

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2021

OR

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

AMMO, Inc.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State
of incorporation)

001-13101
(Commission
File No.)

83-1950534
(I.R.S. Identification
Number)

7681 E Gray Road, Scottsdale, AZ 85260
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: **(480) 947-0001**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	POWW	The Nasdaq Stock Market LLC (Nasdaq Capital Market)
8.75% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.001 par value	POWWP	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of February 11, 2022, there were 115,526,404 shares of \$0.001 par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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PART I

ITEM 1. FINANCIAL STATEMENTS

AMMO, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2021	March 31, 2021
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 27,414,571	\$ 118,341,471
Accounts receivable, net	45,653,542	8,993,920
Due from related parties	15,657	15,657
Inventories	46,466,594	15,866,918
Prepaid expenses	3,923,778	2,402,366
Total Current Assets	<u>123,474,142</u>	<u>145,620,332</u>
Equipment, net	32,368,131	21,553,226
Other Assets:		
Deposits	15,585,668	1,833,429
Licensing agreements, net	4,167	41,667
Patents, net	5,649,562	6,019,567
Other intangible assets, net	139,652,716	2,220,958
Goodwill	90,870,094	-
Right of use assets - operating leases	2,707,546	2,090,162
Deferred income tax asset	892,258	-
TOTAL ASSETS	<u>\$ 411,204,284</u>	<u>\$ 179,379,341</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 24,425,343	\$ 4,371,974
Factoring liability	4,097,867	1,842,188
Accrued liabilities	5,114,768	3,462,785
Inventory credit facility	194,810	1,091,098
Current portion of operating lease liability	825,343	663,784
Current portion of note payable related party	669,463	625,147
Insurance premium note payable	285,718	41,517
Total Current Liabilities	<u>35,613,312</u>	<u>12,098,493</u>
Long-term Liabilities:		
Contingent consideration payable	227,139	589,892
Notes payable related party, net of current portion	358,263	865,771
Note payable	-	4,000,000
Construction note payable, net of unamortized issuance costs	18,905	-
Operating lease liability, net of current portion	2,006,707	1,477,656
Deferred income tax liability	1,850,277	-
Total Liabilities	<u>40,074,603</u>	<u>19,031,812</u>
Shareholders' Equity:		
Series A Cumulative Perpetual Preferred Stock 8.75%, (\$25.00 per share, \$0.001 par value) 1,400,000 shares issued and outstanding as of December 31, 2021	1,400	-
Common stock, \$0.001 par value, 200,000,000 shares authorized 115,436,404 and 93,099,067 shares issued and outstanding at December 31, 2021 and March 31, 2021, respectively	115,437	93,100
Additional paid-in capital	382,015,310	202,073,968
Accumulated deficit	(11,002,466)	(41,819,539)
Total Shareholders' Equity	<u>371,129,681</u>	<u>160,347,529</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 411,204,284</u>	<u>\$ 179,379,341</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2021	2020	2021	2020
Net Revenues				
Ammunition sales	\$ 44,069,473	\$ 12,834,490	\$ 112,629,655	\$ 27,987,438
Marketplace revenue	17,596,769	-	46,646,051	-
Casing sales	3,022,944	3,785,754	10,891,897	10,305,648
	<u>64,689,186</u>	<u>16,620,244</u>	<u>170,167,603</u>	<u>38,293,086</u>
Cost of Revenues	<u>42,166,320</u>	<u>13,278,338</u>	<u>102,457,775</u>	<u>32,590,149</u>
Gross Profit	<u>22,522,866</u>	<u>3,341,906</u>	<u>67,709,828</u>	<u>5,702,937</u>
Operating Expenses				
Selling and marketing	1,510,574	542,271	4,226,817	1,244,323
Corporate general and administrative	3,737,455	1,639,052	10,976,288	3,805,230
Employee salaries and related expenses	2,939,095	1,172,765	7,943,076	3,329,511
Depreciation and amortization expense	3,725,921	416,625	10,044,994	1,242,809
Loss on purchase	-	-	-	1,000,000
Total operating expenses	<u>11,913,045</u>	<u>3,770,713</u>	<u>33,191,175</u>	<u>10,621,873</u>
Income/(Loss) from Operations	<u>10,609,821</u>	<u>(428,807)</u>	<u>34,518,653</u>	<u>(4,918,936)</u>
Other Expenses				
Other income	363	461,000	21,788	274,400
Interest expense	(190,319)	(1,938,630)	(468,404)	(2,704,315)
Total other expenses	<u>(189,956)</u>	<u>(1,477,630)</u>	<u>(446,616)</u>	<u>(2,429,915)</u>
Income/(Loss) before Income Taxes	<u>10,419,865</u>	<u>(1,906,437)</u>	<u>34,072,037</u>	<u>(7,348,851)</u>
Provision for Income Taxes	<u>1,351,998</u>	<u>-</u>	<u>1,351,998</u>	<u>-</u>
Net Income/(Loss)	<u>9,067,867</u>	<u>(1,906,437)</u>	<u>32,720,039</u>	<u>(7,348,851)</u>
Preferred Stock Dividend	<u>(782,582)</u>	<u>-</u>	<u>(1,902,966)</u>	<u>-</u>
Net Income/(Loss) Attributable to Common Stock Shareholders	<u>\$ 8,285,285</u>	<u>\$ (1,906,437)</u>	<u>\$ 30,817,073</u>	<u>\$ (7,348,851)</u>
Net Income/(Loss) per share				
Basic	<u>\$ 0.07</u>	<u>\$ (0.04)</u>	<u>\$ 0.28</u>	<u>\$ (0.15)</u>
Diluted	<u>\$ 0.07</u>	<u>\$ (0.04)</u>	<u>\$ 0.27</u>	<u>\$ (0.15)</u>
Weighted average number of shares outstanding				
Basic	<u>114,757,014</u>	<u>47,790,105</u>	<u>111,289,024</u>	<u>47,023,094</u>
Diluted	<u>116,717,500</u>	<u>47,790,105</u>	<u>113,350,998</u>	<u>47,023,094</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Three and Nine Months Ended December 31, 2021 and 2020
(Unaudited)

	Preferred Stock		Common Shares		Additional	Stock	Accumulated	Total
	Number	Par Value	Number	Par Value	Paid-In Capital	Subscription Receivable	(Deficit)	
Balance as of March 31, 2021	-	\$ -	93,099,967	\$ 93,100	\$ 202,073,968	\$ -	\$ (41,819,539)	\$ 160,347,529
Acquisition stock issuances	-	-	20,000,000	20,000	142,671,282	-	-	142,691,282
Common stock issued for exercised warrants	-	-	431,080	431	943,476	-	-	943,907
Common stock issued for cashless warrant exercise	-	-	276,907	277	(277)	-	-	-
Common stock issued for services and equipment	-	-	772,450	773	1,630,928	-	-	1,631,701
Employee stock awards	-	-	856,000	856	2,897,394	-	-	2,898,250
Stock grants	-	-	-	-	197,110	-	-	197,110
Issuance of Series A Preferred Stock, net of issuance costs	1,400,000	1,400	-	-	31,007,396	-	-	31,008,796
Warrant issued for services	-	-	-	-	594,033	-	-	594,033
Preferred stock dividends declared	-	-	-	-	-	-	(1,758,405)	(1,758,405)
Dividends accumulated on preferred stock	-	-	-	-	-	-	(144,561)	(144,561)
Net income	-	-	-	-	-	-	32,720,039	32,720,039
Balance as of December 31, 2021	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>115,436,404</u>	<u>\$ 115,437</u>	<u>\$ 382,015,310</u>	<u>\$ -</u>	<u>\$ (11,002,466)</u>	<u>\$ 371,129,681</u>
Balance as of March 31, 2020	-	\$ -	46,204,139	\$ 46,204	\$ 53,219,834	\$ -	\$ (34,007,245)	\$ 19,258,793
Common stock issued for cash	-	-	11,536,143	11,537	23,601,082	-	-	23,612,619
Common stock issued for convertible notes	-	-	2,667,358	2,667	3,872,292	-	-	3,874,959
Common stock issued for exercised warrants	-	-	1,096,939	1,097	2,287,781	-	-	2,288,878
Stock subscription receivable for exercised warrants	-	-	309,775	310	664,665	(664,975)	-	-
Common stock issued for debt conversion - related party	-	-	1,000,000	1,000	2,099,000	-	-	2,100,000
Common stock issued for cashless warrant exercise	-	-	160,274	160	(160)	-	-	-
Common stock issuance costs	-	-	-	-	(3,344,436)	-	-	(3,344,436)
Common stock issued for services	-	-	58,336	58	87,442	-	-	87,500
Employee stock awards	-	-	465,081	465	716,124	-	-	716,589
Stock grants	-	-	-	-	213,130	-	-	213,130
Issuance of warrants for convertible notes	-	-	-	-	1,315,494	-	-	1,315,494
Net loss	-	-	-	-	-	-	(7,348,851)	(7,348,851)
Balance as of December 31, 2020	<u>-</u>	<u>\$ -</u>	<u>63,498,045</u>	<u>\$ 63,498</u>	<u>\$ 84,732,248</u>	<u>\$ (664,975)</u>	<u>\$ (41,356,096)</u>	<u>\$ 42,774,675</u>
	Preferred Stock		Common Shares		Additional	Stock	Accumulated	Total
	Number	Par Value	Number	Par Value	Paid-In Capital	Subscription Receivable	(Deficit)	
Balance as of September 30, 2021	1,400,000	\$ 1,400	113,583,016	\$ 113,583	\$ 369,431,456	\$ -	\$ (19,287,751)	\$ 350,258,688
Acquisition stock issuances	-	-	1,500,000	1,500	10,753,500	-	-	10,755,000
Common stock issued for exercised warrants	-	-	50,938	51	122,200	-	-	122,251
Common stock issued for cashless warrant exercise	-	-	-	-	-	-	-	-
Common stock issued for services and equipment	-	-	1,200	2	4,198	-	-	4,200
Employee stock awards	-	-	301,250	301	1,044,824	-	-	1,045,125
Stock grants	-	-	-	-	65,098	-	-	65,098
Warrant issued for services	-	-	-	-	594,033	-	-	594,033
Issuance of Series A Preferred Stock, net of issuance costs	-	-	-	-	-	-	-	-
Preferred stock dividends declared	-	-	-	-	-	-	(638,021)	(638,021)
Dividends accumulated on preferred stock	-	-	-	-	-	-	(144,561)	(144,561)
Net income	-	-	-	-	-	-	9,067,867	9,067,867
Balance as of December 31, 2021	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>115,436,404</u>	<u>\$ 115,437</u>	<u>\$ 382,015,310</u>	<u>\$ -</u>	<u>\$ (11,002,466)</u>	<u>\$ 371,129,681</u>
Balance as of September 30, 2020	-	\$ -	48,324,347	\$ 48,323	\$ 56,895,422	\$ -	\$ (39,449,659)	\$ 17,494,086
Common stock issued for cash	-	-	9,872,928	9,873	20,720,875	-	-	20,730,748
Common stock issued for convertible notes	-	-	2,667,358	2,667	3,872,292	-	-	3,874,959
Common stock issued for exercised warrants	-	-	975,726	977	2,045,476	-	-	2,046,453
Stock subscription receivable for exercised warrants	-	-	309,775	310	664,665	(664,975)	-	-
Common stock issued for debt conversion	-	-	1,000,000	1,000	2,099,000	-	-	2,100,000
Common stock issued for cashless warrant exercise	-	-	159,995	160	(160)	-	-	-
Common stock issuance costs	-	-	-	-	(3,274,436)	-	-	(3,274,436)
Common stock issued for services	-	-	50,000	50	87,450	-	-	87,500
Employee stock awards	-	-	137,916	138	240,715	-	-	240,853
Stock grants	-	-	-	-	65,455	-	-	65,455
Issuance of warrants for convertible notes	-	-	-	-	1,315,494	-	-	1,315,494
Net loss	-	-	-	-	-	-	(1,906,437)	(1,906,437)
Balance as of December 31, 2020	<u>-</u>	<u>\$ -</u>	<u>63,498,045</u>	<u>\$ 63,498</u>	<u>\$ 84,732,248</u>	<u>\$ (664,975)</u>	<u>\$ (41,356,096)</u>	<u>\$ 42,774,675</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	For the Nine Months Ended December 31,	
	2021	2020
Cash flows from operating activities:		
Net Income/(Loss)	\$ 32,720,039	\$ (7,348,851)
Adjustments to reconcile Net Loss to Net Cash used in operations:		
Depreciation and amortization	12,778,103	3,588,966
Debt discount amortization	18,905	325,141
Employee stock awards	2,898,250	716,589
Stock grants	197,110	213,130
Stock for services	4,200	87,500
Contingent consideration payable fair value	(362,753)	(88,106)
Allowance for doubtful accounts	1,097,985	54,846
(Gain)/loss on disposal of assets	(12,044)	25,400
Reduction in right of use asset	496,469	322,970
Warrant issued for services	148,508	-
Deferred income taxes	958,019	-
Stock issued in lieu of cash payments	-	48,000
Interest on convertible promissory notes	-	146,104
Paycheck protection program note forgiveness	-	(624,600)
Loss on Jagemann Munition Components	-	1,000,000
Stock and warrants for note conversion	-	1,315,494
Changes in Current Assets and Liabilities		
Accounts receivable	(20,755,245)	(3,927,054)
Due to (from) related parties	-	150
Inventories	(30,599,676)	(5,140,518)
Prepaid expenses	1,569,928	16,985
Deposits	(13,051,850)	164,388
Accounts payable	7,538,451	1,842,472
Accrued liabilities	1,310,641	2,332,819
Operating lease liability	(514,872)	(322,037)
Net cash used in operating activities	(3,559,832)	(5,250,212)
Cash flows from investing activities:		
Gemini acquisition	(50,517,840)	-
Purchase of equipment	(12,868,156)	(4,493,051)
Proceeds from disposal of assets	59,800	-
Net cash used in investing activities	(63,326,196)	(4,493,051)
Cash flow from financing activities:		
Payments on inventory facility, net	(896,287)	2,250,000
Proceeds from factoring liability	86,465,962	26,079,000
Payments on factoring liability	(84,210,284)	(25,794,381)
Payments on assumed debt from Gemini	(50,000,000)	-
Payments on note payable - related party	(463,192)	(7,235,312)
Payments on insurance premium note payment	(1,922,651)	(452,471)
Payments on note payable	(4,000,000)	-
Proceeds from paycheck protection program notes	-	1,051,985
Proceeds from note payable related party issued	-	3,500,000
Proceeds from note payable	-	4,000,000
Proceeds from convertible promissory notes	-	1,959,000
Sale of preferred stock	35,000,000	-
Sale of common stock	-	23,564,619
Common stock issued for exercised warrants	943,907	2,288,878
Stock issuance costs	(3,199,922)	(3,344,436)
Preferred stock dividends paid	(1,758,405)	-
Net cash used in/(provided by) financing activities	(24,040,872)	27,866,882
Net increase/(decrease) in cash	(90,926,900)	18,123,619
Cash, beginning of period	118,341,471	884,274
Cash, end of period	\$ 27,414,571	\$ 19,007,893

(Continued)

AMMO, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

		For the Nine Months Ended December 31,	
		2021	2020
Supplemental cash flow disclosures:			
Cash paid during the period for:			
Interest	\$	474,454	\$ 923,454
Income taxes	\$	-	\$ -
Non-cash investing and financing activities:			
Acquisition stock issuances	\$	143,400,000	\$ -
Insurance premium note payment	\$	2,166,852	\$ 226,539
Dividends accumulated on preferred stock	\$	144,561	\$ -
Operating lease liability	\$	501,125	\$ 737,680
Construction note payable	\$	387,968	\$ -
Warrant issued for services	\$	594,033	\$ -
Note payable related party	\$	-	\$ 2,635,797
Convertible promissory note	\$	-	\$ 3,520,000
Note payable related party conversion	\$	-	\$ 2,100,000
Stock subscription receivable	\$	-	\$ 664,975

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and March 31, 2021
(Unaudited)

NOTE 1 – ORGANIZATION AND BUSINESS ACTIVITY

We were formed under the name Retrospettiva, Inc. in November 1990 to manufacture and import textile products, including both finished garments and fabrics. We were inactive until the following series of events in December 2016 and March 2017.

On December 15, 2016, the Company's majority shareholders sold their common stock to Mr. Fred W. Wagenhals ("Mr. Wagenhals") resulting in a change in control of the Company. Mr. Wagenhals was appointed as sole officer and the sole member of the Company's Board of Directors.

The Company also approved (i) doing business in the name AMMO, Inc., (ii) a change to the Company's OTC trading symbol to POWW, (iii) an agreement and plan of merger to re-domicile and change the Company's state of incorporation from California to Delaware, and (iv) a 1-for-25 reverse stock split of the issued and outstanding shares of the common stock of the Company. These transactions were effective as of December 30, 2016.

On March 17, 2017, the Company entered into a definitive agreement with AMMO, Inc. a Delaware Corporation (PRIVCO) under which the Company acquired all of the outstanding shares of common stock of (PRIVCO). (PRIVCO) subsequently changes its name to AMMO Munitions, Inc.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

The accompanying unaudited condensed consolidated financial statements and related disclosures included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and reflect all adjustments, which consist solely of normal recurring adjustments, needed to fairly present the financial results for these periods. Additionally, these condensed consolidated financial statements and related disclosures are presented pursuant to the rules and regulations of the Securities Exchange Commission ("SEC").

The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures contained in the Company's Annual Report filed with the SEC on Form 10-K for the year ended March 31, 2021. The results for the three and nine month periods ended December 31, 2021 are not necessarily indicative of the results that may be expected for the entire fiscal year. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the SEC. In the opinion of management, all adjustments have been made, which consist only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and nine month periods ended December 31, 2021 and 2020, (b) the financial position at December 31, 2021, and (c) cash flows for the nine month periods ended December 31, 2021 and 2020.

We use the accrual basis of accounting and U.S. GAAP and all amounts are expressed in U.S. dollars. The Company has a fiscal year-end of March 31st.

Unless the context otherwise requires, all references to "Ammo", "we", "us", "our," or the "Company" are to AMMO, Inc., a Delaware corporation, and its consolidated subsidiaries.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of AMMO, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the condensed consolidated financial statements include the valuation of allowances for doubtful accounts, valuation of deferred tax assets, inventories, useful lives of assets, intangible assets, stock-based compensation and warrant-based compensation.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable and Allowance for Doubtful Accounts

Our accounts receivable represents amounts due from customers for products sold and include an allowance for uncollectible accounts which is estimated based on the aging of the accounts receivable and specific identification of uncollectible accounts. At December 31, 2021 and March 31, 2021, we reserved \$1,240,271 and \$148,540, respectively, of allowance for doubtful accounts.

