

AURORA ALGAE, INC.
Financial Statements
For the year ended 31 December, 2019

Independent Auditor's Report

THE BOARD OF DIRECTORS
AURORA ALGAE, INC.
Houston, TX

Report on the Financial Statements

We have audited the accompanying financial statements of **AURORA ALGAE, INC. (the Company)**, which comprise the balance sheet as of December 31, 2019 and 2018, and the related statements of operations and comprehensive income (loss), stockholders' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Company'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 Company'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 Company as of December 31, 2019 and 2018, 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.

Emphasis of Matter

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Parent-Only Financial Statements

As discussed in Note 2 to the financial statements, the accompanying financial statements are those of Aurora Algae, Inc. (parent company) only and are not those of the primary reporting entity. The consolidated financial statements of Aurora Algae, Inc. (parent company) and Subsidiary have been issued to the board of directors as the general purpose consolidated financial statements of the reporting entity and should be read in conjunction with the parent-only financial statements. Our opinion is not modified with respect to this matter.

Hood & Strong LLP
San Francisco, California
March 4, 2020

Balance Sheet (Parent-Only)

| <i>December 31,</i> | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 509,434 | \$ 514,463 |
| Receivable from affiliate | 1,500,000 | 1,500,000 |
| Prepaid expenses and other current assets | <u>4,677</u> | <u>2,940</u> |
| Total current assets | <u>2,014,111</u> | <u>2,017,403</u> |
| | \$ <u>2,014,111</u> | \$ <u>2,017,403</u> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 5,676 | \$ 2,194 |
| Accrued liabilities | <u>330</u> | <u>880</u> |
| Total current liabilities | <u>6,006</u> | <u>3,074</u> |
| Stockholders' Equity: | | |
| Series A-1 convertible preferred stock, \$0.001 par value - 59,202,967 shares authorized, issued and outstanding at 2019 and 2018 (aggregate liquidation value, \$59,202,967) | 58,928,442 | 58,928,442 |
| Series A-2 convertible preferred stock, \$0.001 par value 10,722,043 shares authorized, issued and outstanding at 2019 and 2018 (aggregate liquidation value, \$10,722,043) | 10,722,043 | 10,722,043 |
| Common stock, \$0.001 par value - 75,763,427 shares authorized at 2019 and 2018; 5,838,417 shares issued and outstanding at 2019 and 2018 | 5,838 | 5,838 |
| Additional paid-in capital | 10,386,600 | 10,386,600 |
| Accumulated other comprehensive (loss) income | (237,159) | (237,159) |
| Accumulated deficit | <u>(77,797,659)</u> | <u>(77,791,435)</u> |
| Total stockholders' equity | <u>2,008,105</u> | <u>2,014,329</u> |
| | \$ <u>2,014,111</u> | \$ <u>2,017,403</u> |

Statement of Operations and Comprehensive Income (Loss) (Parent-Only)

| <i>Years Ended December 31,</i> | <u>2019</u> | <u>2018</u> |
|---|--------------------------|----------------------------|
| Revenues | \$ <u>-</u> | \$ <u>-</u> |
| Operating Expenses: | | |
| General and administrative | <u>49,726</u> | <u>119,801</u> |
| Total operating expenses | <u>49,726</u> | <u>119,801</u> |
| Loss from Operations | <u>(49,726)</u> | <u>(119,801)</u> |
| Other Income: | | |
| Other income | <u>43,502</u> | <u>1,169</u> |
| Total other income (expense) | <u>43,502</u> | <u>1,169</u> |
| Net Loss | <u>(6,224)</u> | <u>(118,632)</u> |
| Other Comprehensive Income (Loss): | | |
| Foreign currency translation adjustment | <u>-</u> | <u>-</u> |
| Other comprehensive income (loss) | <u>-</u> | <u>-</u> |
| Net Loss | \$ <u><u>(6,224)</u></u> | \$ <u><u>(118,632)</u></u> |

Statement of Stockholders' Equity (Parent-Only)

| <i>Years Ended December 31, 2019 and 2018</i> | | | | | | | | | | |
|---|--|----------------|--|----------------|--------------|----------|----------------------------|---|---------------------|----------------------------|
| | Series A-1 Convertible Preferred Stock | | Series A-2 Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balances - December 31, 2017 | 5,92,02,967 | \$ 5,89,28,442 | 1,07,22,043 | \$ 1,07,22,043 | 58,38,417 | \$ 5,838 | \$ 1,03,86,600 | \$ (2,37,159) | \$(7,76,72,803) | \$ 21,32,961 |
| Net loss | | | | | | | | | (1,18,632) | (1,18,632) |
| Balances - December 31, 2018 | 5,92,02,967 | 5,89,28,442 | 1,07,22,043 | 1,07,22,043 | 58,38,417 | 5,838 | 1,03,86,600 | (2,37,159) | (7,77,91,435) | 20,14,329 |
| Net loss | | | | | | | | | (6,224) | (6,224) |
| Balances - December 31, 2019 | 5,92,02,967 | \$ 5,89,28,442 | 1,07,22,043 | \$ 1,07,22,043 | 58,38,417 | \$ 5,838 | \$ 1,03,86,600 | \$ (2,37,159) | \$(7,77,97,659) | \$ 20,08,105 |

