

**THE SMART TIRE COMPANY, INC.**

Financial Statements For The Years Ended December 31, 2021 and 2020



## Independent Auditor's Report

To Management  
The Smart Tire Company, Inc.  
Upland, CA

We have audited the accompanying financial statements of The Smart Tire Company, Inc. (a Delaware corporation), which comprise the balance sheet as of December 31, 2021 and 2020, and the related statements of income, shareholders' equity, and cash flows for the years 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, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "J. Tyra", with a long horizontal stroke extending from the top of the signature.

Jason M. Tyra, CPA, PLLC  
Dallas, TX  
December 1, 2022

**THE SMART TIRE COMPANY, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash	\$ 845,135	\$ 576
Prepaid Expenses	57,628	-
Other Receivable	80	-
TOTAL CURRENT ASSETS	902,843	576
<b>NON-CURRENT ASSETS</b>		
Fixed Assets	58,465	-
Accumulated Depreciation	(5,847)	-
Security Deposit	14,329	-
TOTAL NON-CURRENT ASSETS	66,947	-
TOTAL ASSETS	\$ 969,790	\$ 576
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	41,661	-
TOTAL CURRENT LIABILITIES	41,661	-
<b>NON-CURRENT LIABILITIES</b>		
SAFE Notes	1,356,381	-
Related Party Loans	9,595	2,100
TOTAL LIABILITIES	1,407,637	2,100
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock (10,000,000 shares authorized; 9,000,000 issued; \$0.00001 par value)	90	-
Retained Deficit	(437,937)	(1,524)
TOTAL SHAREHOLDERS' EQUITY	(437,847)	(1,524)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 969,790	\$ 576



**THE SMART TIRE COMPANY, INC.**  
**INCOME STATEMENT**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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	<u>2021</u>	<u>2020</u>
<b>Operating Expense</b>		
Payroll	200,209	-
General & Administrative	153,495	24
Research & Development	34,303	-
Legal & Professional	20,890	-
Rent	15,599	-
Advertising & Marketing	9,631	1,500
Depreciation	5,847	-
Stock Compensation Expense	90	-
	440,064	1,524
<b>Net Loss from Operations</b>	(440,064)	(1,524)
<b>Other Expense</b>		
Interest Earned	3,821	-
Taxes	(170)	-
<b>Net Loss</b>	\$ (436,413)	\$ (1,524)
<b>Net Loss Per Share</b>		
Weighted average common shares outstanding - Basic	9,000,000	-
Net Loss per share	\$ (0.05)	\$ -

See Independent Accountant's Audit Report and accompanying notes, which are an integral part of these financial statements.

**THE SMART TIRE COMPANY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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<b>Cash Flows From Operating Activities</b>		
Net Loss For The Period	\$ (436,413)	\$ (1,524)
Change in Accounts Payable	41,661	-
Depreciation	5,847	-
Change in Other Receivable	(80)	-
Change In Prepaid Expenses	(57,628)	-
<b>Net Cash Flows From Operating Activities</b>	<b>(446,613)</b>	<b>(1,524)</b>
<b>Cash Flows From Investing Activities</b>		
Refundable Security Deposit	(14,329)	-
Purchase of Fixed Assets	(58,465)	-
<b>Net Cash Flows From Investing Activities</b>	<b>(72,794)</b>	<b>-</b>
<b>Cash Flows From Financing Activities</b>		
Issuance of SAFE Notes	1,356,381	-
Issuance of Related Party Loans	7,495	2,100
Issuance of Common Stock	90	-
<b>Net Cash Flows From Financing Activities</b>	<b>1,363,966</b>	<b>2,100</b>
<b>Cash at Beginning of Period</b>	576	-
<b>Net Increase In Cash</b>	844,559	576
<b>Cash at End of Period</b>	<b>\$ 845,135</b>	<b>\$ 576</b>

See Independent Accountant's Audit Report and accompanying notes, which are an integral part of these financial statements.

**THE SMART TIRE COMPANY, INC.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	Common Stock Number	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Total Shareholders' Equity
Balance at August 12, 2020 (Inception)	-	-	\$ -	\$ -	\$ -
Net Loss				(1,524)	(1,524)
Balance at December 31, 2020	-	\$ -	\$ -	\$ (1,524)	\$ (1,524)
Issuance of Stock	9,000,000	90			90
Net Loss				(436,413)	(436,413)
Balance at December 31, 2021	9,000,000	\$ 90	\$ -	\$ (437,937)	\$ (437,847)

See Independent Accountant's Audit Report and accompanying notes, which are an integral part of these financial statements.