License Agreements

We are a party to a license agreement with Jesse James, a well-known motorcycle designer, and Jesse James Firearms (“JJF”), a Texas limited liability company. The license agreement grants us the exclusive worldwide rights through October 15, 2021 to Mr. James’ image rights and trademarks associated with him in connection with the marketing, promotion, advertising, sale, and commercial exploitation of Jesse James Branded Products. We agreed to pay Mr. James royalty fees on the sale of ammunition and non-ammunition Branded Products and to reimburse him for any out-of-pocket expenses and reasonable travel expenses.

We are a party to a license agreement with Jeff Rann, a well-known wild game hunter and spokesman for the firearm and ammunition industries. The license agreement grants us through February 2022 the exclusive worldwide rights to Mr. Rann’s image rights and trademarks associated with him in connection with the marketing, promotion, advertising, sale, and commercial exploitation of all Jeff Rann Branded Products. We agreed to pay Mr. Rann royalty fees on the sale of ammunition and non-ammunition Branded Products and to reimburse him for any out-of-pocket expenses and reasonable travel expenses.

Patents

On September 28, 2017, AMMO Technologies Inc. (“ATI”), an Arizona corporation, which is 100% owned by us, merged with Hallam, Inc, a Texas corporation, with ATI being the survivor. The primary asset of Hallam, Inc. was an exclusive license to produce projectiles and ammunition using the Hybrid Luminescence Ammunition Technology under patent U.S. 8,402,896 B1 with a publication date of March 26, 2013 owned by the University of Louisiana at Lafayette. The license was formally amended and assigned to AMMO Technologies Inc. pursuant to an Assignment and First Amendment to Exclusive License Agreement. Assumption Agreement dated to be effective as of August 22, 2017, the Merger closing date. This asset will be amortized from September 2017, the first full month of the acquired rights, through October 29, 2028.

Under the terms of the Exclusive License Agreement, the Company is obligated to pay a quarterly royalty to the patent holder, based on a \$0.01 per unit basis for each round of ammunition sold that incorporates this patented technology through October 29, 2028. For the nine months ended December 31, 2021 and 2020, the Company recognized royalty expenses of \$18,558 and \$70,793, respectively under this agreement.

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On October 5, 2018, we completed the acquisition of SW Kenetics Inc. ATI succeeded all of the assets of SW Kenetics, Inc. and assumed all of the liabilities.

The primary asset of SW Kenetics Inc. was a pending patent for modular projectiles. All rights to patent pending application were assigned and transferred to AMMO Technologies, Inc. pursuant to Intellectual Property Rights Agreement on September 27, 2018.

We intend to continue building our patent portfolio to protect our proprietary technologies and processes, and will file new applications where appropriate to preserve our rights to manufacture and sell our branded lines of ammunition.

Other Intangible Assets

On March 15, 2019, Enlight Group II, LLC d/b/a Jagemann Munition Components, a wholly owned subsidiary of AMMO, Inc., completed its acquisition of assets of Jagemann Stamping Company's ammunition casing manufacturing and sales operations pursuant to the terms of the Amended and Restated Asset Purchase Agreement. The intangible assets acquired include a tradename, customer relationships, and intellectual property.

On April 30, 2021, we entered into an agreement and plan of merger (the "Merger Agreement"), by and among the Company, SpeedLight Group I, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company and Gemini Direct Investments, LLC, a Nevada limited liability company. Whereby SpeedLight Group I, LLC merged with and into Gemini Direct Investments, LLC, with SpeedLight Group I, LLC surviving the merger as a wholly owned subsidiary of the Company. At the time of the Merger, Gemini Direct Investments, LLC had nine (9) subsidiaries, all of which are related to Gemini's ownership of Gunbroker.com, an online auction marketplace dedicated to firearms, hunting, shooting, and related products. The intangible assets acquired include a tradename, customer relationships, intellectual property, software and domain names.

Impairment of Long-Lived Assets

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. No impairment expense was recognized for the three and nine months ended December 31, 2021 and 2020.

Revenue Recognition

We generate revenue from the production and sale of ammunition, and marketplace fee revenue, which includes auction revenue, payment processing revenue, and shipping income. We recognize revenue according to Accounting Standard Codification - Revenue from Contract with Customers ("ASC 606"). When the customer obtains control over the promised goods or services, we record revenue in the amount of consideration that we can expect to receive in exchange for those goods and services. We apply the following five-step model to determine revenue recognition:

- Identification of a contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the separate performance allocation
- Recognition of revenue when performance obligations are satisfied

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We only apply the five-step model when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services it transfers to the customer. At contract inception and once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations, and assess whether each promised good or service is distinct. Our contracts contain a single performance obligation and the entire transaction price is allocated to the single performance obligation. We recognize as revenues the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied. Accordingly, we recognize revenues (net) when the customer obtains control of our product, which typically occurs upon shipment of the product or the performance of the service. In the year ended March 31, 2021, we began accepting contract liabilities or deferred revenue. We included Deferred Revenue in our Accrued Liabilities. We will recognize revenue when the performance obligation is met.

For the three and nine months ended December 31, 2021, the Company's customers that comprised more than ten percent (10%) of total revenues and accounts receivable were as follows:

PERCENTAGES	Revenues at December 31, 2021		Accounts Receivable	
	Three Months Ended	Nine Months Ended	December 31, 2021	March 31, 2021
Customers:				
A	-	12.2%	-	-
B	-	-	11.2%	-
C	-	-	18.9%	-
D	-	-	-	11.9%
E	-	-	-	23.3%
F	-	-	-	10.6%
	-	12.2%	30.1%	45.8%

Disaggregated Revenue Information

The following table represent a disaggregation of revenue from customers by category. We attribute net sales to categories by product or services types; ammunition, ammunition casings, and marketplace fees. The Company notes that revenue recognition processes are consistent between product and service type, however, the amount, timing and uncertainty of revenue and cash flows may vary by each product type due to the customers of each product and service type.

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Ammunition Sales	\$ 44,069,473	\$ 12,834,490	\$ 112,629,655	\$ 27,987,438
Marketplace fee revenue	17,596,769	-	46,646,051	-
Ammunition Casings Sales	3,022,944	3,785,754	10,891,897	10,305,648
Total Sales	\$ 64,689,186	\$ 16,620,244	\$ 170,167,603	\$ 38,293,086

Ammunition products are sold through "Big Box" retailers, manufacturers, local ammunition stores, and shooting range operators. We also sell directly to customers online. In contrast, our ammunition casings products are sold to manufacturers. Marketplace fees are generated through our Gunbroker.com online auction marketplace.

Advertising Costs

We expense advertising costs as they are incurred in selling and marketing expenses of operating expenses. Marketplace advertising costs are expenses as they are incurred in cost of revenues. We incurred advertising expenses of \$276,742 and \$448,368 for the three and nine months ended December 31, 2021, respectively and we incurred advertising expenses of \$51,700 and \$190,277 for the three and nine months ended December 31, 2020, recognized in selling expenses and \$102,042, and \$193,753 of marketplace advertising expenses recognized in cost of revenues for the three and nine months ended December 31, 2021.

Inventories

We state inventories at the lower of cost or net realizable value. We determine cost using the average cost method. Our inventory consists of raw materials, work in progress, and finished goods. Cost of inventory includes cost of parts, labor, quality control, and all other costs incurred to bring our inventories to condition ready to be sold. We periodically evaluate and adjust inventories for obsolescence. These provisions are based on our best estimates. At December 31, 2021, and March 31, 2021, we conducted a full analysis of inventory on hand and expensed all inventory not currently in use, or for which there was no future demand.

Research and Development

To date, we have expensed all costs associated with developing our product specifications, manufacturing procedures, and products through our cost of products sold, as this work was done by the same employees who produced the finished product. We anticipate that it may become necessary to reclassify research and development costs into our operating expenditures for reporting purposes as we begin to develop new technologies and lines of ammunition.

AMMO, Inc.
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Property and Equipment

We state property and equipment at cost, less accumulated depreciation. We capitalize major renewals and improvements, while we charge minor replacements, maintenance, and repairs to current operations. We compute depreciation by applying the straight-line method over estimated useful lives, which are generally five to ten years.

Compensated Absences

We accrue a liability for compensated absences in accordance with Accounting Standards Codifications 710 – Compensation – General (“ASC 710”).

Stock-Based Compensation

We account for stock-based compensation at fair value in accordance with Accounting Standards Codification 718 – Compensation – Stock Compensation (“ASC 718”), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors. Stock-based compensation is recognized on a straight line basis over the vesting periods and forfeitures are recognized in the periods they occur. There were 301,250 and 856,000 shares of common stock issued to employees, members of the Board of Directors, and members of our advisory committee for services during the three and nine months ended December 31, 2021, respectively. There were 137,916 and 465,081 shares of common stock issued to employees, members of the Board of Directors, and members of the Advisory Committee for services during the three and nine ended December 31, 2020, respectively.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to us as of December 31, 2021. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash, accounts receivable, accounts payable, and amounts due to related parties. Fair values were assumed to approximate carrying values because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Concentrations of Credit Risk

Accounts at banks are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of December 31, 2021, our bank account balances exceeded federally insured limits.

Income Taxes

We file federal and state income tax returns in accordance with the applicable rules of each jurisdiction. We account for income taxes under the asset and liability method in accordance with Accounting Standards Codification 740 - Income Taxes (“ASC 740”). The provision for income taxes includes federal, state, and local income taxes currently payable, and deferred taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable amounts in years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. In accordance with ASC 740, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. We measure recognized income tax positions at the largest amount that is greater than 50% likely of being realized. We reflect changes in recognition or measurement in the period in which the change in judgment occurs.

Excise Tax

As a result of regulations imposed by the Federal Government for sales of ammunition to non-government U.S. entities, we charge and collect an 11% excise tax for all products sold into these channels. During the three months ended December 31, 2021 and 2020, we recognized approximately \$4.0 million and \$1.2 million respectively, in excise taxes. During the nine months ended December 31, 2021 and 2020, we recognized approximately \$10.3 million and \$2.7 million respectively, in excise taxes. For ease in selling to commercial markets, excise tax is included in our unit price for the products sold. We record this through net sales and expense the offsetting tax expense to cost of goods sold.

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Contingencies

Certain conditions may exist as of the date the condensed consolidated financial statements are issued that may result in a loss to us but will only be resolved when one or more future events occur or fail to occur. We assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, we evaluate the perceived merits of any legal proceedings or unasserted claims and the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability is reasonably estimated, the estimated liability would be accrued in our condensed consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of range of possible loss if determinable and material, would be disclosed. On September 24, 2019, the Company received notice that a former employee that had voluntarily terminated filed a complaint against the Company, and certain individuals, with the U.S. Department of Labor ("DOL"). The Complaint alleges that the individual reported potential violations of SEC rules and regulations by management and that as a result of such disclosures, the individual experienced a hostile work environment; that the Company lacks sufficient internal controls, and that the individual was the victim of retaliation and constructive discharge after being removed as a director by majority vote of the shareholders. The claims were investigated by a newly appointed Special Investigative Committee made up of independent directors represented by special independent legal counsel. The Special Investigative Committee and legal counsel found the material claims were unsubstantiated, including those concerning alleged SEC violations, and recommended enhancements to certain corporate governance charter documents and processes which the Company promptly implemented. The matter is currently the subject of administrative investigation by the DOL via the Occupational Safety and Health Administration. The Company filed a timely Position Statement with the DOL in October of 2019 in response to the Complaint. The Company received a Due Process letter on January 13, 2022 and responded as directed with supplemental analysis on February 1, 2022. The Company disputes the allegations of wrongdoing and believes the matters raised in the Complaint are without merit and therefore has and will continue to aggressively defend its interests in this matter. On February 4, 2020, the Company filed suit against a former employee for violating merger agreements with SW Kenetics, Inc., employment agreements, and by unlawfully retaining property belonging to the Company following their termination. On March 11, 2020, the former employee filed a counterclaim against the Company citing breach of contract, breach of implied covenant of good faith and fair dealing, unjust enrichment, and declaratory judgement. The matter was resolved in a confidential manner on or about December 12, 2021. The Company retrieved the unlawfully removed assets, obtained a full release of all claims arising in the subject lawsuit and that might arise in the future relating to contingent consideration the former employee might have been entitled to in the future, subject to certain sales targets being achieved. The lawsuit was dismissed with prejudice, all parties bearing their own fees and costs. There were no other known contingencies at December 31, 2021.

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NOTE 3 – INCOME/(LOSS) PER COMMON SHARE

We calculate basic income/(loss) per share using the weighted-average number of shares of common stock outstanding during each reporting period. Diluted loss per share includes potentially dilutive securities, such as outstanding options and warrants. We use the treasury stock method, in the determination of dilutive shares outstanding during each reporting period. We have issued warrants to purchase 2,933,755 shares of common stock. Due to the loss from operations in the three and nine months ended December 31, 2020, there are no common shares added to calculate the dilutive loss per share for that period as the effect would be antidilutive. The Company excluded warrants of 150,000 for the three months ended December 31, 2021 and warrants of 8,910,205 and 8,629,432 for the three and nine months ended December 31, 2020, respectively, from the weighted average diluted common shares outstanding because their inclusion would have been antidilutive.

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2021	2020	2021	2020
Numerator:				
Net income/(loss)	\$ 9,067,867	\$ (1,906,437)	\$ 32,720,039	\$ (7,348,851)
Less: Preferred stock dividends	(782,582)	-	(1,902,966)	-
Net income/(loss) attributable to common stockholders	\$ 8,285,285	\$ (1,906,437)	\$ 30,817,073	\$ (7,348,851)
Denominator:				
Weighted average shares of common stock - basic	114,757,014	47,790,105	111,289,024	47,023,094
Effect of dilutive common stock purchase warrants	1,835,395	-	1,934,172	-
Effect of dilutive equity incentive awards	125,091	-	127,802	-
	116,717,500	47,790,105	113,350,998	47,023,094
Basic earnings per share:				
Income/(loss) per share attributable to common stockholders - basic	\$ 0.07	\$ (0.04)	\$ 0.28	\$ (0.15)
Diluted earnings per share:				
Income/(loss) per share attributable to common stockholders - diluted	\$ 0.07	\$ (0.04)	\$ 0.27	\$ (0.15)

NOTE 4 – INVENTORIES

At December 31, 2021 and March 31, 2021, the inventory balances are composed of:

	December 31, 2021	March 31, 2021
Finished product	\$ 3,948,574	\$ 899,266
Raw materials	26,307,975	12,440,548
Work in process	16,210,045	2,527,104
	\$ 46,466,594	\$ 15,866,918

NOTE 5 – EQUIPMENT

We state equipment at historical cost less accumulated depreciation. We compute depreciation using the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives, which are generally five to ten years. Upon retirement or sale of property and equipment, we remove the cost of the disposed assets and related accumulated depreciation from the accounts and any resulting gain or loss is credited or charged to other income. We charge expenditures for normal repairs and maintenance to expense as incurred.

We capitalize additions and expenditures for improving or rebuilding existing assets that extend the useful life. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the shorter of their economic lives or the lease term including any renewals that are reasonably assured.

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Equipment consisted of the following at December 31, 2021 and March 31, 2021:

	December 31, 2021	March 31, 2021
Construction in progress	\$ 9,282,292	\$ 544,939
Leasehold Improvements	257,009	126,558
Furniture and Fixtures	331,490	87,790
Vehicles	153,254	142,691
Equipment	31,238,627	26,425,221
Tooling	143,710	121,790
Total property and equipment	\$ 41,406,382	\$ 27,448,989
Less accumulated depreciation	(9,038,251)	(5,895,763)
Net equipment	\$ 32,368,131	\$ 21,553,226

Depreciation Expense for the three and nine months ended December 31, 2021 totaled \$1,087,550, and \$3,184,976, respectively. Depreciation Expense for the three and nine months ended December 31, 2020 totaled \$731,183, and \$ 2,110,125, respectively.

NOTE 6 – FACTORING LIABILITY

On July 1, 2019, we entered into a Factoring and Security Agreement with Factors Southwest, LLC ("FSW"). FSW may purchase from time to time the Company's Accounts Receivables with recourse on an account by account basis. The twenty-four month agreement contains a maximum advance amount of \$5,000,000 on 85% of eligible accounts and has an annualized interest rate of the Prime Rate published from time to time by the Wall Street Journal plus 4.5%. The agreement contains fee of 3% (\$150,000) of the Maximum Facility assessed to the Company. Our obligations under this agreement are secured by present and future accounts receivables and related assets, inventory, and equipment. The Company has the right to terminate the agreement, with 30 days written notice, upon obtaining a non-factoring credit facility. This agreement provides the Company with the ability to convert our account receivables into cash. As of December 31, 2021, the outstanding balance of the Factoring Liability was \$4,097,867. For the three and nine months ended December 31, 2021, interest expense recognized on the Factoring Liability was \$103,876 and \$216,242, respectively, including \$37,500 and \$75,000 of respective amortization of the commitment fee and for the three and nine months ended December 31, 2020 was \$86,006 and \$313,747, respectively, including \$37,500 and \$50,000 of respective amortization of the commitment fee.

On June 17, 2020, this agreement was amended which extended the maturity date to June 17, 2022.

NOTE 7 – INVENTORY CREDIT FACILITY

On June 17, 2020, we entered into a Revolving Inventory Loan and Security Agreement with FSW. FSW will establish a revolving credit line, and make loans from time to time to the Company for the purpose of providing capital. The twenty-four month agreement secured by our inventory, among other assets, contains a maximum loan amount of \$1,750,000 on eligible inventory and has an annualized interest rate of the greater of the three-month LIBOR rate plus 3.09% or 8%. The agreement contains a fee of 2% of the maximum loan amount (\$35,000) assessed to the Company. On July 31, 2020, the Company amended its Revolving Loan and Security Agreement to increase the maximum inventory loan amount to \$2,250,000. As of December 31, 2021, the outstanding balance of the Inventory Credit Facility was \$194,810. Interest expense recognized on the Inventory Credit Facility was \$24,256, including \$8,561 of amortization of the annual fee for the nine months ended December 31, 2021 and \$118,202, including \$24,962 of amortization of the annual fee for the nine months ended December 31, 2020.

NOTE 8 – LEASES

We lease office, manufacturing, and warehouse space in Scottsdale and Payson, AZ, Atlanta and Marietta, GA, and Manitowoc and Two Rivers, WI under contracts we classify as operating leases. None of our leases are financing leases. The Payson lease had an option to renew for five years and the lease expired in November of 2021. The Scottsdale lease does not include a renewal option. As of June 26, 2020, the Company entered into an amended agreement that modified the Manitowoc lease to monthly payments of \$34,071 and decrease the term to March 2025. The agreement does not contain a renewal option. Accordingly, we modified our Right of Use Assets and Operating Lease Liabilities by \$737,680 at June 30, 2020. In August of 2021 we extended the lease of our Atlanta offices through May of 2027, accordingly we increased our Right of Use Assets and Operating Lease Liabilities by \$501,125 at September 30, 2021.