Statement of Cash Flows (Parent-Only)

| <i>Years Ended December 31,</i> | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (6,224) | \$ (118,632) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other current assets | (1,737) | 1,401 |
| Accounts payable | 3,482 | (2,990) |
| Accrued liabilities | (550) | (40,550) |
| Other noncurrent assets | <u>-</u> | <u>200</u> |
| Net cash (used) by operating activities | <u>(5,029)</u> | <u>(160,571)</u> |
| Net (Decrease) in Cash and Cash Equivalents | (5,029) | (160,571) |
| Cash and Cash Equivalents, Beginning of year | 514,463 | 675,034 |
| Cash and Cash Equivalents, End of year | \$ 509,434 | \$ 514,463 |
| Supplemental Cash Flow Disclosure: | | |
| Cash refunded (paid) for taxes | \$ 41,378 | \$ (1,069) |

Notes to Financial Statements

Note 1 - Organization and Description of Business:

Aurora Algae, Inc. (the “Company”), currently located in Houston, Texas, was incorporated on April 5, 2006, in the state of California, and reincorporated on December 16, 2006, in the state of Delaware. In 2010 the Company formed a subsidiary in Australia to perform research and development activities. In November 2013, the Company decided to close its research activities in Australia. In 2013, the Company began research and development activities in Texas. In 2015 the Company laid-off its entire U.S. workforce, sold a majority of its property and equipment. In 2016, the major stockholder of Aurora acquired 100% ownership through a reverse triangular merger. The Company was the surviving corporation after the merger and continues to be a separate entity. In 2017 the subsidiary in Australia filed for deregistration and had its affairs wound up. On March 3, 2018, the subsidiary in Australia was legally dissolved, with only nominal expenses incurred in 2018. These expenses are reflected in the 2018 financial statements.

The Company had been focusing on the development of high-performance premium algae-based products for the pharmaceutical, nutrition, aquaculture and fuels markets. The Company’s activities since inception have consisted principally of acquiring technology rights, raising capital, establishing facilities, and performing research and development. The Company had been devoting substantially all of its efforts to establishing a new business, which has yet to commence. To date, the Company’s activities have been funded by private equity. Going forward, the Company expects funding for shortfalls, if any, from its parent company.

Note 2 - Basis of Presentation:

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since inception, the Company has incurred cumulative net losses of \$77,797,659 and net negative cash flows from operations. These factors, among others, raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of recorded liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis. The Company plans to maintain its limited operations (which includes patent prosecution and maintenance) and expects its parent company to fund any shortfalls so that it may continue assessing the financial value of keeping the Company as a going concern.

As required by Indian authorities, the ultimate parent company (Reliance Industries Limited) of Aurora Algae, Inc. is required to file consolidated financial statements of its (globally active) subsidiaries. The financial statements of Aurora Algae, Inc. should be read in conjunction with the general purpose financial statements of the consolidated entity.

Note 3 - Summary of Significant Accounting Policies:**a. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (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 expenses during the reporting period. Actual results could differ from those estimates.

b. Foreign Currency Translation

The functional currency of the Company is the local currency. Any gains or losses from foreign currency transactions of the subsidiaries’ financial statements are recorded directly into a separate component of stockholders’ equity under the caption “accumulated other comprehensive income.”

c. Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. As of December 31, 2019 and 2018, cash and cash equivalents consist of cash deposits with high credit-quality financial institutions.

d. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company’s cash and cash equivalents consist of cash deposits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to significant credit risk related to cash and cash equivalents.

