Operations	(1,524)
Net Income	<u>\$ (1,524)</u>

SMART TIRE COMPANY, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flows From Operating Activities

Net Income (Loss) For The Period	\$ (1,524)
----------------------------------	------------

Net Cash Flows From Operating Activities	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (1,524)
---	--

Cash Flows From Financing Activities

Contributions of Capital	2,100
--------------------------	-------

Net Cash Flows From Investing Activities	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 2,100
---	--

Cash at Beginning of Period

Net Increase (Decrease) In Cash	576
--	-----

Cash at End of Period	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> \$ 576
------------------------------	---

SMART TIRE COMPANY, LLC
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Contributed Capital	Retained Earnings	Total Members' Equity
Balance at Inception	\$ -	\$ -	\$ -
Contribution of Capital	2,100		2,100
Net Income		(1,524)	(1,524)
Balance at December 31, 2017	<u>\$ 2,100</u>	<u>\$ (1,524)</u>	<u>\$ 576</u>

THE SMART TIRE COMPANY, LLC
NOTES TO FINANCIAL STATEMENTS (REVIEWED)
DECEMBER 31, 2020

NOTE A- ORGANIZATION AND NATURE OF ACTIVITIES

The Smart Tire Company, LLC ("the Company") is a limited liability company organized under the laws of the State of Delaware. The Company will design and produce vehicle tires made from advanced materials.

In March of 2021, the Company reorganized as a Delaware Corporation.

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company's fiscal year ends December 31.

Significant Risks and Uncertainties

The Company is subject to customary risks and uncertainties associated with development of new technology including, but not limited to, the need for protection of intellectual property, dependence on key personnel, costs of services provided by third parties, the need to obtain additional financing, and limited operating history.

The Company currently has no developed products for commercialization and there can be no assurance that the Company's research and development will be successfully commercialized. Developing and commercializing a product requires significant capital, and based on the current operating plan, the Company expects to continue to incur operating losses as well as cash outflows from operations in the near term.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Changes in estimates are recorded in the period they are made. Actual results could differ from those estimates. There are no significant estimates used in the preparation of these financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances, and highly liquid investments with maturities of three months or less when purchased.

THE SMART TIRE COMPANY, LLC
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Revenue

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

As of December 31, 2020, the Company had not commenced principal operations and recognized no revenue for the year then ended. The Company intends to earn revenue from the design, production, and sale of vehicle tires made from advanced materials.

Intellectual Property

In 2020, the Company entered into and agreement to license certain intellectual property from the US National Aeronautics and Space Administration which it intends to use in its manufacturing processes ("the Intellectual Property"). The Intellectual Property agreement calls for 4.2% of net sales of products manufactured under license to be paid to the licensor as a royalty, with a minimum payment of \$3,000 per year beginning in the fourth year of the license agreement.

Advertising

The Company records advertising expenses in the year incurred.

Income Taxes

During the year ended December 31, 2020, the Company was subject to income tax reporting requirements as a partnership in the federal jurisdiction of the United States and a limited liability company in the State of Delaware. As a partnership, all items of income expense were reported by the members of the Company with their personal tax returns. Beginning January 1, 2021, the Company

The Company has evaluated its income tax positions and has determined that it does not have any uncertain tax positions. The Company will recognize interest and penalties related to any uncertain tax positions through its income tax expense.

The Company applies ASC 740 Income Taxes ("ASC 740"). Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial statement reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any and the change during the period in deferred tax assets and liabilities. ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position is recognized only if it is "more likely than not" that the position is sustainable upon examination by the relevant taxing authority based on its technical merit.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies and adopted by the Company as of the specified effective

THE SMART TIRE COMPANY, LLC
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

date. The Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases previously classified as operating leases. Subsequently, the FASB has issued amendments to clarify the codification or to correct unintended application of the new guidance. The new standard is required to be applied using a modified retrospective approach, with two adoption methods permissible: (1) apply the leases standard to each lease that existed at the beginning of the earliest comparative period presented in the financial statements or (2) apply the guidance to each lease that had commenced as of the beginning of the reporting period in which the entity first applies the new lease standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The pronouncement changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. Subsequently, the FASB issued an amendment to clarify the implementation dates and items that fall within the scope of this pronouncement. This standard is effective beginning in the first quarter of 2020. The adoption of ASU 2016-13 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under this guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most requirements related to classification and measurement, applies to nonemployee share-based payment arrangements. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material effect on the Company's financial statements.

NOTE C- EQUITY

Subsequent to reorganization the Company had a single class of equity outstanding.

THE SMART TIRE COMPANY, LLC
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Common Stock: Common shareholders have the right to vote on certain items of Company business at the rate of one vote per share of stock. The Company is authorized to issue up to 10,000,000 shares of common stock at a par value of \$0.00001 per share.

NOTE D- FAIR VALUE MEASUREMENTS

Fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1 - Observable inputs, such as quoted prices for identical assets or liabilities in active markets;
Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, or market-corroborated inputs; and
Level 3 - Unobservable inputs for which there is little or no market data which require the reporting entity to develop its own assumptions about how market participants would price the assets or liabilities.

The valuation techniques that may be used to measure fair value are as follows:

Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option-pricing models, and excess earnings method.

Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

NOTE E- CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with a limited number of high-quality financial institutions and at times may exceed the amount of insurance provided on such deposits.

NOTE F- LLC MEMBER LIABILITY

During 2020, the Company was organized as a limited liability company. As such, the liability of the members of the company for the obligations of the company was limited to each member's contribution of capital to the company.

NOTE G- SUBSEQUENT EVENTS

Management considered events subsequent to the end of the period but before April 30, 2021, the date that the financial statements were available to be issued.