Consolidated lease expense for the three and nine months ended December 31, 2021 were \$309,766 and \$896,594 including \$307,278 and \$882,028 of respective operating lease expense and \$2,488 and \$14,566 of respective other lease associated expenses such as association dues, taxes. Consolidated lease expense for the three and nine months ended December 2020 was \$217,140 and \$609,250, respectively, including \$179,487 and \$534,781 of respective operating lease expense and \$37,653 and \$74,468 of respective other lease associated expenses such as association dues, taxes, utilities, and other month to month rentals.

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The weighted average remaining lease term and weighted average discount rate for operating leases were 3.7 years and 10.0%, respectively.

Future minimum lease payments under non-cancellable leases as of December 31, 2021 are as follows:

Years Ended March 31,	
2022 ⁽¹⁾	\$ 291,808
2023	1,018,689
2024	873,420
2025	675,078
2026	250,008
Thereafter	301,168
	<u>3,410,171</u>
Less: Amount Representing Interest	(578,121)
	<u>\$ 2,832,050</u>

(1) This amount represents future lease payments for the remaining three months of fiscal year 2022. It does not include any lease payments for the nine months ended December 31, 2021.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – NOTES PAYABLE – RELATED PARTY

For the three and nine months ended December 31, 2021, the Company made \$158,131 and \$463,192 in respective principal payments in connection with the Amended Note B, an amended related party note payable with Jagemann Stamping Company (“JSC”). We entered to the Amended Note B with JSC on November 4, 2020 and the note matures on June 26, 2023. We recognized \$31,438 and \$94,210 in respective interest expenses for the three and nine months ended December 31, 2021, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – CAPITAL STOCK

During the nine months period ended December 31, 2021, we issued 22,336,437 shares of common stock as follows:

- 20,000,000 shares were issued in connection with our merger of Gemini Direct Investments, LLC valued at \$142,691,282
- 431,080 shares were issued to investors for exercised warrants valued for \$943,907
- 276,907 shares were issued for cashless exercise of 343,110 warrants
- 772,450 shares valued at \$1,631,701 were issued for services and equipment provided to the Company
- 856,000 shares valued at \$2,898,250 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation

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At December 31, 2021, outstanding and exercisable stock purchase warrants consisted of the following:

	Number of Shares	Weighted Averaged Exercise Price	Weighted Average Life Remaining (Years)
Outstanding at March 31, 2021	3,607,945	\$ 2.31	3.24
Granted	100,000	0.01	4.91
Exercised	(774,190)	1.99	-
Forfeited or cancelled	-	-	-
Outstanding at December 31, 2021	2,933,755	\$ 2.32	2.53
Exercisable at December 31, 2021	2,933,755	\$ 2.32	2.53

As of December 31, 2021, we had 2,933,755 warrants outstanding. Each warrant provides the holder the right to purchase up to one share of our Common Stock at a predetermined exercise price. The outstanding warrants consist of (1) warrants to purchase 100,000 shares of Common Stock at an exercise price of \$0.01 per share until December 2026, (2) warrants to purchase 911 shares of Common Stock at an exercise price of \$1.65 per share until April 2025; (3) warrants to purchase 1,821,567 shares of our Common Stock at an exercise price of \$2.00 per share consisting of 32% of the warrants until August 2024, and 68% until February 2026; (4) warrants to purchase 474,966 shares of Common Stock at an exercise price of \$2.40 until September 2024; (5) warrants to purchase 386,311 shares of Common Stock at an exercise price of \$2.63 until November 2025, and (6) warrants to purchase 150,000 shares of Common Stock at an exercise price of \$6.72 until February 2024.

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NOTE 11 – PREFERRED STOCK

On May 18, 2021, the Company filed a Certificate of Designations (the “Certificate of Designations”) with the Secretary of State of the State of Delaware to establish the preferences, voting powers, limitations as to dividends or other distributions, qualifications, terms and conditions of redemption and other terms and conditions of the Series A Preferred Stock.

The Series A Cumulative Redeemable Perpetual Preferred Stock (“Series A Preferred Stock”), as to dividend rights and rights as to the distribution of assets upon the Company’s liquidation, dissolution or winding-up, ranks: (1) senior to all classes or series of Common Stock and to all other capital stock issued by the Company expressly designated as ranking junior to the Series A Preferred Stock; (2) on parity with any future class or series of the Company’s capital stock expressly designated as ranking on parity with the Series A Preferred Stock; (3) junior to any future class or series of the Company’s capital stock expressly designated as ranking senior to the Series A Preferred Stock; and (4) junior to all the Company’s existing and future indebtedness.

The Series A Preferred Stock has no stated maturity and is not subject to mandatory redemption or any sinking fund. In the event of the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares for the Series A Preferred Stock are entitled to be paid out of the Company’s assets legally available for distribution to its stockholders (*i.e.*, after satisfaction of all the Company’s liabilities to creditors, if any) an amount equal to \$25.00 per share of the Series A Preferred Stock, plus any amount equal to any accumulated and unpaid dividends to the date of payment before any distribution or payment may be made to holders of shares of Common Stock or any other class of or series of the Corporation’s capital stock ranking, as to rights to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up, junior to the Series A Preferred Stock.

The Company will pay cumulative cash dividends on the Series A Preferred Stock when, as and if declared by its board of directors (or a duly authorized committee of its board of directors), only out of funds legally available for payment of dividends. Dividends on the Series A Preferred Stock will accrue on the stated amount of \$25.00 per share of the Series A Preferred Stock at a rate per annum equal to 8.75% (equivalent to \$2.1875 per year), payable quarterly in arrears. Dividends on the Series A Preferred Stock declared by our board of directors (or a duly authorized committee of our board of directors) will be payable quarterly in arrears on March 15, June 15, September 15 and December 15.

Generally, the Series A Preferred Stock is not redeemable by the Company prior to May 18, 2026. However, upon a change of control or delisting event (each as defined in the Certificate of Designations), the Company will have a special option to redeem the Series A Preferred Stock for a limited period of time.

On May 19, 2021, we entered into an underwriting agreement (the “Underwriting Agreement”) with Alexander Capital, L.P., as representative of several underwriters (collectively, the “Underwriters”), relating to a firm commitment public offering of 1,097,200 newly issued shares of our 8.75% Series A Preferred Stock at a public offering price of \$25.00 per share. Under the terms of the Underwriting Agreement, we granted the Underwriters a 45-day option to purchase up to an additional 164,580 shares of Series A Preferred Stock from us. The gross proceeds to us from the sale of 1,097,200 shares of Series A Preferred Stock, before deducting underwriting discounts and commissions and estimated offering expenses payable by us, was \$27,430,000. The closing of the offering took place on May 21, 2021.

On May 25, 2021, we entered into an additional underwriting agreement with Alexander Capital, L.P. relating to a firm commitment public offering of 138,220 newly issued shares of our Series A Preferred Stock at a public offering price of \$25.00 per share. The closing of the offering took place on May 27, 2021. The gross proceeds to us from the sale of 138,220 shares of Series A Preferred Stock, before deducting underwriting discounts and commissions and estimated offering expenses payable by us, were \$3,455,500. Additionally, the Underwriters exercised its previously announced over-allotment option to purchase 164,580 shares of Series A Preferred Stock pursuant to that certain Underwriting Agreement dated May 19, 2021, by and between us and Alexander Capital, L.P., as representative of the several underwriters identified therein. We closed the exercise of the over-allotment option on May 27, 2021. The gross proceeds from the exercise of the over-allotment option were \$4,114,500, before deducting underwriting discounts and commissions.

Preferred dividends accumulated as of December 31, 2021 were \$144,561. On August 27, 2021 the Board of Directors of the Company declared a dividend on the Company’s Series A Preferred Stock for the period beginning May 21, 2021 (the first issuance date of the Series A Preferred Stock) through and including June 30, 2021 payable on September 15, 2021 to holders of record of Series A Preferred Stock on August 31, 2021 equal to \$0.241246528 per share. Dividends totaling \$337,745 were paid on September 15, 2021. On November 17, 2021, the Board of Directors of the Company declared a dividend on the Company’s Series A Preferred Stock for the period beginning July 1, 2021 through and including December 14, 2021 payable on December 15, 2021 to holders of record of Series A Preferred Stock on November 30, 2021 equal to \$1.01475694444444 per share. Dividends totaling \$1,420,660 were paid on December 15, 2021.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - ACQUISITION

Gemini Direct Investments, LLC

On April 30, 2021 (the "Effective Date") we entered into an agreement and plan of merger (the "Merger Agreement"), by and among the Company, SpeedLight Group I, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Sub"), Gemini Direct Investments, LLC, a Nevada limited liability company ("Gemini"), and Steven F. Urvan, an individual (the "Seller"), whereby Sub merged with and into Gemini, with Sub surviving the merger as a wholly owned subsidiary of the Company (the "Merger"). At the time of the Merger, Gemini had nine (9) subsidiaries, all of which are related to Gemini's ownership of the Gunbroker.com business. Gunbroker.com is an on-line auction marketplace dedicated to firearms, hunting, shooting, and related products. The Merger was completed on the Effective Date.

In consideration of the Merger, on the terms and subject to the conditions set forth in the Merger Agreement, on the Effective Date, (i) the Company assumed and repaid an aggregate amount of indebtedness of Gemini and its subsidiaries equal to \$50,000,000 (the "Assumed Indebtedness"); and, (ii) the issued and outstanding membership interests in Gemini (the "Membership Interests"), held by the Seller, automatically converted into the right to receive (A) \$50,000,000 (the "Cash Consideration"), and (B) 20,000,000 shares of common stock of the Company, \$0.001 par value per share (the "Stock Consideration").

In connection with the Merger Agreement, the Company and the Seller agreed that the Stock Consideration consisted of: (a) 14,500,000 shares issued without being held in escrow or requiring prior stockholder approval; (b) 4,000,000 shares issued subject to the Pledge and Escrow Agreement; and (c) 1,500,000 shares that will not be issued prior to the Company obtaining stockholder approval for the issuance (the "Additional Securities").

The total estimated consideration consisted of cash payment of \$50,000,000 less \$1,350,046 of acquired cash, a working capital adjustment of \$2,000,000, debt assumption and repayment upon closing of \$50,000,000, contingent consideration of \$10,755,000 for 1,500,000 Additional Securities, and 18,500,000 shares of AMMO Inc. Common Stock. The shares were valued at \$7.17 per share, the five-day average closing price of the Company's Common Stock immediately preceding the signing of the binding agreement.

Pursuant to the Merger Agreement, the Company completed a Post-Closing Adjustment following the close of the Merger equal to the Closing Working Capital minus the Estimated Working Capital at closing of the Merger. Accordingly, the Company received a cash payment of \$129,114 and adjusted the \$2,000,000 Estimated Working Capital Adjustment in the fair value of the consideration transferred to \$1,870,886.

In accordance with the acquisition method of accounting for business combinations, the assets acquired, and the liabilities assumed have been recorded at their respective fair values. The consideration in excess of the fair values of assets acquired, and liabilities assumed are recorded as goodwill.

The preliminary fair value of the consideration transferred was valued as of the date of the acquisition as follows:

Cash	\$	48,649,954
Estimated working capital adjustment		1,870,886
Contingent consideration		10,755,000
Common stock		132,645,000
Assumed debt		50,000,000
	<u>\$</u>	<u>243,920,840</u>

The preliminary allocation for the consideration recorded for the acquisition is as follows:

Accounts receivable, net	\$	17,002,362
Prepaid expenses		478,963
Equipment		1,051,980
Deposits		703,389
Other Intangible assets ⁽¹⁾		146,617,380
Goodwill ⁽¹⁾		90,870,094
Right of use assets - operating leases		612,727
Accounts payable		(12,514,919)
Accrued expenses		(196,780)
Operating lease liability		(704,356)
		<u>(704,356)</u>
Total Consideration	<u>\$</u>	<u>243,920,840</u>

⁽¹⁾ Preliminary estimate of Other Intangible Assets and Goodwill. Other intangible assets consist of Tradenames, Customer Relationships, Intellectual Property, and other tangible assets related to the acquired business.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We recorded approximately \$1.3 million in transaction costs in the three and nine months ended December 31, 2021.

The purchase price allocation is preliminary. The preliminary estimated fair value recorded for the acquired assets and liabilities assumed with excess consideration recorded as goodwill represent management's estimate of fair value and are subject to change when additional information may become available. The purchase price allocation will continue to be preliminary until the Company is able to finalize the allocation. The Company expects to finalize the purchase price allocation within the measurement period, but not more than one year following the closing date of the Merger. The final amounts from the valuation may significantly and materially differ from the preliminary allocation herein.

Unaudited Pro Forma Results of Operations

These pro forma results of operations gives effect to the acquisition as if it had occurred on April 1, 2021. Material pro forma adjustments include the removal of approximately \$1.8 million of interest expenses and debt discount amortization and the addition of approximately \$0.9 million of depreciation and amortization expenses.

INCOME STATEMENT DATA	For the Nine Months Ended December 31, 2021
Net revenues	\$ 178,213,024
Net income	\$ 37,266,527

NOTE 13 – GOODWILL AND INTANGIBLE ASSETS

In the current period, we recorded \$90,870,094 of Goodwill generated from our Merger with Gemini.

Amortization expenses related to our intangible assets for the three and nine months ended December 31, 2021 were \$3,535,805 and \$9,593,127, respectively. Amortization expenses related to our intangible assets for the three and nine months ended December 31, 2020 were \$492,947 and \$1,478,841, respectively.

		December 31, 2021			
	Life	Licenses	Patent	Other Intangible Assets	
Licensing Agreement – Jesse James	5	\$ 125,000	\$ -	\$ -	
Licensing Agreement – Jeff Rann	5	125,000	-	-	
Streak Visual Ammunition patent	11.2	-	950,000	-	
SWK patent acquisition	15	-	6,124,005	-	
Jagemann Munition Components:					
Customer Relationships	3	-	-	1,450,613	
Intellectual Property	3	-	-	1,543,548	
Tradename	5	-	-	2,152,076	
GDI Acquisition:					
Tradename	15	-	-	76,532,389	
Customer List	10	-	-	65,252,802	
Intellectual Property	10	-	-	4,224,442	
Other Intangible Assets	5	-	-	607,747	
		250,000	7,074,005	151,763,617	
Accumulated amortization – Licensing Agreements		(245,833)	-	-	
Accumulated amortization – Patents		-	(1,424,443)	-	
Accumulated amortization – Intangible Assets		-	-	(12,110,901)	
		\$ 4,167	\$ 5,649,562	\$ 139,652,716	

Annual amortization of intangible assets for the next five fiscal years are as follows:

Years Ended March 31,	Estimates for Fiscal Year
2022 (1)	\$ 3,479,832
2023	13,095,215
2024	13,074,489
2025	12,664,775
2026	12,674,904
Thereafter	90,317,230
	\$ 145,306,445

(1) This amount represents future amortization for the remaining three months of fiscal year 2022. It does not include any amortization for the nine months ended December 31, 2021.

AMMO, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – SEGMENTS

On April 30, 2021, the Company entered into an agreement and plan of merger with Gemini, which, along with its subsidiaries, engages primarily in the operation of an online marketplace dedicated to firearms, hunting, shooting and related products. As a result, at December 31, 2021, our Chief Executive Officer reviews financial performance based on two operating segments as follows:

- Ammunition – which consists of our manufacturing business. The Ammunition segment engages in the design, production and marketing of ammunition and ammunition component products.
- Marketplace – which consists of the GunBroker.com marketplace. In its role as an auction site, GunBroker.com supports the lawful sale of firearms, ammunition and hunting/shooting accessories.

Ammunition generated approximately 73% of our revenue in the three and nine months ended December 31, 2021, while Marketplace generated approximately 92% and 76% of our operating income in the three and nine months ended December 31, 2021, respectively. The following tables set forth certain financial information utilized by management to evaluate our operating segments for the interim period presented:

	For the Three Months Ended December 31, 2021		
	Ammunition	Marketplace	Total
Net Revenues	\$ 47,092,417	\$ 17,596,769	\$ 64,689,186
Cost of Revenues	39,904,811	2,261,509	42,166,320
General and administrative expense	5,935,949	2,251,175	8,187,124
Depreciation and amortization	420,077	3,305,844	3,725,921
Income from Operations	\$ 831,580	\$ 9,778,241	\$ 10,609,821

	For the Nine Months Ended December 31, 2021		
	Ammunition	Marketplace	Total
Net Revenues	\$ 123,521,552	\$ 46,646,051	\$ 170,167,603
Cost of Revenues	96,203,543	6,254,232	102,457,775
General and administrative expense	17,745,255	5,400,926	23,146,181
Depreciation and amortization	1,260,064	8,784,930	10,044,994
Income from Operations	\$ 8,312,690	\$ 26,205,963	\$ 34,518,653

NOTE 15 – INCOME TAXES

The income tax provision reflective effective tax rates were 13.0% and 4.0% for the three and nine months ended December 31, 2021. Our effective tax rates were 0.0% and 0.0% for the three and nine months ended December 31, 2020, respectively. During the three and nine months ended December 31, 2021 and 2020, the effective tax rate differed from the U.S. federal statutory rate primarily due to the change in the valuation allowance. The effective tax rates increased during the three and nine months ended December 31, 2021 compared to the prior year periods due to an increase in income from operations.

The Company has never had an Internal Revenue Service audit; therefore, the tax periods ended December 31, 2016, December 31, 2017, and March 31, 2018, 2019, 2020, and 2021 are subject to audit.

Furthermore, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020. The CARES Act was enacted in response to the COVID-19 pandemic and contains numerous income tax provisions, such as relaxing limitations on the deductibility of interest, technical corrections to tax depreciation methods for qualified improvement property and net operating loss carryback periods.

NOTE 16 – SUBSEQUENT EVENTS

Common Stock Issuances

Subsequent to December 31, 2021, we issued 90,000 shares of Common Stock to employees as compensation for a total value of \$315,000 or \$3.50 per share.

Board of Directors Share Repurchase Plan

On February 7, 2021, our Board of Directors authorized a share repurchase program for up to \$30.0 million dollars of our outstanding Common Stock. Purchases made pursuant to the program will be made from time to time, at the Company’s discretion, in the open market, through privately negotiated transactions or through other manners as permitted by federal securities laws. The timing, manner, price and amount of any repurchases will be determined by the Company and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program is expected to commence following the public disclosure of our 2022 fiscal third quarter financial results and filing of this report on Form 10-Q and may be suspended or discontinued at any time.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations is provided to assist the reader in understanding the results of operations, financial condition, and liquidity through the eyes of our management team. This section should be read in conjunction with other sections of this Quarterly Report, specifically, our Consolidated Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

This document contains certain "forward-looking statements". All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies, goals and objectives of management for future operations; any statements concerning proposed new products and services or developments thereof; any statements regarding future economic conditions or performance; any statements or belief; and any statements of assumptions underlying any of the foregoing.