Notes to Financial Statements

- e. Property and Equipment, Net
Property and equipment is generally stated at cost or fair value as of the acquisition date, less accumulated depreciation. Depreciation is generally computed over the estimated useful lives of the respective assets, which range from three to 15 years, using the straight-line method. Repairs and maintenance costs are expensed as incurred. All property and equipment were fully disposed by December 31, 2017.
- f. Long-Lived Assets
The Company reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. As long-lived assets were fully disposed by December 31, 2017, no such impairment occurred in 2019 and 2018.
- g. Related Party Transactions
In 2016, the Company recognized a receivable of \$1.5 million from its major stockholder. As with any receivable, management has reviewed the collectability of this receivable and has determined that as of December 31, 2019 and 2018, there is no need to provide for an allowance for doubtful accounts as the receivable is expected to be fully recoverable. The receivable is classified as a current asset, as management believes it is collectable upon demand.
- h. Research and Development Costs
Research and development expenses consist of personnel costs, depreciation, including salaries, benefits, materials and supplies, licenses, and fees. The Company charges research and development costs to expense when incurred. There were no research and development costs incurred in 2019 and 2018.
- i. Income Taxes
The Company accounts for income taxes using the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.
- j. Stock-Based Compensation
Compensation costs related to all equity instruments granted are recognized at the grant-date fair value of the awards. Additionally, the Company is required to include an estimate of the number of awards that will be forfeited in calculating compensation costs, which are recognized over the requisite service period of the awards based on months vested. The Company estimates the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's statements of operations.
In accordance with the reverse triangular merger mentioned in Note 1, all outstanding and unexercised stock options were terminated without consideration during 2016. Therefore, there was no stock-based compensation recognized in 2019 and 2018.
- k. Subsequent Events
The Company has evaluated subsequent events from December 31, 2019 through March 4, 2020, the date the financial statements were available to be issued, and has determined that there were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 4 - Accrued Liabilities:

At December 31, 2019 and 2018, accrued liabilities consist of the following:

| | | 2019 | | 2018 |
|-------------------------------|----|------|----|------|
| Accrued professional services | \$ | 330 | \$ | 880 |
| Accrued liabilities | \$ | 330 | \$ | 880 |

Note 5 - Convertible Preferred Stock:

After completion of a reverse triangular merger in 2016, the Company amended and restated its certificate of incorporation to reduce the total number of shares the Company is authorized to issue to 145,688,437, consisting of 75,763,427 shares of common stock, and 69,925,010 shares of preferred stock. The two series of preferred stock are: (1) Series A-1 convertible preferred stock (59,202,967 shares) and (2) Series A-2 convertible preferred stock (10,722,043 shares).

Notes to Financial Statements

In 2013, the Company amended and restated its certificate of incorporation to increase the total number of shares the Company is authorized to issue to 408,066,473, consisting of 216,000,000 shares of common stock, and 192,066,473 shares of preferred stock. The three series of preferred stock are: (1) Series A-1 preferred stock (91,000,056 shares); (2) Series A-2 preferred stock 50,066,417 shares); and (3) Series B-1 preferred stock (51,000,000 shares).

The Company issued 20 million, 16 million and 18 million Series A-1 preferred shares at \$1.00 per share to existing investors in September 2012 and February 2013 and December 2013, respectively, under the series A-1 preferred stock agreement resulting in proceeds of \$20 million, \$16 million and \$18 million (excluding related issuance costs), respectively. In April and July 2011, 8,943,090 shares of the Company's Series A-1 preferred stock were issued in two tranches at a purchase price of \$1.00 per share. The Company subsequently issued 28,056,966 Series A-1 preferred stock at a purchase price of \$1.00 per share to a new investor and currently existing investors in August and December 2011.

During 2011, eligible investors exchanged 22,727,267 shares of Series A preferred stock (on a 4.546 for one basis) and 106,810,844 shares of Series B preferred stock (on a 2.36 for one basis) for shares of the Company's Series A-2 preferred stock. All 581,212 outstanding shares of Series A and Series B preferred stock that were not exchanged for Series A-2 preferred stock automatically converted to 29,050 shares of common stock (reflecting the 1-for-20 reverse stock split). As these transactions were contemplated and executed together, the Company has accounted for them as a single transaction. In accordance with ASC 260-10-S99-2, the Company recorded the \$72,484 difference between the fair value of the newly issued Series A-1 preferred stock and the carrying value of the Series A and Series B preferred stock immediately prior to the recapitalization as a decrease to additional paid in capital.

Significant terms of the preferred stock at December 31, 2019, were as follows:

Voting – Each holder of shares of the preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted and have equal voting rights and powers of the common stock.

Dividend Rights – In any calendar year, the holders of outstanding shares of Series A-1 and Series A-2 preferred stock shall be entitled to receive cash dividends, when, as and if declared by the Board of Directors, out of any assets at the time legally available therefor, at the dividend rate specified for such shares of Series A-1 and A-2 preferred stock payable in preference and priority to any declaration or distribution on common stock of the Company. Such dividends shall be noncumulative. No such dividends have been declared or paid since inception.

Conversion – Holders of shares of preferred stock are entitled, at any time, to cause their shares to be converted into fully paid and non-assessable shares of common stock. At December 31, 2017, each share of Series A-1 and A-2 preferred stock was convertible into one share of common stock. Additionally, the preferred stock will automatically convert into shares of common stock (i) immediately prior to the closing of a firm commitment underwritten initial public offering, with aggregate gross proceeds to the Company of at least \$50,000,000 pursuant to an effective registration statement filed under the Securities Act of 1933, or (ii) upon the receipt by the corporation of a written request for such conversion from the holders of a majority of the preferred stock then outstanding.

