

# AMERICAN DEFENSE SYSTEMS INC. (OTC:ADFS)

## END-OF-YEAR 2020 MANAGEMENT REPORT

AS OF NOVEMBER 29TH, 2020



**American Defense Systems, Inc.**

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**AMERICAN DEFENSE SYSTEMS INC.  
(OTC:ADFS)**

**END-OF-YEAR 2020**  
**MANAGEMENT REPORT**  
**ON THE GENERAL AFFAIRS OF THE CORPORATION**  
**NOVEMBER 29<sup>TH</sup>, 2020**

**1.0 2020 GOALS AND ACCOMPLISHMENTS**

During the course of the current fiscal year 2020, the Corporation has achieved the following:

- (a) completed its revival with the State of Delaware;
- (b) completed the filing of federal and state tax returns up to the current fiscal year;
- (c) established new current and reserve bank accounts;
- (d) reactivated the Corporation institutional credit history;
- (e) established a stock brokerage account; and
- (f) submitted its paperwork for regularization and updating of its information with the OTC board.

**2.0 OPERATIONAL DIVISIONS**

The Corporation shall operate in four market segments, which products and services shall be branded as:

- (a) **‘Crisis & Disaster Preparation & Aid’**: to provide training, supplies, and armored facilities for law enforcement, food & pharmaceutical security, emergency services, and government-continuity in disaster-prone areas;
- (b) **‘Strategic Investments’**: to invest and partner with other firms that offer products and services that complement the Corporation’s market penetration strategies;

- (c) **‘Real Estate Holding’**: to acquire and develop a real estate portfolio that compliments and supports our market penetration strategies; and
- (d) **‘Maritime Support Services’**: to acquire and develop blast-resistant facilities for the safe harbor, re-supply, maintenance, and repair of vessels.

### 3.0 FINANCIAL PROJECTIONS

#### 3.1 Planned Leases & Purchases: Our current commitments for the next year are to:

- (a) lease pre-existing warehouses for storage, training, and engineering, with a current budget ceiling of \$28,800 per annum, and a respective projected gross income of at least \$48,000 per annum;
- (b) purchase approximately 600 acres of land for food & pharmaceutical production, storage, training, and blast resistant shelters with a current budget ceiling of \$12,500,00, using commercial mortgages, and a respective projected gross income of at least \$1,803,000 per annum;
- (c) purchase approximately 24 acres of land for the development of 75 disaster-resistant luxury residences for ‘continuity-of-government’ clientele, with a current budget ceiling of \$13,000,000 for the land, and \$96,000,000 for construction, using a commercial mortgage; with a respective projected gross income of at least \$13,500,000 from the land sales, \$132,000,000 from home sales, and annual management fees of an amount to be determined; and
- (d) lease and renovate maritime facilities to render ‘maritime support services’, under a minimum 25-year lease, paying annual rents from \$12,000 to \$100,000 per annum, with a renovation budget ceiling of \$7 million; and a respective projected gross income of at least \$750,000 per annum after completion of renovation.

#### 3.2 Cashflow Projections: Our current targets for the executive and management teams, for the next year are to:

- (a) secure approximately \$128,540,800 in financing, primarily through private loans and commercial debt in the form of approved mortgages, by the end of the third quarter;
- (b) secure the two respective commercial property leases with a maximum expense of \$40,000 for the year;

- (c) purchase the two respective development properties for a maximum total of \$25.5 million before the end of the year;
- (d) receive a minimum of \$1,851,000 in commercial rents during the year;
- (e) begin \$7 million in renovations and \$96 million in new constructions before the end of the year; and
- (f) execute contracts and receive a minimum of 10% deposits for the pre-sale of at least 37 housing units (out of 75 units) for a minimum contract total of at least \$71.78 million before the end of the year.

**3.3 Projected Assets, Liabilities & Revenue:** If the preceding targets are met for the Corporation, by the end of the year 2021, we project:

- (a) total debt, including mortgages, should be less than \$130 million, subject to foreign currency exchange rate changes or macro-economic changes that are unforeseeable today;
- (b) total real estate portfolio should be valued at no less than \$170 million subject to foreign currency exchange rate changes or macro-economic changes that are unforeseeable today; and
- (c) gross revenue for the year should be a minimum of approximately \$9.1 million (including approximately \$1.85 million in rental income, and at least \$7.17 million in sales deposits), subject to foreign currency exchange rate changes or macro-economic changes that are unforeseeable today.