Forward looking statements may include the words "may," "could," "estimate," "intend," "continue," "believe," "expect," or "anticipate," or other similar words, or the negative thereof. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures and risk factors we included in the section titled Risk Factors contained herein.

In our filings with the Securities and Exchange Commission, references to "AMMO, Inc.", "AMMO", "the Company", "we," "us," "our" and similar terms refer to AMMO, Inc., a Delaware corporate, and its wholly owned consolidated subsidiaries.

Overview

Our vision is to modernize the ammunition industry by bringing new technologies to market. We intend to do that through acquisition and application of intellectual property that is unique to the industry and through investing in manufacturing equipment and processes that enable us to compete globally.

Our innovative line of match grade armor piercing ("AP") and hard armor piercing incendiary ("HAPI") tactical rounds are the centerpiece of the Company's strategy to address the unique needs of the armed forces community. This ammunition was designed around a match grade portfolio of projectiles, that include a solid copper boat tail and armor piercing configuration. The distinction between these rounds and others sold, is that the manufacturing process was engineered to ensure extremely tight tolerances between each projectile manufactured, ensuring for the end user that the ballistic trajectory remains consistent between rounds without regard to the actual configuration or round fired. Our AP and HAPI line are also available with our O.W.L. Technology™. The Company has aligned its manufacturing operations to support the large caliber demand from military personnel, such as the 12.7 mm and .50 caliber BMG configurations. On February 2, 2021, we announced that we restarted our improved .50 caliber manufacturing line to address increased market demand and fulfill current orders.

We offer ammunition casings for pistol ammunition through large rifle ammunition. Our casing operations is backed by decades of manufacturing experience that allows the production of high-quality pistol brass and rifle brass components. Born from the automotive industry and refined over time to deliver durable and consistent sporting components, Jagemann™ Casings, has become one of the largest brass manufacturers in the country, with the capacity to produce more than 750 million pieces of brass each year with the ability to scale to 1 billion rounds on an annual basis. Proud of its American-made components and capabilities, the Company now has complete control over the manufacturing process. This results in a number of advantages when it comes to the brass that leaves our state-of-the-art facility.

On April 30, 2021, we acquired Gemini Direct Investments, LLC (“Gemini”) and nine of its subsidiaries, all of which are related to Gemini’s ownership of the Gunbroker.com marketplace.

GunBroker.com is a large online marketplace dedicated to firearms, hunting, shooting and related products. Aside from merchandise bearing its logo, GunBroker.com currently sells none of the items listed on its website. Third-party sellers list items on the site and federal and state laws govern the sale of firearms and other restricted items. Ownership policies and regulations are followed using licensed firearms dealers as transfer agents.

With our recent addition of the Gunbroker.com marketplace, we aim to further enhance our vision of bringing technologies to the industry. Gunbroker.com is a marketplace that connects millions of buyers and sellers allowing our users to access a daily average of over one million unique items.

The focus for our 2022 fiscal year is to continue to expand our brand presence into the markets identified above and to continue to grow our sales within our targeted markets. We intend to do this through establishing key strategic relationships, enrolling in government procurement programs, establishing relationships with leading law enforcement associations and programs, expanding distributor channels, and revitalized marketing campaigns.

Results of Operations

Our financial results for the three and nine months ended December 31, 2021 reflect our newly positioned organization. We believe that we have hired a strong team of professionals, developed innovative products, and continue to raise capital sufficient to establish our presence as a high-quality ammunition provider and marketplace. We continue to focus on growing our top line revenue, and streamlining our operations, and as a result, we experienced an increase in our gross profit margin for the three and nine months ended December 31, 2021. This was the result of a significant increase in sales allowing us to cover a greater percentage of our fixed manufacturing costs, which include our non-cash amortization and depreciation expense as well as the addition of our new marketplace, Gunbroker.com.

The following table presents summarized financial information taken from our condensed consolidated statements of operations for the three and nine months ended December 31, 2021 compared with the three and nine months ended December 31, 2020:

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Sales	\$ 64,689,186	\$ 16,620,244	\$ 170,167,603	\$ 38,293,086
Cost of Revenues	42,166,320	13,278,338	102,457,775	32,590,149
Gross Margin	22,522,866	3,341,906	67,709,828	5,702,937
Sales, General & Administrative Expenses	11,913,045	3,770,713	33,191,175	10,621,873
Income (loss) from Operations	10,609,821	(428,807)	34,518,653	(4,918,936)
Other income (expense)				
Other expense	(189,956)	(1,477,630)	(446,616)	(2,429,915)
Income (loss) before provision for income taxes	\$ 10,419,865	\$ (1,906,437)	\$ 34,072,037	\$ (7,348,851)
Provision for income taxes	1,351,998	-	1,351,998	-
Net Income (Loss)	\$ 9,067,867	\$ (1,906,437)	\$ 32,720,039	\$ (7,348,851)

Non-GAAP Financial Measures

We analyze operational and financial data to evaluate our business, allocate our resources, and assess our performance. In addition to total net sales, net loss, and other results under accounting principles generally accepted in the United States ("GAAP"), the following information includes key operating metrics and non-GAAP financial measures we use to evaluate our business. We believe these measures are useful for period-to-period comparisons of the Company. We have included these non-GAAP financial measures in this Quarterly Report on Form 10-Q because they are key measures we use to evaluate our operational performance, produce future strategies for our operations, and make strategic decisions, including those relating to operating expenses and the allocation of our resources. Accordingly, we believe these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA

	For the Three Months Ended		For the Nine Months Ended	
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
Reconciliation of GAAP net income to Adjusted EBITDA				
Net Income (Loss)	\$ 9,067,867	\$ (1,906,437)	\$ 32,720,039	\$ (7,348,851)
Provision for income taxes	1,351,998		1,351,998	
Depreciation and amortization	4,623,355	1,224,130	12,778,103	3,588,966
Loss on purchase	-	-	-	1,000,000
Excise Taxes	3,982,221	1,201,841	10,317,110	2,707,534
Interest expense, net	190,319	1,938,630	468,404	2,704,315
Employee stock awards	1,045,125	240,853	2,898,250	716,589
Stock grants	65,098	65,455	197,110	213,130
Stock for services	4,200	87,500	4,200	87,500
Warrant Issuance	145,508	-	145,508	-
Other income, net	(363)	(461,000)	(21,788)	(274,400)
Contingent consideration fair value	(359,309)	(30,748)	(362,753)	(88,106)
Adjusted EBITDA	\$ 20,116,019	\$ 2,360,224	\$ 60,496,181	\$ 3,306,677

Adjusted EBITDA is a non-GAAP financial measure that displays our net income (loss), adjusted to eliminate the effect of certain items as described below.

We have excluded the following non-cash expenses from our non-GAAP financial measures: provision or benefit for income taxes, depreciation and amortization, loss on purchase, share-based or warrant-based compensation expenses, and changes to the contingent consideration fair value. We believe it is useful to exclude these non-cash expenses because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations.

Adjusted EBITDA as a non-GAAP financial measure also excludes other cash interest income and expense, as these items are not components of our core operations.

Non-GAAP financial measures have limitations, should be considered as supplemental in nature and are not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- Employee stock awards and stock grants expense has been, and will continue to be for the foreseeable future, a significant recurring expense in the Company and an important part of our compensation strategy;
- the assets being depreciated or amortized may have to be replaced in the future, and the non-GAAP financial measures do not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or other capital commitments; and
- non-GAAP measures do not reflect changes in, or cash requirements for, our working capital needs
- other companies, including companies in our industry, may calculate the non-GAAP financial measures differently or not at all, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider the non-GAAP financial measures alongside other financial performance measures, including our net loss and our other financial results presented in accordance with GAAP.

Net Sales

The following table shows our net sales by proprietary ammunition versus standard ammunition for the three and nine months ended December 31, 2021 and 2020. “Proprietary Ammunition” include those lines of ammunition manufactured by our facilities that are sold under the brand names: STREAK VISUAL AMMUNITION™ and Stelth. We define “Standard Ammunition” as non-proprietary ammunition that directly competes with other brand manufacturers. Our “Standard Ammunition” is manufactured within our facility and may also include completed ammunition that has been acquired in the open market for sale to others. Also included in this category is low cost target pistol and rifle ammunition, as well as bulk packaged ammunition manufactured by us using reprocessed brass casings. Ammunition within this product line typically carries lower gross margins.

	For the Three Months Ended		For the Nine Months Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Proprietary Ammunition	\$ 3,784,380	\$ 1,464,202	\$ 6,228,348	\$ 4,973,857
Standard Ammunition	40,285,093	11,370,288	106,401,307	23,013,581
Ammunition Casings	3,022,944	3,785,754	10,891,897	10,305,648
Marketplace Revenue	17,596,769	-	46,646,051	-
Total Sales	<u>\$ 64,689,186</u>	<u>\$ 16,620,244</u>	<u>\$ 170,167,603</u>	<u>\$ 38,293,086</u>

Sales for the three and nine months ended December 31, 2021 increased 289% and 344%, respectively or approximately \$48.1 million or \$132.0 million, respectively over the three and nine months ended December 31, 2020. This increase was the result of approximately \$29.0 million and \$83.4 million of respective increased sales in bulk pistol and rifle ammunition, an increase of approximately \$2.3 million and \$1.3 million of respective sales of Proprietary Ammunition, a decrease of approximately \$0.8 million and an increase of approximately \$0.6 million of respective sales from our casing operations, and \$17.6 million and \$46.6 million in respective revenue generated from our recently acquired marketplace, Gunbroker.com, which includes auction revenue, payment processing revenue, and shipping income. Management expects the sales of Proprietary Ammunition to outpace the sales of our Standard Ammunition.

We are focused on continuing to grow top line revenue quarter-over-quarter as we continue to further expand distribution into commercial markets, introduce new product lines, and initiate sales to U.S. law enforcement, military, and international markets.

Through our acquisition of SWK, the Company has developed and deployed a new line of tactical armor piercing (AP) and hard armor piercing incendiary (HAPI) precision ammunition to meet the lethality requirements of both the US and foreign military customers. We continue to demonstrate our AP and HAPI ammunition to military personnel at scheduled and invite only events, resulting in increased interest and procurement discussions.

It is important to note that, although U.S. law enforcement, military and international markets represent significant opportunities for our Company, they also have a long sales cycle. The Company's sales team has been effective in establishing sales and distribution channels, both in the United States and abroad, which are reasonably anticipated to drive sustained sales opportunity in the military, law enforcement, and commercial markets.

Sales outside of the United States require licenses and approval from either the U.S. Department of Commerce or the U.S. State Department, which typically takes approximately 30 days to receive. On July 21, 2020, we renewed our annual registration with the International Traffic in Arms Regulations ("ITAR"), which remains valid through the report date. This permits the Company to export and broker ammunition and other controlled items covered under ITAR.

On June 23, 2021, we announced that we were awarded a U.S. Department of Defense contract for the development and manufacture of ballistically matched multi-purpose rounds to design and manufacture multiple Ballistically Matched Multi-Purpose Rounds (BM-MPR) in support of U.S. military operations.

On September 23, 2021, we announced that we were awarded a U.S. Department of Defense contract to design and manufacture signature-on-target rounds ("SoT") in support of U.S. military operations. The SoT ammunition allows the machine gunner to see bullet impacts without a visible signature in flight exposing their firing location in the manner which occurs with currently utilized tracer ammunition.

Cost of Revenues

Cost of Revenues increased by approximately \$28.9 million and \$69.9 million from \$13.3 million and \$32.6 million to \$42.2 million and \$102.5 million for the three and nine months ended December 31, 2021 compared to the comparable period ended in 2020. This was the result of a significant increase in net sales as well increases to non-cash depreciation related to increases in production equipment, expensing of increased labor, overhead, and raw materials used to produce finished product during 2021 as compared to 2020, and additional cost of revenues from our recent acquisition of our marketplace, Gunbroker.com. As a percentage of sales, cost of goods sold decreased by 18.4% and 29.3 % when comparing the three and nine months ended December 31, 2021 and 2020.

Gross Margin

Our gross margin percentage increased to 34.8% and 39.8% from 20.1% and 14.9% during the three and nine months ended December 31, 2021, respectively, as compared to the same period in 2020. This was a result of increased sales allowing us to cover a greater percentage of our fixed manufacturing costs, which include our non-cash amortization and depreciation expense, and the inclusion of our newly acquired marketplace, Gunbroker.com which, by nature has significantly higher margins than our manufactured products.

We believe as we continue to grow sales through new markets and expanded distribution that our gross margins will also increase, as evidenced by the improvement over this time last year. Our goal in the next 12 to 24 months is to continue to improve our gross margins. This will be accomplished through the following:

- Increased product sales, specifically of proprietary lines of ammunition, like the STREAK VISUAL AMMUNITION™, Stelth and now our tactical Armor Piercing (AP) and Hard Armor Piercing Incendiary (HAPI) precision ammunition, all of which carry higher margins as a percentage of their selling price;
- Introduction of new lines of ammunition that historically carry higher margins in the consumer and government sectors;
- Leverage of our newly acquired marketplace, Gunbroker.com, through the introduction of additional services and product offerings;
- Expanded use of automation equipment that reduces the total labor required to assemble finished products;
- And, better leverage of our fixed costs through expanded production to support the sales objectives.

Operating Expenses

Overall, for the three and nine months ended December 31, 2021, our operating expenses increased by approximately \$8.1 million and \$22.6 million over the three and nine months ended December 31, 2020, and decreased as a percentage of sales from 22.7% and 27.7% for the three and nine months ended December 31, 2020 to 18.4% and 19.5% for the three and nine months ended December 31, 2021. The increase was primarily related to approximately \$14.2 million of additional operating expenses following our merger with Gemini, including \$8.8 million of depreciation and amortization expenses. Our operating expenses include non-cash depreciation and amortization expense of approximately \$3.7 million and \$10.0 million for the three and nine months ended December 31, 2021. Our operating expenses consisted of commissions related to our sales increases, stock compensation expense associated with issuance of our Common Stock in lieu of cash compensation for employees, and board members, and key consultants for the organization during the period. Operating expenses for the nine months ended December 31, 2021 and 2020 periods included noncash expenses of approximately \$12.9 million and \$3.2 million, respectively. We expect to see administrative expenditures to continue to decrease as a percentage of sales in the 2022 fiscal year, as we leverage our work force and expand our sales opportunities.

During the three and nine months ended December 31, 2021, our selling and marketing expenses increased by approximately \$1.0 million and \$3.0 million in comparison to the three and nine months ended December 31, 2020. The increase was primarily related to commissions on the increases in the sale of our products resulting of approximately \$0.7 million and \$2.5 million of additional expenses for the three and nine months ended December 31, 2021 in comparison to the comparable prior period.

Our corporate general & administrative expenses increased approximately \$2.1 million and \$7.2 million in the three and nine months ended December 31, 2021 from the comparable prior period mainly due to increased general corporate expenses related to the addition of Gemini of approximately \$1.3 million and \$3.3 million, respective increases in insurance expenses of \$0.8 million and \$1.6 million, and increased professional and legal fees of \$0.5 million primarily related to our acquisition of Gemini.

Employee salaries and related expenses increased approximately \$1.8 million and \$4.6 million for the three and nine months ended December 31, 2021 compared to the comparable period ended in 2020. The increase for the three and nine months ended December 31, 2021 when compared to the prior period, was primary related to an increase in stock compensation of approximately \$0.8 million and \$2.2 million, respectively.

Depreciation and amortization expenses for the three and nine months ended December 31, 2021 increased by approximately \$3.3 million and \$8.8 million from the comparable prior periods due to depreciation and amortization expenses in connection with the acquisition of Gemini.

Interest and Other Expenses

For the three and nine months ended December 31, 2021, interest expense decreased by approximately \$1.7 million and \$2.2 million compared with the comparable three and nine months ended December 31, 2020. The change from the prior periods was mainly due to the repayment of notes and conversion of convertible promissory notes in current and prior periods.

Income Taxes

For the three and nine months ended December 31, 2021, we recorded a provision for federal and state income taxes of approximate \$1.4 million. There was no provision for federal and state income taxes during the three and nine months ended December 31, 2020.

Net Income

As a result of increases in revenues from increased production as well as our acquisition of Gemini, we ended the three and nine months ended December 31, 2021 with a net income of approximately \$9.1 million and \$32.7 million, respectively, compared with net losses of approximately \$1.9 million and \$7.3 million for the three and nine months ended December 31, 2020.

Our goal is to continue to improve our operating results as we focus on increasing sales and controlling our operating expenses.

Liquidity and Capital Resources

As of December 31, 2021, we had \$27,414,571 of cash and cash equivalents, a decrease of \$90,926,900 from March 31, 2021.

Working Capital is summarized and compared as follows:

	December 31, 2021	March 31, 2021
Current assets	\$ 123,474,142	\$ 145,620,332
Current liabilities	35,613,312	12,098,493
	\$ 87,860,830	\$ 133,521,839

Changes in cash flows are summarized as follows:

Operating Activities

For the nine months ended December 31, 2021, net cash used in operations totaled approximately \$3.6 million. This was primarily the result of net income of approximately \$32.7 million, which was offset by increases in our inventories of approximately \$30.1 million, increases in deposits of approximately \$13.1 million, increases in our accounts receivable of approximately \$20.7 million, decreases in prepaid expenses of approximately \$1.6 million, and increases in our accounts payable and accrued liabilities of \$7.5 million and \$1.3 million, respectively. Non-cash expenses for depreciation and amortization totaled approximately \$12.8 million and non-cash expenses for employee stock awards totaled \$2.9 million.

For the nine months ended December 31, 2020, net cash used in operations totaled \$5.3 million. This was primarily the result of a net loss of \$7.3 million, increases in our period end inventories and accounts receivable of \$5.1 million and \$3.9 million, respectively, increases in accounts payable and accrued liabilities of \$1.8 million and \$2.3 million, respectively, and a loss on Jagemann Munition Components of \$1.0 million. The cash used in operations were partially offset by the benefit of non-cash expenses for depreciation and amortization of \$3.6 million, non-cash interest expensed recognized for the issuance of warrants of \$1.3 million, employee stock compensation of \$0.7 million, and stock grants totaling \$0.2 million.

Investing Activities

During the nine months ended December 31, 2021, we used approximately \$63.3 million in net cash for investing activities. Net cash used in investing activities consisted of approximately \$50.5 million uses in connection with the merger of Gemini, and approximately \$12.9 million related to purchases of production equipment and the construction of our new manufacturing facility in Manitowoc, WI.