Liquidation – Upon any liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary (“Liquidation Event”), before any distribution or payment is made to holders of common stock, holders of Series A-1 and A-2 preferred stock are entitled to be paid, out of the assets of the Company legally available for distribution, or the consideration received in such transaction, for each share of preferred stock held by them, an amount equal to the original issuance price per share, plus all accrued or declared but unpaid dividends. If upon the Liquidation Event, the assets of the Company legally available for distribution to the holders of the Series A-1 and Series A-2 preferred stock are insufficient to permit the payment to such holders of the full amounts specified above, then the entire assets of the Company legally available for distribution shall be distributed with equal priority and pro rata among the holders of the Series A-1 and Series A-2 preferred stock in proportion to the full amounts they would otherwise be entitled to receive. After payment of the full liquidation preference of the preferred stock, the remaining assets of the Company, if any, shall be distributed ratably to the holders of the Series A-1 and A-2 preferred stock and common stock. Notwithstanding the foregoing, the aggregate distributions made with respect to any share of preferred stock shall not exceed an amount equal to three times the applicable liquidation preference for that share of preferred stock, plus any declared or accrued but unpaid dividends.

Redemption – The preferred stock is not redeemable.

Note 6 - Common Stock:

At December 31, 2019, the Company is authorized to issue 75,763,427 shares of common stock. The Company has reserved the following shares of common stock for any future issuance:

Notes to Financial Statements

| | | |
|--|----|------------|
| Conversion of Series A-1 convertible preferred stock | \$ | 59,202,967 |
| Conversion of Series A-2 convertible preferred stock | | 10,722,043 |
| Total | \$ | 69,925,010 |

Note 7 - Income Taxes:

Due to the Company's ordinary and capital losses, no provision or benefit for income taxes has been recorded in 2019 and 2018. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) ordinary and capital losses and tax credit carryforwards.

The components of loss before income taxes are as follows:

| | | 2019 | | 2018 |
|--------------------------|----|---------|----|-----------|
| Loss – U.S. only | \$ | (6,224) | \$ | (118,632) |
| Loss before income taxes | \$ | (6,224) | \$ | (118,632) |

The significant components of the Company's deferred tax assets as of December 31, 2019 and 2018 are as follows:

| | | 2019 | | 2018 |
|---|----|--------------|----|--------------|
| Deferred tax assets: | | | | |
| Net ordinary and capital loss carryforwards | \$ | 34,186,382 | \$ | 34,183,838 |
| Research credits | | 4,125,147 | | 3,647,207 |
| Total deferred tax assets | | 38,311,529 | | 37,831,045 |
| Valuation allowance | | (38,311,529) | | (37,831,045) |
| Net deferred tax assets | \$ | - | \$ | - |

The tax benefit of net ordinary and capital losses, temporary differences, and credit carryforwards is recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carry-forward period. Because of the Company's history of operating losses since inception, management believes that the deferred tax assets arising from the above-mentioned future tax benefits are currently not likely to be realized and, accordingly, has provided a full valuation allowance. The net valuation allowance increased by \$480,484 during the year ended December 31, 2019.

Net ordinary and capital losses and tax credit carryforwards as of December 31, 2019, are as follows:

| | | Amount | Expire in |
|---|----|-------------|---------------|
| Net ordinary and capital losses - federal | \$ | 124,655,000 | 2023-2039 |
| Net ordinary and capital losses – state | \$ | 114,681,000 | 2020-2039 |
| Tax credits – federal | \$ | 2,063,000 | 2027-2037 |
| Tax credits - state | \$ | 2,610,000 | No expiration |

Utilization of the net ordinary and capital loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code (IRC) of 1986, as amended, and similar state provisions. The Company has not performed an analysis to determine whether an ownership change under Section 382 of the IRC has occurred. The effect of an ownership change would be the imposition of an annual limitation on the use of net operating loss carryforwards attributable to periods before the change.

As of December 31, 2019, the Company has unrecognized tax benefits that do not affect the effective tax rate as the tax benefits create a deferred tax asset, which is currently fully offset with a full valuation allowance. However, due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of uncertain tax positions may result in liabilities which could be materially different from this estimate. In such an event, the Company will record additional tax expense or benefit in the period in which such resolution occurs.

Notes to Financial Statements

The Company's policy is to recognize any interest and penalties that might be incurred related to tax positions as a component of income tax expense. As of December 31, 2019, the Company did not accrue any potential interest and penalties related to unrecognized tax benefits.

The Company does not believe it is reasonably possible the unrecognized tax benefits will significantly change within the next twelve months for tax positions taken, or to be taken, for periods through December 31, 2019.

The Company files income tax returns in the United States and California. Certain tax years through 2019 remain subject to examination for federal and state purposes.