THE SMART TIRE COMPANY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

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NOTE A- ORGANIZATION AND NATURE OF ACTIVITIES

The Smart Tire Company, LLC (“the Company”) is a corporation organized under the State of Delaware domiciled in California. 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- GOING CONCERN MATTERS

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operation for the foreseeable future. However, management has identified the following conditions and events that created an uncertainty about the ability of the Company to continue as a going concern. The Company sustained net operating losses in 2021 of \$436,413 and 2020 of \$1,524.

The following describes management's plans that are intended to mitigate the conditions and events that raise substantial doubt about the Company's ability to continue as a going concern. The Company plans to raise additional capital to continue operations through a Reg CF offering. The Company's ability to meet its obligations as they become due is dependent upon the success of management's plans, as described above.

These conditions and events create an uncertainty about the ability of the Company to continue as a going concern through December 5, 2023 (one year after the date that the financial statements are available to be issued). The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE C- 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.

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

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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.

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.

The Company intends to earn revenue from the design, production, and sale of vehicle tires made from advanced materials.

Fixed Assets

The Company capitalizes assets with an expected useful life of one year or more, and an original purchase price of \$1,000 or more. Depreciation is calculated on a straight-line basis over management's estimate of each asset's useful life.

Prepaid Expense

The Company makes advance payments as part of its Space Act Agreement with NASA. All of their services are paid in advance as a de facto retainer to keep the project funded.

Lease and Security Deposit

The Company currently occupies office space under a non-cancellable operating lease. The lease expires on August 31, 2026, and may be renewed at the option of the Company at the then-current market rate. Future monthly payments due under the lease are as follows:

2022- \$2,388  
2023- \$2,460  
2024- \$2,534  
2025- \$2,610  
2026- \$2,688

As part of the lease arrangement, a refundable security deposit was paid amounting to \$14,329.

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

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Interest Earned

As of December 31, 2021, the Company earned bank account interest amounting to \$3,821.

Intellectual Property

In 2021 and 2020, the Company entered into several agreements to license certain intellectual property from the U.S. National Aeronautics and Space Administration which it intends to use in its manufacturing processes (“the Intellectual Property”).

The 2020 Intellectual Property agreement calls for 4.2% of net sales for 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.

The 2021 Intellectual Property agreement calls for 2.5% of the first one million net sales, 3.0% of the next four million of net sales, and 4.0% of net sales in excess of five million for products manufactured under the license, to be paid to the licensor as a royalty, with an upfront fee of \$5,000 upon the execution of the agreement. Broken out by its respective year, the company agreed to pay the licensor an annual minimum royalty of:

2022- \$10,000  
2023- \$10,000  
2024- \$25,000  
2025- \$50,000

Advertising

The Company records advertising expenses in the year incurred.

Net Income Per Share

Net earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the period, excluding shares subject to redemption or forfeiture. The Company presents basic and diluted net earnings or loss per share. Diluted net earnings or loss per share reflect the actual weighted average of common shares issued and outstanding during the period, adjusted for potentially dilutive securities outstanding. Potentially dilutive securities are excluded from the computation of the diluted net loss per share if their inclusion would be anti-dilutive

Income Taxes

In December 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted into law and the new legislation contains several key tax provisions that affected the Company, including a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. The Company is required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring deferred tax assets and liabilities, as well as reassessing the net realizability of our deferred tax assets and liabilities. The tax rate change had no impact to the Company’s net loss as the Company has not incurred a tax liability or expense for the year ended December 31, 2021 and has a full valuation allowance against its net deferred tax assets.

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

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.

The Company is subject to tax filing requirements as a corporation in the federal jurisdiction of the United States. The Company sustained a net operating loss during the fiscal year 2021. Net operating losses will be carried forward to reduce taxable income in future years. Due to management's uncertainty as to the timing and valuation of any benefits associated with the net operating loss carryforwards, the Company has elected to recognize an allowance to account for them in the financial statements, but has fully reserved it. Under current law, net operating losses may be carried forward indefinitely.

The Company is subject to franchise tax filing requirements in the State of Delaware domiciled in California.