During the nine months ended December 31, 2020, we used \$4.5 million in net cash for investing activities to purchase fixed assets such as new production equipment.

Financing Activities

During the nine months ended December 31, 2021, net cash used in financing activities was approximately \$24.0 million. This was the net effect of a \$50.0 million payment on debt assumed from Gemini, \$35.0 million of proceeds from the sale of our preferred stock net of approximately \$3.2 million of issuance costs, approximately \$0.9 million was generated from common stock issued for exercised warrants, the \$4.0 million repayment of a note payable, and an approximate \$0.9 million reduction in our Inventory Credit Facility. Additionally, approximately \$86.5 million was generated from accounts receivable factoring, which was offset by payments of approximately \$84.2 million.

During the nine months ended December 31, 2020, net cash provided by financing activities was \$27.9 million. This was the net effect of \$23.6 million of proceeds from the sale of common stock net of \$3.3 million of issuance costs, \$3.5 million of proceeds from a related party note, \$4.0 million of proceeds from a note payable, \$2.3 million generated from our Inventory Credit Facility, \$2.3 million was generated from common stock issued for exercised warrants, \$2.0 million from the issuance of convertible promissory notes, and \$1.0 million proceeds from our paycheck protection program notes payable. Additionally, \$26.1 million was generated from accounts receivable factoring, which was offset by payments of \$25.8 million. \$7.2 million of cash was used for payments on related party notes payable, and \$0.5 million toward our insurance premium notes payable.

Liquidity and Capital Resources

Existing working capital, cash used in operations, bank borrowings, and sales of equity and debt securities are expected to be adequate to fund our operations over the next year. Generally, we have financed operations to date through the proceeds of stock sales, bank financings, and related-party notes.

We believe financing will be available, both through conventional financing relationships and through the continued sales of our Common Stock. However, there is no assurance that such funding will be available on terms acceptable to us or at all. We believe that our current cash on hand, coupled with alternative sources of funding, will be sufficient to satisfy intended capital expenditures, potential acquisitions and general liquidity requirements through at least the next twelve months.

Off-Balance Sheet Arrangements

As of December 31, 2021, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, net sales, expenses, results of operations, liquidity capital expenditures, or capital resources.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affected 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the condensed consolidated financial statements include the valuation of allowances for doubtful accounts, valuation of deferred tax assets, inventories, useful lives of assets, intangible assets, and stock-based compensation. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended March 31, 2021, under "Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no significant changes to these policies during the nine months ended December 31, 2021. For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2021. Based on the evaluation of these disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were not effective. Our controls were ineffective due to the size of the Company and available resources. There are limited personnel to assist with the accounting and financial reporting function, which results in: (i) a lack of segregation of duties and (ii) controls that may not be adequately designed or operating effectively. Despite the existence of material weaknesses, the Company believes the financial information presented herein is materially correct and fairly presents the financial position and operating results of the three and nine months ended December 31, 2021, in accordance with GAAP.

Changes in internal controls

There were no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the Quarterly periods from April 1, 2021 to December 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings, and investigations in the ordinary course of business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position, results of operations or cash flows. We record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated.

Please reference the Contingencies section of Note 2 of our Financial Statements for additional disclosure.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The authorized capital of the Company is 200,000,000 shares of Common Stock with a par value of \$0.001 per share and 10,000,000 shares of Preferred Stock with a \$0.001 par value per share.

There were no unregistered sales of the Company's equity securities during the quarter ended December 31, 2021 that were not previously reported in a Current Report on Form 8-K except as follows:

During the quarterly period from October 1, 2021 to December 31, 2021, the Company issued 1.5 million shares of unregistered Common Stock related to the Merger Agreement with Gemini for \$7.17 per share or a total value of \$10,755,000.

The previously mentioned securities were issued in reliance on the exemptions from registration under the Securities Act in Section 4(a)(2) of the Securities Act and/or Regulation D thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No. Exhibit

4.1*	Promissory Note issued by Ammo, Inc., Firelight Group J, LLC in favor of Hiawatha National Bank, dated October 14, 2021.
10.1*	Construction Loan Agreement by and among Ammo, Inc., Firelight Group J, LLC, and Hiawatha National Bank, dated October 14, 2021.
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fred W. Waggenhals.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Rob Wiley.
32.1**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fred W. Waggenhals.
32.2**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Rob Wiley.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Filed Herewith.

** Furnished Herewith.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMMO, INC.

Dated: February 14, 2022

By: /s/ Fred W. Wagenhals
Fred W. Wagenhals, Chief Executive Officer

Dated: February 14, 2022

By: /s/ Robert D. Wiley
Robert D. Wiley, Chief Financial Officer

PROMISSORY NOTE

\$11,625,000.00

Plymouth, Wisconsin
October 14, 2021

FOR VALUE RECEIVED, the Borrower, AMMO, INC., a Delaware corporation, and FIRELIGHT GROUP I, LLC, a Delaware limited liability company (collectively, "**Borrower**"), joint and several, agree and promise to pay to the order of HIAWATHA NATIONAL BANK, a national banking association ("**Lender**"), its endorsees, successors and assigns, the principal sum of up to Eleven Million Six Hundred Twenty-Five Thousand and 00/100 Dollars (\$11,625,000.00), or so much of this amount as is disbursed at the sole discretion of Lender, together with interest on the Principal Balance (as hereinafter defined) at the rate or rates of interest hereinafter set forth payable in the following manner and on all the following terms and at the following times.

1. Definitions. Any capitalized words used not defined in this Promissory Note ("**Note**") have the meaning defined in the Loan Agreement (defined below). For purposes of this Note the following terms shall have the following meanings:

- a. "**Business Day**" shall have the meaning given in the Loan Agreement.
- b. "**Collateral**" shall have the meaning given in the Loan Agreement.
- c. "**Conversion Date**" means June 30, 2022.
- d. "**Indebtedness**" means the entire Principal Balance plus accrued interest and all other charges and sums due under this Note, the Loan Agreement or any other documents evidencing or securing this Note or the Loan or executed in connection with the Loan.
- e. "**Loan Agreement**" means the Construction Loan Agreement dated as of the date hereof entered into between the Borrower and the Lender.
- f. "**Loan Documents**" shall have the meaning given in the Loan Agreement.
- g. "**Maturity Date**" means October 14, 2026; provided that notwithstanding the above, in the event that the Loan or the Indebtedness Secured Hereby, as defined in the Loan Agreement, is earlier declared due and payable on account of Lender's exercise of its acceleration rights upon the occurrence of a Default, as defined below, or an Event of Default, as defined in the Loan Agreement, such date upon which the Loan is declared due and payable shall constitute the Maturity Date.
- h. "**Mortgage**" means the Construction Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of the date hereof, given by Borrower to Lender, mortgaging the land, improvements and other real property described therein as security for this Note.

i. “**Outside Project Completion Date**” means the date that is twelve (12) months after the date of this Promissory Note.

j. “**Payment Date**” means the fifteenth (15th) day of each calendar month.

k. “**Principal**” means the sum of money disbursed by the Lender pursuant to this Note.”

l. “**Principal Balance**” means the from time to time amount of Principal remaining unpaid.

m. “**Term**” means the period over which this Note is to be paid.

n. “**Term of Amortization**” means twenty-five (25) years.

o. “**Transfer**” shall have the meaning given in the Loan Agreement.

2. Interest Rate.

a. The Principal Balance of this Note outstanding at the close of each day shall bear interest (“**Interest**”) at the per annum rate of interest of four and one-half percent (4.50%) (“**Interest Rate**”).

b. Default Rate. If a Default (as hereinafter defined) occurs under this Note then, at the sole option of the Lender hereof, during the entire period during which such Default shall occur and be continuing, interest shall be payable on the Principal Balance at a per annum rate of interest equal to the Interest Rate then in effect under the terms of this Note plus five percent (5.0%) (“**Default Rate**”) whether or not the Lender has exercised its option to accelerate the maturity of this Note and declare the entire Principal Balance, together with accrued Interest and all other Indebtedness, immediately due and payable.

3. Basis of Computation. Interest shall be computed on an actual/360 basis (i.e., the actual number of days elapsed and a 360-day year). Interest shall commence to accrue on the first date of disbursement of Principal to Borrower.

4. Late Charge. In the event that any payment (other than the balloon payment of principal due on the Maturity Date or upon acceleration) required hereunder is not received within 10 days of Payment Date, the Borrower agrees to pay a late charge (“**Late Charge**”) five percent (5.0%) of unpaid payment to defray the costs of the Lender incident to collecting such late payment. This late charge shall apply individually to all payments past due and there will be no daily pro rata adjustment. This provision shall not be deemed to excuse a late payment or be deemed a waiver of any other rights the Lender may have including the right to declare the entire Principal Balance, together with accrued Interest and all other Indebtedness Secured Hereby immediately due and payable.

5. Terms of Payment. This Note shall be payable as follows:

a. Period Prior to Conversion. From and after the Closing Date and continuing to but not including the Conversion Date, there shall accrue and be paid in arrears consecutive monthly installments of Interest then accrued and unpaid on the Principal advanced and outstanding. No portion of the Principal shall be paid prior to the Conversion Date.

b. Period From and After Conversion. From and after the Conversion Date and continuing to and including the Maturity Date, there shall accrue and be paid in arrears consecutive monthly installments of Principal sufficient to amortize the Principal Balance over the Term of Amortization, together with Interest accrued but unpaid on the Principal Balance.

c. When Payments Are Due. Borrower shall make payments on each Payment Date following the Closing Date with the final payment due on the Maturity Date, unless Lender exercises its right to accelerate the Indebtedness, in which case all payments shall be immediately due and payable.

d. On Maturity; Outside Project Completion Date. On the Maturity Date the entire Principal Balance plus accrued interest and all other charges and sums due under this Note, including the Indebtedness shall be due and payable in full; provided if the actual date of Completion does not occur by the Outside Project Completion Date the entire Principal Balance plus accrued interest, Late Charges and all other charges and sums outstanding under this Note, including the Indebtedness shall be due and payable in full at the option of the Lender on the Outside Project Completion Date.

6. Manner of Payments; Application of Payments. All payments shall be made by wire transfer of immediately available funds, except to the extent paid from accounts maintained with Lender or through Reserves. If not paid in immediately available funds, payments (including prepayments) will be credited only when cleared according to Lender's normal schedule for availability of funds. All payments shall be applied first to any Costs of Collection, then to Interest, then to the Principal Balance and then to Late Charges, except that if any advance made by the Lender under the terms of any instruments securing this Note is not repaid, any monies received, at the option of the Lender, may first be applied to repay such advances, plus interest thereon, and the balance, if any, shall be applied as above. If any payment of Principal, Interest, Late Charge or other sum to be made hereunder becomes due and payable on a day other than a Business Day, the due date of such payment shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable interest rate during such extension. Upon a Default (as herein defined) any monies received shall, at the option and direction of the Lender, be applied to any sums due under this Note or any instrument securing this Note in such order and priority as the Lender shall determine.

7. Mandatory and Permitted Prepayment. The Principal Balance of this Note may not be prepaid, in whole or in part, from the Closing Date to, but not including, the Conversion Date. From and after the Conversion Date, the Principal Balance of this Note may be prepaid in whole or part upon at least fifteen (15) days' prior written notice to the Lender and payment of a prepayment premium contemporaneous with any prepayment in the amount of one percent (1.00%) of the Principal being prepaid ("**Prepayment Premium**"). Any prepayment made as set forth above must be accompanied by the Prepayment Premium, all accrued, but unpaid, interest and any other amounts due under the Note and the other Loan Documents. Any partial prepayments shall be applied to the Principal Balance in inverse order of installment payment dates. No prepayment shall postpone the Maturity Date or any payment due dates, or reduce the dollar amount of monthly installment payments. Notwithstanding the foregoing, no Prepayment Premium shall be due with respect to any prepayments of the Principal paid in connection with a refinancing of the Loan with Lender.

8. Security. This Note is secured according to the terms of the Mortgage.

9. Default. If any payment is not made when due in accordance with the terms and conditions of this Note and such failure to make timely payment is not cured within five (5) business days after Lender sends written notice of such failure to Borrower, or an Event of Default as defined in the Loan Agreement or any other Loan Documents occurs (all of the above being herein singularly and collectively referred to as a "**Default**"), the entire Principal Balance together with accrued interest thereon and Late Charges, if any, shall become immediately due and payable at the option of the Lender without notice to the Borrower.

10. Time of Essence. Time is of the essence of this Note and the other Loan Documents. No delay or omission on the part of the Lender in exercising any right hereunder shall operate as a waiver of such right or of any other remedy under this Note. A waiver by Lender on any one occasion shall not be construed as a bar to or waiver of any such right or remedy on a future occasion.

11. Costs of Collection. In the event of any Default hereunder, the Borrower agrees to pay the costs of collection including reasonable attorneys' fees and costs incurred, witness fees and other litigation related expenses, all other costs and fees incurred in litigation, mediation, bankruptcy and administrative proceedings and all appeals therefrom and all other costs and expenses incurred in the collection of the amounts due under this Note.

12. Waiver of Presentment Etc. Presentment for payment, protest and notice of non-payment are waived. Consent is given to any extension or alteration of the time or terms of payment hereof, any renewal, any release of any part or all of the security given for the payment hereof, any acceptance of additional security of any kind, and any release of, or resort to any party liable for payment hereof.

13. Savings Clause. Borrower agrees to pay an effective rate of interest which is the stated rate provided for in this Note plus any additional rate of interest resulting from any charges of interest or in the nature of interest paid or to be paid in connection with the loan provisions of this Note, and the Mortgage. It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply with applicable state law or applicable United States federal law (to the extent that it permits Lender to contract for, charge, take, reserve, or receive a greater amount of interest than permitted under state law) and that this section shall control every other covenant and agreement in this Note and any of the other Loan Documents. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under this Note or under any other Loan Documents, or contracted for, charged, taken, reserved, or received with respect to the Indebtedness, or if Lender's exercise of the option to accelerate the maturity of this Note, or if any prepayment by Borrower results in Borrower having paid any interest in excess of that permitted by applicable law, then it is Borrower's and Lender's express intent that all excess amounts theretofore collected by Lender shall be credited on the Principal Balance of this Note and all other Indebtedness (or, if this Note and all other Indebtedness have been or would thereby be paid in full, refunded to Borrower and the Borrower hereby agrees to accept such refund), and the provisions of this Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new documents, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid or agreed to be paid to Lender for the use, forbearance, or detention of the Indebtedness shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Indebtedness until payment in full so that the rate or amount of interest on account of the Indebtedness does not exceed the maximum lawful rate from time to time in effect and applicable to the Indebtedness for so long as the Indebtedness is outstanding. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

14. Acceleration on Sale or Encumbrance. In the event of a Transfer without the written consent of the Lender being first obtained, whether voluntarily, involuntarily, or by operation of law, then at the sole option of the Lender, the Lender may upon notice to the Borrower declare the entire Principal Balance together with accrued Interest and all other Indebtedness, immediately due and payable in full. Any such payment shall be subject to the requirements, if any, in this Note providing for the payment of a prepayment premium in the event of a non-permitted Transfer. A consent by the Lender as to any one Transfer shall not be deemed to be a waiver of the right to require consent to a future Transfer.

15. Consent to Jurisdiction. The Borrower submits and consents to personal jurisdiction of the Courts of the State of Wisconsin and Courts of the United States of America sitting in such State for the enforcement of this instrument and waives any and all personal rights under the laws of any state or the United States of America to object to jurisdiction in the State of Wisconsin. Litigation may be commenced in any state court of general jurisdiction for the State of Wisconsin or the United States District Court of the Eastern District of Wisconsin, at the election of the Lender. Nothing contained herein shall prevent Lender from bringing any action against any other party or exercising any rights against any security given to Lender, or against the Borrower personally, or against any property of the Borrower, within any other state. Commencement of any such action or proceeding in any other state shall not constitute a waiver of consent to jurisdiction or of the submission made by the Borrower to personal jurisdiction within the State of Wisconsin.

16. Notices. All notices, consents, requests, demands and other communications hereunder shall be in writing and shall be given as provided for in the Loan Agreement.

17. Governing Law. Notwithstanding the place of execution of this instrument, the parties to this instrument have contracted for Wisconsin law to govern this Note and it is agreed that this instrument is made pursuant to and shall be construed and governed by the laws of the State of Wisconsin without regard to the principles of conflicts of law.

18. Assignment. This Note and the other Loan Documents shall inure to the benefit of Lender, Transferees (as defined below) and all future holders of any Note, of the obligations and/or of any of the Collateral, and each of their respective successors and assigns. Each Loan Document shall be binding upon the persons other than Lender that are parties thereto and their respective successors and assigns, and no such person may assign, delegate or transfer any Loan Document or any of its rights or obligations thereunder without the prior written consent of Lender. No rights are intended to be created under any Loan Document for the benefit of any third party donee, creditor or incidental beneficiary of Borrower or guarantor of Borrower's obligations hereunder. Nothing contained in any Loan Document shall be construed as a delegation to Lender of any other person's duty of performance. SUBJECT TO THE PRECEDING SENTENCE, BORROWER ACKNOWLEDGES AND AGREES THAT LENDER AT ANY TIME MAY SELL, ASSIGN OR GRANT PARTICIPATING INTERESTS IN OR TRANSFER ALL OR ANY PART OF ITS RIGHTS OR OBLIGATIONS UNDER THIS NOTE AND ANY OTHER LOAN DOCUMENT, AND/OR THE COLLATERAL TO OTHER PERSONS (each such transferee, assignee or purchaser, a "**Transferee**"). Each Transferee shall have all of the rights and benefits with respect to the Borrower's obligations hereunder, this Note, the Collateral and/or Loan Documents held by it as fully as if the original holder thereof, and either Lender or any Transferee may be designated as the sole agent to manage the transactions and obligations contemplated therein; provided that, notwithstanding anything to the contrary in any Loan Document, Borrower shall not be obligated to pay under this Note to any Transferee any sum in excess of the sum which Borrower would have been obligated to pay to Lender had such participation, sale, assignment or transfer not been effected. Notwithstanding any other provision of any Loan Document, Lender may disclose to any Transferee all information, reports, financial statements, certificates and documents obtained under any provision of any Loan Documents.

19. Entire Agreement. This Note represents the complete understanding of the Borrower and the Lender with respect to the matters contained herein and there are no oral agreements of any type or kind between the Borrower and the Lender that are not contained in this Note.

[Remainder of page left intentionally blank. Signature page follows.]

SIGNATURE PAGE TO PROMISSORY NOTE

Executed and delivered as of the date first above written.