**3.4 Operational Expenses & Income Targets:**

- (a) In consideration of the management's recommendations, the Corporation shall target an operating expense ratio (OER) of no more than 80% for the year 2021;
- (b) use the projected 80% OER in our forecasts, to remain conservative;
- (c) which means, as the Corporation targets a minimum gross revenue of \$9.1 million for year 2021, the management will target a net operating income of approximately \$1.82 million for year 2021.

**4.0 COMPENSATION FOR DIRECTORS AND MANAGEMENT**

**4.1 HR's Percentage of Total Revenue:**

(a) In consideration of the management’s survey of successful small to medium sized businesses in the United States from 2015 to 2020, which indicates that sustainable payroll budgets fall between 15 to 30 percent of gross revenue, with an average of about 21 percent; and

(b) in consideration of the fact that the Board of Directors and management team in place during the Fiscal Year 2020 laid the foundation for the work and revenue to be generated in Fiscal Year 2021, some without compensation prior to this Resolution;

(c) our total budget and provision for the compensation of all directors, officers, professionals, and staff (‘Human Resources’ or ‘HR’), for the years 2020 and 2021 (‘the Two-Year Period’), will be 21% of the total revenue generated in both of these years combined (the ‘Two-Year Compensation Budget’); and

(d) said provision shall be divided with 30% being allocated to compensate HR for work done in 2020, and 70% being allocated to compensate HR for work done in 2021.

**4.2 Two-Year Compensation Budgets:** If our targets are met for the Corporation, by the end of the year 2021, we therefore project:

(a) the gross revenue for the Two-Year Period would be approximately \$9.1 million;

(b) the Two-Year Compensation Budget would be approximately \$1.9 million (i.e. 21% of \$9.1 million);

(c) the 2020 Compensation Budget would be approximately \$573,000 (i.e. 30% of \$1.9 million); and

(d) the 2021 Compensation Budget would be approximately \$1.33 million (i.e. 70% of \$1.9 million).

**4.3 2020 Compensation Budget:** The provisional budget of \$573,000 for the 2020 Compensation Budget shall be allocated as follows:

(a) Director’s Monthly Retainer: 1% of the budget for each whole or partial calendar month of service as a Director (estimated subtotal of 22% of the budget or \$126,060);

(b) Director’s Meeting Fees: 1% of the budget for every month in which the Director attended a meeting, virtual meeting, teleconference, or email conference, as evidenced by the reports and resolutions shared, read, or executed by the Directors (estimated subtotal of 22% of the budget or \$126,060);

(c) Management Monthly Retainer & Benefits: 2% of the budget for each whole or partial calendar month of service as an officer of the Corporation (estimated subtotal of 28% of the budget or \$160,440 allocated);

(d) Indemnities and Insurances: The balance of the budget shall be allocated for securing, drafting, purchasing, registering, filing and establishing for all legal purposes, limitations of liability, including director and officer insurance policies.

**4.4 2021 Compensation Budget:** The provisional budget of \$1.33 million for the 2021 Compensation Budget shall be allocated as follows:

(a) Director's Monthly Retainer: 0.75% of the budget for each whole or partial calendar month of service as a Director (estimated subtotal of 40.5% of the budget or \$538,650 allocated for up to five Directors);

(b) Director's Meeting Fees: 0.375% of the budget for every month in which the Director attended a meeting, virtual meeting, teleconference, or email conference, as evidenced by the reports and resolutions shared, read, or executed by the Directors (estimated subtotal of 20.25% or \$269,325 allocated for up to five Directors);

(c) Management Monthly Retainer & Benefits: 0.75% of the budget for each whole or partial calendar month of service as an officer of the Corporation (estimated subtotal of 27% or \$359,100 allocated for three officers: the CEO, CFO/IR Manager, and Treasurer); and

(d) Other Professionals: The balance of the budget shall be allocated for the retainment of other professionals (e.g. attorneys and accountants) recruited or retained in 2021.

**4.5 Stock Options:** The Board of Directors shall determine the structure and timing of stock options for Directors and Officers serving during the fiscal year 2021 at any meeting of the Directors during that fiscal year.

This 29<sup>th</sup> day of November, 2020.

[signed]

[signed]

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CEO/CFO

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Treasurer