#### 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 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.

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

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 D- DEBT

During the year ended December 31, 2021, the Company issued Simple Agreements for Future Equity ("SAFE"). The SAFE agreements have no maturity date and bear no interest. The SAFE agreements provide a right to the holder to future equity in the Company in the form of SAFE Preferred Stock. SAFE Preferred Stock are shares of a series of Preferred Stock issued to the investor in an equity financing, having identical rights, privileges, preferences and restrictions as the shares of standard Preferred Stock offered to non-holders of SAFE agreements other than with respect to: (i) the per share liquidation preference and the conversion price for purposes of price-based anti-dilution protection, which will equal the conversion price; and (ii) the basis for any dividend rights, which will be based on the conversion price. The number of shares issued to the holder is determined by either (1) the face value of the SAFE agreement divided by the price per share of the standard preferred stock issued, if the pre-money valuation is less than or equal to the valuation cap; or (2) a number of shares of SAFE Preferred Stock equal to the face value of the SAFE agreement divided by the price per share equal to the valuation cap divided by the total capitalization of the company immediately prior to an equity financing event. Total capitalization of the company includes all shares of capital stock issued and outstanding and outstanding vested and unvested options as if converted.

If there is a liquidity event (as defined in the SAFE agreements), the investor will, at their option, either (i) receive a cash payment equal to the face value of the SAFE agreement ("Purchase Amount") or (ii) automatically receive from the Company a number of shares of common stock equal to the Purchase Amount divided by the price per share equal to the valuation cap divided by the Liquidity Capitalization ("Liquidity Price") (as defined in the SAFE agreements). If there are not enough funds to pay the holders of SAFE agreements in full, then all of the Company's available funds will be distributed with equal priority and pro-rata among the SAFE agreement holders in proportion to their Purchase Amounts and they will automatically receive the number of shares of common stock equal to the remaining unpaid Purchase Amount divided by the Liquidity Price.

If there is a dissolution event (as defined in the SAFE agreements), the Company will pay an amount equal to the Purchase Amount, due and payable to the investor immediately prior to, or concurrent with, the



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

consummation of the dissolution event. The Purchase Amount will be paid prior and in preference to any distribution of any of the assets of the Company to holders of outstanding capital stock. If immediately prior to the consummation of the dissolution event, the assets of the Company legally available for distribution to all SAFE holders, are insufficient to permit the payment to their respective Purchase Amounts, then all of the assets of the Company legally available for distribution will be distributed with equal priority and pro-rata among the SAFE holders as a single class.

The SAFE agreements will expire and terminate upon either (i) the issuance of shares to the investor pursuant to an equity financing event or (ii) the payment, or setting aside for payment, of amounts due to the investor pursuant to a liquidity or dissolution event.

As of December 31, 2021, no SAFE agreements had been converted into equity, nor had any terminated or expired based on the terms of the agreements.

As of December 31, 2021, the Company had \$1,356,381 of SAFE obligations outstanding, with a valuation cap ranging from \$8,000,000 or \$50,000,000. Upon conversion, the SAFE agreements will convert into shares of preferred stock.

The Company accounts for the SAFE agreements under ASC 480 (Distinguishing Liabilities from Equity), which requires that they be recorded at fair value as of the balance sheet date. Any changes in fair value are to be recorded in the statement of income. The Company has determined that the fair value at the date of issuance, and as of December 31, 2021 are both consistent with the proceeds received at issuance, and therefore there is no mark-to-market fair value adjustments required, or reflected in income for the year ended December 31, 2021.

Related Party Loans

Since 2020, the company has issued a series of related party loans in exchange for cash for the purpose of funding continuing operations (“the Related Party Loans”). The loans do not accrue interest and are payable at a future date to be determined by management.

NOTE E- EQUITY

Under the Company’s articles of incorporation, the Company is authorized to issue up to 10,000,000 shares of \$0.00001 par value Common Stock.

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. Common Stock ranks behind all issues of Preferred Stock in liquidation preference

As of December 31, 2021, the number of shares issued and outstanding by class was as follows:

Common Stock	9,000,000
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THE SMART TIRE COMPANY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F- 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 G- 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 H- SUBSEQUENT EVENTS

Management considered events subsequent to the end of the period but before December 1, 2022, the date that the financial statements were available to be issued.

Subsequent to the period, the company amended and restated their articles of incorporation to increase the number of authorized common shares to 11,683,886 at \$0.0001 par value and is authorized to issue up to 1,683,887 of \$0.00001 par value preferred stock

Subsequent to the period, the Company issued approximately 12,428 preferred shares in exchange for cash proceeds of approximately \$59,170.