BORROWER:

AMMO, INC.
a Delaware corporation

By: _____
Fred W. Wagenhals
CEO and Chairman of the Board

FIRELIGHT GROUP I, LLC,
a Delaware limited liability company

By: _____
Fred W. Wagenhals
Title: Chairman and CEO of AMMO, Inc.
Its: Sole Member/Manager

CONSTRUCTION LOAN AGREEMENT

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is made and entered into as of October 14, 2021 (the "**Effective Date**") by and among AMMO, INC., a Delaware corporation ("**Ammo**"), FIRELIGHT GROUP I, LLC, a Delaware limited liability company ("**Firelight**") (Ammo and Firelight are hereinafter referred to collectively as "**Borrower**"), whose address is 7681 E. Gray Road, Scottsdale, Arizona 85260, and HIAWATHA NATIONAL BANK, a national banking association ("**Lender**"), whose address is 777 Walton Drive, PO Box 337, Plymouth, Wisconsin 53073, its successors and assigns.

A. Borrower has made application to, and Lender has agreed to lend to Borrower the sum of up to Eleven Million Six Hundred Twenty-Five Thousand and 00/100 Dollars (\$11,625,000.00) to pay a portion of the costs of constructing the Improvements upon certain real property situated in Manitowoc County, Wisconsin, and to fund Reserves, and in furtherance thereof, Borrower and Lender are entering into this Agreement.

B. This Agreement is entered into for the purpose of setting forth the terms and conditions upon which Lender will make the loan to Borrower.

NOW, THEREFORE, in consideration of the making of the Loan and other good and valuable consideration, the receipt of which is hereby acknowledged by the parties hereto, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

For purposes of this Agreement, capitalized terms used but not defined in this Agreement have the meanings defined below in this Article I.

1.1. "**Advance**" means any advance of Loan Funds by Lender.

1.2. "**Affiliate**" means, with respect to any Person, (a) any Person directly or indirectly controlling, controlled by, or under common control with such Person, or (b) any Person owning or controlling 10% or more of the outstanding voting interests of such Person. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.

1.3. "**Ammo Organizational Documents**" means the following, for Ammo, certified by an authorized officer of Ammo:

(a) Certificate of Good Standing issued by the Delaware Secretary of State;

(b) Certificate of Incorporation and all amendments thereto, certified by the Delaware Secretary of State;

(c) Bylaws; and

(d) Resolutions establishing the authority to enter into the Loan Documents.

1.4. “**Annual Debt Service**” means the Debt Service for the prior twelve (12) month period commencing on July 1, 2022, and remeasured annually.

1.5. “**Application for Payment**” means a written application in form and substance as the attached **Exhibit D** Request For Funds form, requesting an advance of Loan Funds together with a certificate signed by Borrower and Contractor certifying as to the Improvements completed at the time; that each contractor or materialman specified in the Application for Payment has satisfactorily completed the work or furnished the materials for which payment is requested in accordance with the applicable contract; that all work for which an Application for Payment is made conforms to the Contract Documents and any approved Change Orders, and is in place; and that sufficient funds remain of the undisbursed loan amounts to complete the Project and that all funds previously disbursed have been applied as per the previous Applications for Payment.

1.6. “**Appraisal**” means an appraisal satisfactory to Lender which shall be addressed to Lender setting forth the value of the Premises, and separating land value from improvements. The appraisal must be a full narrative appraisal report presenting the appraiser’s methodologies, reasoning, assumptions and value conclusions, and complying with (1) Title XI of the Federal Financial Institution Reform, Recovery and Enforcement Act of 1989 (FIRREA); (2) the OCC Appraisal Standards of 12 CFR, part 34; and (3) the Code of Professional Ethics and Standards of Professional Practice of the American Institute of Real Estate Appraisers and the Guidelines for Real Estate Appraisal Policies and Review Procedures adopted by the bank supervision offices of the Federal Deposit Insurance Corporation, the Office of Thrift Supervision (OTS), Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency as of December 14, 1987. The appraisal report must also contain a Statement of Assumptions and Limiting Conditions, as well as a dated and signed Certification in accordance with Standard Rule 2-3 of the Uniform Standards of Professional Appraisal Practices of the Appraisal Foundation, and Supplement Standards of Professional Practice of the American Institute of Real Estate Appraisers. The appraisal report must be signed by an appraiser with acceptable experience and who is a licensed “Certified General Appraiser” under the appraisal certification requirements of the state in which the property is located (or a certified appraiser, if that state does not confer the description of “Certified General Appraiser”).

1.7. “**Approvals**” means those approvals required of the Project, the Plans and Specifications, and all other Governmental Requirements by Governmental Authorities as a condition to constructing the Project.

1.8. “**Approved Plans**” means the Plans and Specifications as approved by the City and its agencies.

1.9. “**Architect**” means Pope Associates, Inc.

- 1.10. "**Architect's Contract**" means that certain Standard Form of Agreement Between Owner and Architect dated January 4, 2021, by and between Architect and Ammo.
- 1.11. "**Assignment of Contract Documents and Intangibles**" means an assignment and pledge by Borrower to Lender of all Contract Documents, any permits and other documents and intangibles benefiting the Project.
- 1.12. "**Assignment of Development Agreement**" means an assignment of the Development Agreement from the City of Manitowoc, Wisconsin, to Lender, in form and substance acceptable to Lender.
- 1.13. "**Business Day**" means any day other than a Saturday, a Sunday or other day on which commercial banks in the city in which the principal office of Lender is located is not open for business.
- 1.14. "**Capital Expenditures**" means expressly identified expenses (which are required to be capitalized under GAAP) related to repairing, replacing, or constructing any portion of the Improvements.
- 1.15. "**Cash Collateral**" means \$1,000,000.00 of cash held in the Deposit Account as additional security for the Loan, as further described in the Deposit Account Control Agreement.
- 1.16. "**Certificate of Substantial Completion**" means that certificate provided by Architect and Contractor to Borrower certifying that the Improvements have reached Substantial Completion.
- 1.17. "**Change Order**" means a change order from Borrower to the Contractor changing the Work.
- 1.18. "**City**" means the City of Manitowoc, Wisconsin.
- 1.19. "**Closing**" means the customary closing of the Loan on the Closing Date as contemplated by this Agreement.
- 1.20. "**Closing Date**" means the date that the Loan closes in accordance with the terms and conditions contained in this Agreement and the Loan Documents.
- 1.21. "**Closing Documents**" means the Loan Documents, the Organizational Documents, and other documents required by Lender to be delivered to Lender in connection with the Closing of the Loan.
- 1.22. "**Collateral**" means all of the security given for the payment of the Loan as described in the Loan Documents.
- 1.23. "**Completion Date**" means the date of Completion which shall not be later than the Outside Project Completion Date.

1.24. "**Consolidated EBITDA**" means consolidated earnings before interest, depreciation, taxes and amortization of Ammo, as determined under GAAP.

1.25. "**Construction Contracts**" means the General Contract, Architect's Contract, Subcontracts, and any other contracts entered into for the construction and equipping of the Project.

1.26. "**Construction Debt Service Reserve**" has the same meaning given to it in Section 3.2.

1.27. "**Construction Escrow Account**" means the account to be established with Disbursing Agent, as disbursing agent, wherein Disbursing Agent will hold all Loan Funds received and make disbursements therefrom.

1.28. "**Construction Interest Period**" has the meaning given in Section 3.2.

1.29. "**Contingency Reserve**" has the meaning given to it in Section 3.4.

1.30. "**Contract Documents**" means the Construction Contract(s), the Approved Plans, and such Change Orders and other addenda thereto.

1.31. "**Contract Price**" means \$24,850,520.00 which is the price as established in the General Contract as Cost of the Work based on the Project Budget including Contractor's Fee, and including ASI's #1-6.

1.32. "**Contractor**" means the General Contractor and any Subcontractor.

1.33. "**Contractor's Fee**" means the fee payable to the General Contractor under the General Contract for the construction of the Work.

1.34. "**Conversion Date**" has the meaning given in the Note.

1.35. "**Covenants, Conditions, Restrictions and Impositions**" means any and all (a) private covenants, conditions and restrictions included in the Permitted Encumbrances or now or hereafter affecting or encumbering the Premises, (b) covenants, conditions and restrictions imposed on the Premises or the owner or developer of any of the Premises under any (i) annexation or development agreement, (ii) Planned Unit Development agreement, plat map or similar agreement, or (iii) conditional use permit, (c) to the extent not included in Governmental Requirements, any covenants, conditions and restrictions included in any Permits or development approvals relating to the Project and its construction and its use and occupancy, and (d) any fees payable in connection with the development of the Premises (this includes, but is not limited to, water and sewer connection charges, special assessments, charges for water availability and fees in lieu of park or other dedication requirements).

1.36. "**Debt**" means collectively, in respect of any Person, any of the following:

(i) all indebtedness of such Person, whether or not represented by bonds, debentures, notes or securities, for the repayment of money borrowed (whether or not the recourse for payment is available to the whole of the assets of such Person or only a portion thereof), if and to the extent such obligations would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP;

(ii) all deferred obligations of the Person for the payment of the purchase price of property or assets purchased; all obligations of such Person representing the balance deferred and unpaid of the purchase price of any property or interest therein or in respect of conditional sales, except any such balance that constitutes a trade payable in the ordinary course of business in connection with obtaining goods, materials or services;

(iii) all guaranties, endorsements, assumptions and other contingent obligations in respect of, or agreements to purchase or otherwise acquire, indebtedness of others; and reimbursement obligations of such person with respect to letters of credit and bankers' acceptances or similar credit obligations;

(iv) all obligations under interest rate protection agreements, foreign currency hedges and similar agreements;

(v) all obligations secured by any mortgage, pledge or lien existing on property owned in whole or in part by the Person, whether or not the indebtedness secured thereby shall have been assumed;

(vi) all installment purchase contracts, loans secured by purchase money security interests and lease-purchase agreements or capital leases (including leases of real property), in each case computed in accordance with GAAP;

(vii) any obligation of the Person (whether or not classified as indebtedness under generally accepted accounting rules, including an operating lease) entered into for the purpose of directly or indirectly supporting, credit enhancing or paying any Debt of another Person, including any agreement to purchase any asset or obligation and any room rate, occupancy, or operating guaranty; and

(viii) a guaranty or agreement by such Person (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, primary or contingent, in any manner of any part or all of the obligations of another person of the type described in clauses (a) through (g) above.

1.37. "**Debt Service**" means, with respect to any outstanding Debt of Borrower with respect to the Loan, for any time period, the aggregate of the payments made or to be made in respect of principal (whether by maturity, purchase or amortization), interest, lease payment, servicing fees, trustee fees, paying agent fees, or similar payments, provided that, with respect to balloon debt, Debt Service shall, be computed on a pro-forma basis on the assumption that the principal of such Debt is retired in equal payments of principal and interest commencing on the date of the incurrence of the balloon debt and ending on the assumed maturity date of such Debt, and provided further that Debt Service of any Debt constituting a guarantee or similar contingent liability shall be determined by reference to the Debt Service of the Debt guaranteed thereby.

- 1.38. "**Debt Service Coverage Ratio**" (or "**DSCR**") means with respect to any period, the ratio of (a) Consolidated EBITDA to (b) Annual Debt Service.
- 1.39. "**Deposit Account**" has the meaning given to it in the Deposit Account Control Agreement.
- 1.40. "**Deposit Account Control Agreement**" means that certain Deposit Account Control Agreement of even date herewith by and between Lender and Borrower.
- 1.41. "**Development Agreement**" means the Development Agreement between Borrower and the City of Manitowoc, Wisconsin, dated as of April 6, 2021, pursuant to which the City agreed to provide tax increment financing in the amount of \$1,700,000.00, in consideration of Borrower performing certain obligations in connection with the Project.
- 1.42. "**Direct Costs**" means those Project Costs identified in the Total Project Cost Statement as "direct costs" or "hard costs".
- 1.43. "**Disbursing Agent**" means Lender funding by and through its agent, the Title Company.
- 1.44. "**Disbursing Agreement**" means the Disbursing Agreement of even date herewith, entered into among Borrower, Lender, and Title Company governing the disbursement of Loan Funds.
- 1.45. "**EBITDA**" means earnings before interest, depreciation, taxes and amortization of Ammo, as determined under GAAP.
- 1.46. "**Environmental Audit**" means a Phase I Environmental Site Assessment with respect to the Premises addressed and certified to Lender and performed by a qualified licensed engineer or certified environmental/industrial hygienist in strict conformance with the Standard Practice for Environmental Site Assessment Process, ASTM Standard E1527-97 and a findings and conclusions section consistent with Section 11.6.1 of ASTM Standard E1527 and any additional investigations and analysis necessary for the consultant to conclude there are no such Recognized Environmental Conditions associated with the Premises.
- 1.47. "**Environmental Laws**" means any international, federal, state or local statute, law, regulation, order, consent, decree, judgment, permit, license, code, covenant, deed restriction, common law, treaty, convention, ordinance or other requirement relating to public health, safety or the environment, including, without limitation, those relating to releases, discharges or emissions to air, water, land or groundwater, to the withdrawal or use of groundwater, to the use and handling of polychlorinated biphenyls or asbestos, to the disposal, treatment, storage or management of hazardous or solid waste, or Hazardous Substances or crude oil, or any fraction thereof, or to exposure to toxic or hazardous materials to the handling, transportation, discharge or release of gaseous or liquid Hazardous Substances and any regulation, order, notice or demand issued pursuant to such law, statute or ordinance, including without limitation the following: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984, the Hazardous Materials Transportation Act, as amended, the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1976, the Safe Drinking Water Act, the Clean Air Act, as amended, the Toxic Substances Control Act of 1976, the Occupational Safety and Health Act of 1977, as amended, the Emergency Planning and Community Right-to-Know Act of 1986, the National Environmental Policy Act of 1975, the Oil Pollution Act of 1990, and any similar or implementing state law, and any state statute and any further amendments to these laws providing for financial responsibility for cleanup or other actions with respect to the release or threatened release of Hazardous Substances or crude oil, or any fraction thereof and all rules and regulations promulgated thereunder.

1.48. "**Equipment**" has the meaning given to such term in the Mortgage.

1.49. "**Event of Default**" means any of those events specified as an event of default in Article X.

1.50. "**Exhibits**" means the following documents attached to this Agreement and incorporated herein:

EXHIBIT A Total Project Cost Statement
EXHIBIT B Insurance Requirements
EXHIBIT C Legal Description of Premises
EXHIBIT D Request for Funds Form
EXHIBIT E Form of Compliance Certificate
EXHIBIT F Debt Service Coverage Ratio Certificate
EXHIBIT G Site Plan

1.51. "**Financing Statement**" means one or more financing statements given by Borrower under the provisions of the Uniform Commercial Code to Lender perfecting a security interest in the Personalty, the Contract Documents and all intangibles.

1.52. "**Final Completion**" means that stage of completion where all "punch list items" and uncompleted Work has been completed and the conditions of Article IX of this Agreement have been satisfied.

1.53. "**Firelight Organizational Documents**" means the following, certified by an authorized officer of Firelight:

- (a) Certificate of Good Standing issued by the Delaware Secretary of State;
- (b) Certificate of Status in the State of Wisconsin issued by the Wisconsin Department of Financial Institutions;
- (c) Certificate of Organization and all amendments thereto, certified by the Delaware Secretary of State; and
- (d) Resolutions of the Officers of Ammo establishing the authority to enter into the Loan and to execute the Loan Documents.

- 1.54. "**First Advance**" means the initial Advance of Loan Funds.
- 1.55. "**First Monthly Payment Date**" means the fifteenth (15th) day of the first full calendar month following the date of the First Advance.
- 1.56. "**Fiscal Quarter**" means each three-month period ending on March 31, June 30, September 30, or December 31.
- 1.57. "**Fiscal Year**" means the fiscal year of Ammo consisting of a twelve-month fiscal period commencing on April 1 and ending on March 31.
- 1.58. "**Fixture**" has the meaning given to such term in the Mortgage.
- 1.59. "**Force Majeure**" means to the extent that the time for performance of Work shall be delayed by acts of God, fire, windstorm, flood, explosion, collapse of structures, riot, war, labor disputes, delays or restrictions by Governmental Authorities, inability to obtain or use necessary materials, or any cause beyond the reasonable control of the party charged with the responsibility for the performance of the Work.
- 1.60. "**Funding Date**" means the date of the First Advance of Loan Funds into an escrow account or any other account.
- 1.61. "**GAAP**" means generally accepted accounting principles, consistently applied, as in effect from time to time in the United States of America.
- 1.62. "**General Contract**" means that certain Standard Form of Agreement Between Owner and Contractor (AIA Document A103-2007) dated March 18, 2021, by and between Borrower and General Contractor, for the furnishing of labor, services, and materials to the Premises in connection with the construction of the Improvements for the Contract Price, which is to be in form and substance approved by Lender.
- 1.63. "**General Contractor**" means Larson Building, Inc., the entity directly engaged by Borrower to construct the Improvements.
- 1.64. "**Governmental Authority**" means any governmental body or regulatory authority exercising jurisdiction over the Premises, the construction of the Project, including any department or subdivision of the City.
- 1.65. "**Governmental Requirements**" means all laws, statutes, codes, ordinances, rules, regulations, wetlands restrictions/regulations and historical requirements adopted or enacted by a Governmental Authority applicable to the Project and its construction and its use and occupancy.

1.66. "**Hazardous Substance**" means any hazardous or toxic material, substance or waste, pollutant or contaminant which is defined, prohibited, limited or regulated under any statute, law, ordinance, rule or regulation of any local, state, regional or Federal authority having jurisdiction over the property of Borrower, or its use, including but not limited to any material, substance or waste which is (a) defined, listed or otherwise classified as a hazardous substance, hazardous material, hazardous waste or other words of similar meaning under any Environmental Laws; (b) petroleum, petroleum hydrocarbons, and all petroleum products; (c) polychlorinated biphenyls; (d) lead; (e) urea formaldehyde; (f) asbestos and asbestos containing materials; (g) flammables and explosives; (h) infectious materials; (i) atmospheric radon at levels over 4 picocuries per cubic liter, (j) radioactive materials; or (k) defined, prohibited, limited or regulated as a hazardous substance or hazardous waste under any rules or regulations promulgated under any of the foregoing Environmental Laws; provided, however, that a *de minimis* quantity of hazardous substances such as is customarily utilized in the ordinary course of Borrower's business, such as common cleaning products and solvents and medications, shall not be considered to be a Hazardous Substance for purposes of this Agreement.

1.67. "**Hazardous Substances Indemnity**" means that certain Hazardous Substances Indemnity Agreement executed by Borrower indemnifying and holding Lender harmless from any Hazardous Substances and the violation of any Environmental Laws.

1.68. "**Improvements**" means, means the approximately 160,000 square foot manufacturing facility to be constructed on the Premises in accordance with the Contract Documents, together with related Personalty to be installed.

1.69. "**Indebtedness Secured Hereby**" means the "Indebtedness Secured Hereby" as defined in the Mortgage and any other Debt, liability or other obligations of Borrower under the Loan Documents.

1.70. "**Indemnified Loss**" has the meaning set forth in Section 6.26.

1.71. "**Indemnified Parties**" has the meaning set forth in Section 6.26.

1.72. "**Indirect Costs**" means those Project Costs identified in the Total Project Cost Statement as "indirect costs" or "soft costs".

1.73. "**Inspecting Architect**" means OPPIDANusa, Inc., or any Person selected by Lender to perform the services of Inspecting Architect.

1.74. "**Insurance Policies**" means those policies of insurance set forth in Exhibit B attached to this Agreement.

1.75. "**Interest Rate**" means the interest rate charged on the Loan from time to time as set forth in Section 2.2 hereof.

1.76. "**Lease(s)**" means a written instrument granting to a tenant the right to possession of the Premises, including without limitation the individual residential occupancy agreements.

1.77. "**Licenses**" means any and all licenses required to be obtained from any Governmental Authority in order for Borrower to operate an ammunition manufacturing facility at the Project.

1.78. "**Lien**" means any lien that may be imposed by law or by contract against the Premises for the payment of labor, materials, or services rendered by a person or entity in connection with the Work.

1.79. "**Line Item**" means those individual Project Costs items as itemized by line in the Sworn Construction Cost Statement and Total Project Cost Statement.

1.80. "**Loan**" means the loan to be made pursuant to Article II of this Agreement in an amount of up to \$11,625,000.00.

1.81. "**Loan Documents**" means all documents evidencing, securing or providing security or surety for the Loan, including but not limited to: this Loan Agreement; the Note; the Mortgage; the UCC Financing Statements; the Hazardous Substances Indemnity; the Deposit Account Control Agreement; the Disbursing Agreement; the Assignment of Contract Documents and Intangibles, the Assignment of Development Agreement, and all other documents executed in connection with the Loan.

1.82. "**Loan Funds**" means the sums of money disbursed under this Agreement and the Disbursing Agreement.

1.83. "**Major Contract(s)**" means all Contracts written in excess of \$250,000.00.

1.84. "**Materials**" means all equipment, materials and goods furnished to the Premises and to be included in the Work.

1.85. "**Maturity Date**" means October 14, 2026; provided that notwithstanding the above, in the event that the Loan or the Indebtedness Secured Hereby is earlier declared due and payable due to Lender's exercise of its acceleration rights upon the occurrence of a Default, as defined in the Note, or an Event of Default, such date upon which the Loan is declared due and payable shall constitute the Maturity Date.

1.86. "**Minimum Capital Expenditures**" means, with respect to any Fiscal Year, beginning on the Conversion Date, Capital Expenditures related to the Project or expenses of repairing, renovating, and replacing Fixtures

1.87. "**Minor Changes**" means Change Orders that do not (a) change the Scope of the Work, (b) change the Contract Price together with all other previous changes by more than three percent (3.0%) without the prior written consent of Lender, (c) change any individual Line Item together with all previous changes by the lesser of five percent (5.0%) or Fifty Thousand Dollars (\$50,000.00) without the prior written consent of Lender, or (d) require approval by a Governmental Authority.

1.88. "**Monthly Payment Date**" the fifteenth (15th) day of each month, commencing on the First Monthly Payment Date up to the Maturity Date.

1.89. "**Mortgage**" means the certain Construction Mortgage, Security Agreement, Assignment of Rents and Leases, and Fixture Filing dated as of the date hereof, given by Borrower to Lender, mortgaging the land, improvements and other real property described therein as security for this Note.

1.90. "**Note**" means the Promissory Note of even date herewith made by Borrower payable to Lender in the Loan amount.

- 1.91. “**Organizational Documents**” means, collectively, the Ammo Organizational Documents and the Firelight Organizational Documents.
- 1.92. “**Outside Project Completion Date**” means the date that is twelve (12) months after the Effective Date.
- 1.93. “**Owner Equity**” means the Total Project Costs plus the Cash Collateral, less the amount of the Loan. Of the Owner Equity, \$15,640,520.00 shall be “first in” cash of Borrower, including amounts already incurred by Borrower for acquisition of the Premises and Project Costs already incurred by Borrower as described in Section 5.25.
- 1.94. “**Payment Date**” has the meaning defined in the Note.
- 1.95. “**Permits**” means all permits required by Governmental Authorities for the construction of the Improvements in accordance with the Approved Plans including any required building permits.
- 1.96. “**Permitted Exceptions**” means the exceptions to insured coverage set forth in Schedule B to the Title Policy.
- 1.97. “**Person**” means any natural person, corporation, partnership, joint venture, firm, association, trust, unincorporated organization, limited liability company, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.
- 1.98. “**Personal Property**” has the meaning given to such term in the Mortgage.
- 1.99. “**Personalty**” means all Personal Property, Fixtures, and Equipment described in the Mortgage.
- 1.100. “**Placement Agent**” means Northland Networks, Inc., a Minnesota corporation.
- 1.101. “**Plans and Specifications**” means the plans and specifications for the construction of the Improvements prepared by the Architect which Plans and Specifications shall comply with all Governmental Requirements shall in all respects be suitable for construction of the Improvements, and shall at all times conform to the Scope of the Work.
- 1.102. “**Plat**” means any subdivision of the Premises as required to be completed and filed as a condition of constructing the Project.
- 1.103. “**Premises**” means the real property described in **Exhibit C** attached to this Agreement, together with all improvements and fixtures now thereon and hereafter completed therein.
- 1.104. “**Principal**” means the from time to time sums of money disbursed by Lender pursuant to this Agreement.

1.105. "**Principal Balance**" means from time to time the amount of Principal remaining unpaid.

1.106. "**Pro Forma**" means a pro forma analysis of the projected time schedule for completion, source and use of funds, the occupancy thereof and the cash flow from the Project.

1.107. "**Project**" means the Premises as improved, or to be improved, with the Improvements in substantial accordance with Governmental Requirements and the Approved Plans, and the process of designing and constructing the Improvements.

1.108. "**Project Costs**" means those costs incurred in development and construction of the Project as set forth in the Total Project Cost Statement, as such Total Project Cost Statement may from time to time be amended with the consent of Lender.

1.109. "**Real Property Taxes**" means all taxes, assessments (general and special) and other impositions or charges which may be taxed, charged, levied, assessed, or imposed upon all or any portion of the Premises or use thereof, or upon any leasehold estate in the Premises or measured by the rent from the Premises with respect to the Term, but excluding federal, state or local income taxes.

1.110. "**Repair and Replacement Reserve**" has the meaning given to it in Section 3.3.

1.111. "**Report Cure**" has the meaning given to it in Section 6.23.

1.112. "**Required Financial Reports**" means the following in form and substance acceptable to Lender:

(a) Beginning with the Fiscal Quarter in which the Completion Date occurs, within thirty (30) days after the end of each Fiscal Quarter, unaudited financial statements of Borrower, which statements shall be prepared in accordance with GAAP and in form and substance acceptable to Lender, shall be certified as true and correct in all material respects by a financial officer of Borrower, and shall include for the Fiscal Quarter then ended: (i) a balance sheet, (ii) a statement of revenue and expenses comparing actual revenue and expenses to budgeted revenue and expenses, (iii) a statement of cash flows, and (iv) the current budget and operating statement.

(b) Beginning with the Fiscal Year in which the Conversion Date occurs, within forty-five (45) days after the end of each calendar year of Borrower, CPA-reviewed financial statements of Borrower, which statements shall be prepared in accordance with GAAP and in form and substance acceptable to Lender, shall be certified as true and correct in all material respects by a financial officer of Borrower and shall include for the Fiscal Year then ended: (i) a balance sheet, (ii) a statement of revenue and expenses comparing actual revenue and expenses to budgeted revenue and expenses, (iii) a statement of cash flows, and (iv) the current budget and operating statement.

(c) Within thirty (30) days after the due date, as extended, copies of Borrower's federal and state income tax returns for the preceding tax year, including all Schedule K-1s and other schedules referenced in or relating to the tax returns.

1.113. “**Reserves**” means any funds held by Lender in reserve and to be applied by Lender to the category for which the reserve is established or applied, including without limitation, the Construction Debt Service Reserve, the Repair and Replacement Reserve, the Construction Contingency Reserve, and the Taxes Reserve, as provided for in Article III or, upon a Default or an Event of Default, to be applied for any reason, at Lender’s sole discretion to any amounts due and payable under the Loan Documents.

1.114. “**Retainage**” means a percentage amount to be deducted from each Advance for payment of Direct Costs (but not including costs for materials and supplies that must be advanced to suppliers) and retained by Lender until the requirements for Disbursement of Final Balance are met. The Retainage under this Agreement shall be five percent (5.0%) of each such Advance (or portion thereof) until the Project has achieved Substantial Completion and, provided no Event of Default shall have occurred and be continuing, the Retainage shall be reduced to zero percent (0%). After the Project has been certified as having achieved Substantial Completion and the conditions precedent to final Advance have been met under Section 9.1, all of the retainages held as of that date shall be released to Borrower or to the General Contractor for payment to Sub-Contractors and suppliers whose work has been completed.

1.115. “**Scope of the Work**” means all Work and Materials necessary to complete the Project as contemplated by the Contract Documents.

1.116. “**Single Purpose Entity**” means a Person which complies with the requirements of Section 6.38.

1.117. “**Site Plan**” means the site plan dated February 25, 2021, prepared by Architect and approved by Lender and attached as Exhibit B.

1.118. “**Soil Report**” means that certain Geotechnical Engineering Report performed by ECS Midwest LLC. dated February 26, 2021, as certified to Lender.

1.119. “**Sub-Contractor(s)**” and “**Subcontractor(s)**” means those persons furnishing labor or Materials for the Project under contract with the General Contractor.

1.120. “**Sub-Contracts**” and “**Subcontracts**” means the contracts between the General Contractor and Sub-Contractors for the furnishing of labor or Materials for the Project.

1.121. “**Substantial Completion**” means the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Contract Documents so Borrower can occupy or utilize the Project for its intended use. In addition to the foregoing, the Work or any designated portion thereof shall not be considered to have reached the stage of “Substantial Completion” unless all of the following conditions have been satisfied: (a) such Work has been fully completed with the exception of minor “punch-list” items which do not interfere with the use and enjoyment of the completed Project as a manufacturing facility; (b) certificates of use and occupancy have been obtained from all necessary governmental authorities for the operation of the Project; (c) all HVAC systems are fully functioning and have been accepted by Borrower; (d) all life safety systems are fully functioning and have been accepted by Borrower and approved by applicable governmental authorities; (e) a Certificate of Substantial Completion has been issued by the Contractor and Architect and accepted by Borrower and concurred in by Lender’s Inspecting Architect; and (f) Borrower has received all certificates and any other Permits, Approvals, licenses, and other documents from any Governmental Authority having jurisdiction thereof necessary for approval of all Work including but not limited to all grading, paving and site Work.

1.122. “**Suppliers**” means those persons or entities supplying Materials to the Project other than the General Contractor.

1.123. “**Sworn Construction Cost Statement**” means a sworn statement of Borrower listing by line each item of Work or Materials to be performed or furnished, itemized by category; the Contractor or Supplier performing or furnishing such Work or furnishing Materials; and the estimate of the cost of the Work to be done.

1.124. “**Taxes Reserve**” has the meaning given to it in Section 3.5.

1.125. “**Tenant(s)**” means any party entitled to possession of the Premises under any Lease.

1.126. “**Term**” has the meaning given to such term in the Note.

1.127. “**Title Company**” means First American Title Insurance Company, the title insurer issuing the Title Policy.

1.128. “**Title Policy**” means an extended coverage ALTA Lender’s Policy of Title Insurance issued by Title Company and containing such endorsements as Lender may require and setting forth as exceptions to title those exceptions as may be approved in writing by Lender.

1.129. “**Total Project Cost Statement**” means the statement prepared by Borrower attached as **Exhibit A** itemizing and setting forth the estimated cost of constructing and financing the Improvements and all Project Costs.

1.130. “**Transfer**” means any sale, grant, pledge, assignment, mortgage, encumbrance, security interest, consensual lien, hypothecation, lease (other than bona fide third party leases for actual occupancy by an unrelated, unaffiliated tenant), transfer or divestiture or otherwise of, or an interest in (a) the Premises or (b) AMMO’s ownership interest in Firelight.

1.131. “**Work**” means all labor and Materials required to complete the construction of the Project including all Improvements, site grading, demolition of existing improvements, if any, landscaping, signage, installation of utilities, curb and gutter and parking areas.

ARTICLE II
THE LOAN

2.1. Loan. Subject to the terms and conditions of this Agreement and the compliance by Borrower with its obligations to Lender hereunder, Lender shall advance to Borrower and Borrower shall borrow from Lender the Loan.

(a) Term Loan. The Loan is an advancing term loan and not a revolving loan, and any portion of the Principal Balance paid or prepaid by Borrower may not be re-borrowed. The Loan shall be repaid with interest according to the terms of the Note.

(b) Conditions Precedent. Notwithstanding any other provision herein, Lender shall have no obligation of any nature to fund any Advance unless: (i) no Event of Default has occurred and is continuing; and (ii) all conditions set forth in Article VII have been satisfied.

2.2. Interest Rate. The Loan shall bear interest at the interest rate or rates stated in the Note.

2.3. Prepayment. The Loan may be prepaid only when permitted under the Note, upon the terms and conditions of the Note, including any applicable prepayment premiums.

2.4. Acceleration on Sale or Encumbrance. In the event of a Transfer without the written consent of Lender being first obtained, whether voluntarily, involuntarily, or by operation of law, then at the sole option of Lender, Lender may upon notice to Borrower declare the entire principal balance together with accrued interest, due and payable in full. Any such payment shall be subject to the requirements, if any, in the Note providing for the payment of a prepayment premium in the event of a non-permitted Transfer. A consent by Lender as to any one Transfer shall not be deemed to be a waiver of the right to require consent to a future Transfer. Lender may withhold of condition its consent in its sole discretion.

2.5. Time of Essence. Time is of the essence. No delay or omission on the part of Lender in exercising any right hereunder shall operate as a waiver of such right or of any other remedy under the Note and the other Loan Documents. A waiver on any one occasion shall not be construed as a bar to or waiver of any such right or remedy on a future occasion.

2.6. Recordkeeping. Lender shall record in its records, the date and amount of each Advance, the Loan amount outstanding and each repayment thereof. The unpaid principal amount so recorded shall be rebuttable presumptive evidence of the principal amount of the Loan then owing and unpaid. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the obligations of Borrower hereunder or under the Note to repay the principal amount of the Loan hereunder, together with all interest accruing thereon.

2.7. Security. To secure payment of all Indebtedness Secured Hereby, Borrower shall execute, cause any party thereto other than Borrower or Lender to execute, and deliver the Loan Documents to Lender. The Loan is further secured by the Mortgage.

ARTICLE III
RESERVES AND ADDITIONAL COLLATERAL

3.1. Reserves. At Lender's sole discretion, Lender shall hold back from disbursement of the Loan Funds an amount sufficient to fulfill the required Reserves under this Agreement and from which Reserves funds shall be thereafter disbursed by Lender as provided in this Agreement. Interest shall accrue and be payable to Lender by Borrower on any Loan Funds Advanced at the Interest Rate set forth in the Note. If the Reserves shall be entirely disbursed, but the costs or expenses for which such Reserves have been established shall not have been fully paid and provided for, Lender shall have the right but not the duty to hold back from any further disbursement of Loan Funds sufficient to re-establish the Reserves in an amount sufficient (in Lender's reasonable judgment) to provide for those costs and expenses thereafter. If in doing so the total of remaining Project Costs will exceed the Loan proceeds remaining to be disbursed, Borrower shall upon notice from Lender deposit with Lender additional Owner Equity in an amount sufficient to fund the Reserves in the amount of the resulting deficiency as determined by Lender. Lender shall have no obligation (a) to disburse Reserves if an Event of Default has occurred and is continuing hereunder, or (b) to disburse Reserves for any other purpose or to any other person other than for which the Reserves was established, provided if an Event of Default has occurred, Lender may disburse the Reserves in its discretion to the payment of the Loan or to any Project Cost as it may decide. All funds so deposited into Reserves and the interest earned thereon shall secure the Indebtedness Secured Hereby. Borrower hereby grants to Lender a first priority security interest in the Reserves. Upon exhaustion of the Reserves and if further costs are foreseeable, Borrower shall deposit with Lender as additional Owner Equity sums sufficient to replenish the Reserves. Lender is automatically authorized to draw upon the Reserves without the requirement of an Application for Payment or other draw certification by Borrower.

3.2. Construction Period Debt Service Reserve. There shall be established a reserve for debt service in the total amount of \$262,500.00 (the "**Construction Debt Service Reserve**"). At Closing, Lender shall reserve out of Loan Funds the total amount of \$52,500.00 to pay Debt Service due with respect to the Loan from the Effective Date to but not including the Conversion Date, as defined in the Note ("**Construction Interest Period**"). On the date of the First Advance, Lender shall reserve out of Loan Funds the balance of the remaining amount of the Construction Debt Service Reserve not already previously advanced at Closing by Lender. Commencing as of the date of the First Advance, Lender shall disburse directly to itself, on a monthly basis, Debt Service with respect to the Loan as it becomes due and payable commencing on the First Monthly Payment Date and continuing on each Monthly Payment Date thereafter during the Construction Interest Period until the funds in the Construction Debt Service Reserve have been depleted to pay such Debt Service, but only to the extent Net Operating Income less such Debt Service is insufficient to pay the Loan Debt Service payment then due. Lender may also disburse directly to itself at any time funds in the Construction Debt Service Reserve in an amount sufficient to pay any prepayments required under the terms of the Loan. Borrower shall pay Lender any amount by which funds in the Construction Debt Service Reserve are insufficient to pay the Loan's Debt Service and any prepayments required under the terms of the Loan, immediately when such insufficiency arises, during the Construction Interest Period. Upon an Event of Default, or otherwise at Lender's sole discretion at the request of Borrower, Lender may disburse to itself funds from the Construction Debt Service Reserve to pay Interest and Principal as it becomes due and payable and any other required payments under the Loan. Lender is automatically authorized to draw upon the Construction Debt Service Reserve without notice to or the consent of Borrower. On a monthly basis, Borrower shall cause such additional funds to be deposited into the Construction Debt Service Reserve as may be required to maintain the balance in the Construction Debt Service Reserve equal to or greater than the amount necessary to pay all Loan Debt Service payments and any prepayments required under the terms of the Loan during the Construction Interest Period. Any excess funds in the Construction Debt Service Reserve on the Conversion Date shall be applied to the outstanding Principal.

3.3 Repair and Replacement Reserve.

(a) Lender hereby reserves the right to require Borrower to deposit into an interest-bearing account with Lender or its nominee (the "**Repair and Replacement Reserve**") a reasonable monthly sum to set aside for repairs and replacements required for the Project.

(b) Upon Borrower's failure to otherwise adequately maintain the Premises in good condition, Lender may, but shall not be obligated to, make any necessary capital expenditures to the Project and repairing, renovating, and replacing the Improvements or Personally, and may disburse funds from the Repair and Replacement Reserve to itself for that purpose.

(c) Borrower may, from time to time, request a disbursement from the Repair and Replacement Reserve (to the extent funds are available) to reimburse itself for Minimum Capital Expenditures incurred by Borrower, subject to any reasonable requirements of Lender.

3.4 Contingency Reserve. An amount equal to \$1,000,000.00 shall be retained from Borrower Equity to be held for construction contingency purposes ("**Contingency Reserve**"). So long as no Default or Event of Default exists, Borrower may draw upon the Contingency Reserve upon presenting to Lender written documentation in form and substance reasonably acceptable to Lender, that is certified by the Borrower as true and correct and evidences the need to use funds in the Contingency Reserve for construction expenses directly related the construction of the Project.

3.5 Cash Collateral. The Cash Collateral shall be held by Lender as the depository bank in a Deposit Account in accordance with the Deposit Account Control Agreement and, provided there is no Event of Default, the funds remaining in the Deposit Account will be released to Borrower under the following circumstances: (a) fifty percent (50%) of the Cash Collateral will be released after the annual report provided to Lender under Section 6.31 of this Agreement demonstrates a Debt Service Coverage Ratio of at least 1.25 to 1.00 for a particular reporting year; and (b) the remaining fifty percent (50%) of the Cash Collateral will be released after the annual report provided to Lender under Section 6.31 of this Agreement demonstrates a Debt Service Coverage Ratio of at least 1.25 to 1.00 for a second reporting year.

ARTICLE IV
INSURANCE

4.1. Insurance. As of the Closing Date, Borrower shall obtain and shall continuously maintain thereafter and/or Borrower shall cause the General Contractor to obtain and continuously maintain the required Insurance Policies in forms of coverage and with insurers/sureties acceptable to Lender. Borrower and Lender shall be named as insured, as their interests may appear, on each policy of insurance with the originals of such policies or Accord 27 Certificates to be issued to Lender together with appropriate endorsement thereto, evidence of payment of premiums thereon and written agreements by the insurer or insurers therein to give Lender 30 days' prior written notice of any intention to cancel. Borrower shall provide to Lender promptly upon written request, together with the Required Financial Reports, an insurance certificate evidencing coverage as provided in this Agreement.

4.2. Insurance Policy Requirements. Maximum deductible on all coverages and policies shall be no greater than \$100,000.00. The insurance carrier must be rated A, Class XII, or better, by Best's Rating Service. Such Insurance Policies shall be written on forms and with insurance companies satisfactory to Lender, shall be in amounts sufficient to prevent Borrower from becoming a co-insurer of any loss thereunder, shall insure Lender as a first mortgagee on the casualty and business interruption/loss of rents coverage under a standard mortgagee clause, shall name Lender as a "lender's loss payee" on all required property coverages and policies, and shall name Lender as an "additional insured" on all required liability coverages and policies. Borrower shall with respect to each of their respective policies, within 30 days prior to the expiration of any such policy, deliver other original policies of the insurer evidencing the renewal of such insurance together with evidence of the payment of current premiums therefor. Any vacancy, change of title, tenant occupancy or use, physical damage, additional improvements or other factors affecting any insurance contract must be reported to Lender immediately. An original or certified copy of each policy is required upon renewal. If no such copy is available, Lender will accept a binder for a period not to exceed 90 days. All binders, certificates of insurance, and original or certified copies of policies must name Lender as a named insured, or as an additional insured, must include the complete and accurate property address and must bear the original signature of the issuing insurance agent.

4.3. Collection of Proceeds. Borrower shall cooperate with Lender in obtaining for Lender the benefits of any Insurance Policies or other proceeds payable to it under such Insurance Policies and shall pay all reasonable expenses of Lender in participating in any loss adjustments (including the payment by Borrower of the expense of an independent Appraisal on behalf of Lender, if reasonably necessary to facilitate adjustment of a loss). All such proceeds, other than liability insurance, are hereby absolutely and unconditionally assigned, and shall be paid, to Lender for deposit in a separate account maintained by Lender, and such proceeds shall be applied in accordance with this Loan Agreement or the Mortgage.

4.4. Insurance Reserve. There shall be no reserve account or escrow for payment of insurance premiums for insurance coverages required under this Agreement. Notwithstanding the foregoing, upon the occurrence of an Event of Default, the Lender may provide notice to Borrower that the Lender elects to commence requiring the Borrower to deposit funds into escrow on a monthly basis to apply toward insurance premiums when they become due.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

As of the Effective Date and each Advance, Borrower represents and warrants to Lender the following:

5.1. Validity of Loan Documents. The Loan Documents grant to Lender a valid and enforceable first priority lien and security interest in the Project.

5.2. Priority of Lien on Personality. No chattel mortgage, bill of sale, security agreement, financing statement, or other title retention agreement (except those executed in favor of Lender) has or will be executed with respect to any Personality used in conjunction with the construction, operation, or maintenance of the Improvements.

5.3. Conflicting Transactions of Borrower. The consummation of the transactions hereby contemplated and the performance of the obligations of Borrower under and by virtue of the Loan Documents will not result in any breach of, or constitute a default under the Organizational Documents, any mortgage, lease, bank loan or credit agreement, or any other instrument to which Borrower is a party or by which it or its properties may be bound or affected.

5.4. Legal Status of Ammo. Ammo is duly incorporated, validly existing and in good standing as a corporation under the laws of the State of Delaware and has all power, authority, permits, consents, authorizations and licenses necessary to carry on its business, to construct and equip the Project and to execute, deliver and perform this Agreement and the other Loan Documents to which it is a party; all consents required of the ownership of Ammo necessary to authorize the execution, delivery and performance of this Agreement and of the other Loan Documents which have been or are to be executed by and on behalf of it has been duly adopted and are in full force and effect; and this Agreement and such other Loan Documents have been duly authorized, executed and delivered by and on behalf of Ammo and are the valid and binding obligations of Ammo, enforceable in accordance with their respective terms. Borrower has no shareholder control agreement or similar agreement governing its existence, administration or shareholders other than its Bylaws.

5.5. Legal Status of Firelight. Firelight is duly organized and validly existing under the laws of the State of Delaware and has all power, authority, permits, consents, authorizations, and licenses necessary to carry on its business to construct, and equip, and own the Project and to execute, deliver and perform this Agreement and the other Loan Documents to which it is a party; all consents required of the ownership of Firelight necessary to authorize the execution, delivery and performance of this Agreement and of the other Loan Documents which have been or are to be executed by and on behalf of Firelight have been duly adopted and are in full force and effect; and this Agreement and such other Loan Documents have been duly authorized, executed and delivered by and on behalf of Firelight and are the valid and binding obligations of Firelight, enforceable in accordance with their terms. Firelight has no member control agreement, operating agreement or similar agreement governing its existence, administration or members.

5.6. Pending Litigation. There are no actions, suits or proceedings pending, or to the knowledge of Borrower threatened, against or affecting Borrower or the Premises, or involving the validity or enforceability of any of the Loan Documents or the priority of the lien thereof, at law or in equity, or before or by any Governmental Authority, except actions, suits and proceedings which are fully covered by insurance or which, if adversely determined would not substantially impair the ability of Borrower to perform each and every one of its obligations under and by virtue of the Loan Documents; and to Borrower's knowledge it is not in default with respect to any order, writ, injunction, decree or demand of any court or any Governmental Authority.

5.7. Violations of Governmental Law, Ordinances or Regulations. There are no violations or notices of violations of any federal or state law or municipal ordinance or order or requirement of the State in which the Premises are located or any municipal department or other Governmental Authority having jurisdiction over the Premises, which violations in any way relate to, or affect the Premises.

5.8. Compliance with Zoning Ordinances, Governmental Requirements. The Plans and Specifications, the Work and construction pursuant thereto and the use of the Premises contemplated thereby comply and will continue to comply with all Governmental Requirements, Environmental Laws, equal employment regulations, any private covenants affecting the Project, and appropriate supervising boards of fire underwriters and similar agencies and all Approvals to the construction of the Project have been obtained.

5.9. Availability of Utilities. All utility services necessary for the proper operation of the Project for their intended purposes are available at the Premises or will be made available to the Premises prior to completion of construction of the Improvements at standard utility rates and hook-up charges, including water supply, storm and sanitary sewer facilities, energy and communications facilities.

5.10. Permits. All Permits required for the construction of the Improvements are available from the Governmental Authorities and will be issued and paid for prior to construction of any portion of the Improvements for which such Permits are needed.

5.11. Condition of Premises. The Premises are not now damaged or injured as a result of any fire, explosion, accident, flood or other casualty, nor subject to any condemnation action or exercise of eminent domain by a Governmental Authority.

5.12. Final Plans and Specifications. The Plans and Specifications are final. Excepting for Minor Changes, no changes are to be made in the Plans and Specifications as so approved without required Approvals and written approval by Lender.

5.13. Construction Contract(s). The General Contract is in full force and effect and no default exists thereunder and Borrower will perform its obligations thereunder and cause the General Contractor to perform its obligations thereunder. Borrower will cause the General Contractor to promptly furnish Lender with the complete list of all Sub-contractors or entities which General Contractor proposes to engage to furnish labor and/or materials in constructing the Improvements and will from time to time furnish Lender with true copies of all Major Contract(s).

5.14. Environmental Impact Statement. All required environmental impact statements as required by any Governmental Authority shall have been duly filed and approved prior to the advance of any of the Loan proceeds, exclusive of transaction costs.

5.15. Access. The Premises directly front on a publicly maintained road or street and have legal access to the same through governmentally approved curb cut permits.

5.16. Hazardous Substances Representations of Borrower. To the best of Borrower's knowledge following due inquiry, and except as disclosed by the Environmental Audit delivered to and accepted by Lender in writing, (a) the Premises have been and are free from contamination by Hazardous Substances other than (A) immaterial quantities of automotive motor oil leaked inadvertently from vehicles in the ordinary course of the operation of the Premises and cleaned up in accordance with reasonable property management procedures and any applicable law, and (B) immaterial quantities of substances customarily and prudently used in the cleaning and maintenance of the Premises in accordance with any applicable law, (b) no release of any such Hazardous Substance has occurred on or about the Premises, (c) that the Premises currently comply, and will comply based on their anticipated use, with all current Environmental Laws, (d) that, in connection with the ownership, operation, and use of the Premises, all necessary notices have been filed and all required permits, licenses and other authorizations have been obtained, including those relating to the generation, treatment, storage, disposal or use of Hazardous Substances, (e) that there is no present or to the best of Borrower's knowledge following due inquiry, past or threatened investigation, inquiry or proceeding relating to the environmental condition of, or to events on or about, the Premises, and (f) to the best of Borrower's knowledge there are no underground storage tanks currently existing and to the extent such underground storage tanks are existing they are registered under the required Environmental Laws and do not contain any leakages, and (g) Borrower has not received nor does it have any knowledge of any summons, citation, directive, letter or other communication, written or oral, from any local, state or federal governmental agency concerning (A) the existence of Hazardous Substances on the Premises or in the immediate vicinity, (B) the releasing, spilling, leaking, pumping, pouring, emitting, emptying, or dumping of Hazardous Substances onto the Premises or into waters or other lands or (C) violation of Environmental Laws.

5.17. Flood Plain. The Improvements will not be located in a 100-Year Flood Plain as depicted on any FIRM Maps or as determined by the Federal Emergency Management Agency.

5.18. Status of Borrower. Neither Borrower nor any controlling interest in Borrower is insolvent (as such term is defined in Section 101(29) of the Bankruptcy Act of 1978, as amended) and will not be rendered insolvent (as such term is defined in Section 101(29) of the Bankruptcy Act of 1978, as amended) by execution of this Agreement, the Loan Documents or consummation of the transactions contemplated thereby.

5.19. Due Diligence Materials. All of the financial information and other due diligence materials submitted by Borrower to Lender for Lender's review in connection with the Loan are true, complete and correct, and Borrower is aware of no information which would make such information or materials misleading, or which if known to Lender would render reliance on such information or materials unreasonable. All contracts that are part of such due diligence materials are not terminated and remain in full force and effect, have not been amended or otherwise modified except to the extent written amendments have been provided to Lender, and no party under any such contract is in material default thereunder to Borrower's knowledge.

5.20. Licensing. To the best knowledge of Borrower, without duty of investigation or inquiry, both of the General Contractor and the Architect hold valid professional licenses as contractor and architect, respectively, where required as a condition to performing their duties.

5.21. Purchase of Materials Under Conditional Sales Contract. No Materials, or any other part of the Improvements, to be placed in the Project, have been or will be purchased or installed under any security agreement, title retention agreement or other arrangements wherein the seller reserves or purports to reserve the right to remove or to repossess any such items or to consider them personal property after their incorporation in the Work unless authorized by Lender in writing.

5.22. Other Agreements of Borrower. Firelight has not entered into and is not bound by any management, consulting, employment, non-competition or non-disclosure agreements, any executive compensation arrangements, or any indemnity agreements.

5.23. Construction and Operation of Premises. Except for any zoning approvals, building permits and certificates of occupancy, which have been obtained or will be obtained prior to the Completion Date, no other necessary licenses, authorizations, approvals, permits, and certificates are necessary to construct, own and operate the Project; without limitation, no regulatory licenses, regulatory approvals, or parking, transportation, indirect source plans and permits are necessary to construct, own and operate the Project.

5.24. Soil Report. The Improvements have been designed to address all of the recommendations made in the Soil Report.

5.25. Owner Equity Deposit. Borrower shall have contributed the Owner Equity to the Project and shall have documented such contribution in writing, in form and substance acceptable to Lender, and shall have delivered such writing to Lender. All Owner Equity shall be drawn and used to pay Direct Costs and Indirect Costs of constructing the Project, and, in Lender's sole discretion, fund Reserves, before any Loan funds are used for such purposes.

ARTICLE VI
COVENANTS OF BORROWER

Until the Indebtedness Secured Hereby is paid in full, Borrower shall and shall cause the following to be true, correct and timely done:

6.1. Site. Firelight holds marketable fee simple title to the Premises, subject only to the Permitted Exceptions, and shall execute and deliver or cause to be executed and delivered such instruments as may be required by Lender and Title Company to provide Lender with a valid first lien on and security interest in the Premises subject only to the Permitted Exceptions.

6.2. Start of Work. Borrower shall diligently pursue construction of the Project to completion, and supply such moneys and perform such duties as may be necessary to complete the construction of the Project pursuant to the Contract Documents and in full compliance with all terms and conditions of this Agreement and the Loan Documents, all of which shall be accomplished on or before the Completion Date and without Liens, claims or assessments (actual or contingent) asserted against the Premises for any material, labor or other items furnished in connection therewith, and all in full compliance with all Governmental Requirements, evidence of satisfactory compliance with all of which Borrower will provide to Lender upon request therefor by Lender. Borrower agrees to hold harmless and indemnify Lender from any claimed or threatened Lien against the Premises.

6.3. Plans and Specifications. Borrower shall cause a full and complete, final set of Plans and Specifications with all Approvals to be furnished to Lender and its Inspecting Architect, for their review and approval prior to the closing of the Loan and with sufficient time for review and comment. It is understood that such review and approval is solely for the purpose of Lender's underwriting requirements and such review shall not be construed as a review of suitability, merchantability, fitness, or compliance with Governmental Requirements or otherwise and may not be relied upon by Borrower or any other person or entity.

6.4. Contest of Impositions, Liens and Levies. Borrower shall keep the Premises free from any Lien. Upon the assertion of a claim of Lien or the filing of a Lien against the Premises, Borrower, as applicable, shall cause the same to be immediately discharged and removed from its Premises, provided Borrower shall not be required to pay, discharge or remove any Lien so long as Borrower (as applicable) shall in good faith contest the same or the validity thereof by appropriate legal proceedings which shall operate to prevent the collection of the Lien so contested and the sale of the applicable Premises, or any part thereof, to satisfy the same and the existence of such Lien shall not delay or hinder the construction of the Improvements and provided that Borrower (as applicable) shall have given such reasonable security as may be demanded by Lender and Title Company to protect the applicable Premises, and Lender's interest therein, if any such Lien is determined adverse to such interests. Borrower (as applicable) shall promptly after final determination of the validity of any such Lien, pay the amount adjudicated due together with all interest and penalties which may be payable in connection therewith. Notwithstanding these provisions Borrower (as applicable) shall (and if Borrower shall fail so to do, Lender, may but shall not be required to) pay any such Lien notwithstanding such contest if in the reasonable opinion of Lender, the applicable Premises shall be in jeopardy or in danger of being forfeited or foreclosed or construction of the Project is delayed or hindered.

6.5. Surveys. Prior to the request for the First Advance, Borrower shall furnish to Lender three copies of a current land survey of the Premises prepared by a reputable, registered land surveyor, certified and prepared in form and substance satisfactory to Lender and Title Company and other interested parties and otherwise complying with the "2016 Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys" as adopted by the American Land Title Association, American Congress on Surveying & Mapping and National Society of Professional Surveyors, including the following items 1, 2, 3, 4, 6, 7(a), 7(b)(1), 8, 9, 11, 13, 16, 18 and 19 of Table A and certifying the description of the Premises (including the appurtenant easements), showing all encroachments onto or from the Premises, spotting the proposed Improvements, showing access rights, easements, or utilities, rights of way affecting the Premises, showing all setback requirements upon the Premises, showing any existing improvements, showing matters affecting title, and such other items as Lender may reasonably request. After the foundation walls for the Improvements are completed, Borrower shall promptly furnish Lender with three copies of the survey revised to show the location of the Improvements and certifying that the Improvements are within the boundary lines of the Premises and the building restriction lines, if any, and that the Improvements do not encroach upon any set back easement, utility or right of way. Upon completion of construction, Borrower shall provide three copies of the Survey recertified "as built".

6.6. Title Insurance for Premises. By Closing, Borrower shall furnish Lender with a *pro forma* Lender's Title Policy, showing the final policy will be written by Title Company in the full Loan amount in form and substance satisfactory to Lender insuring the Premises are marketable, insuring fee interest to the Premises vested in Firelight free from exceptions for mechanic's and materialmen's liens, naming Lender as an insured and insuring that the Mortgage is a valid first lien in the full amount of the Loan subject only to the Permitted Exceptions, and with endorsements reasonably requested by Lender. At Closing, Borrower shall also pay the premiums for such policy. Within four weeks after Closing, Borrower shall undertake reasonable efforts to provide Lender with the final policy consistent with the *pro forma* policy along the copies of the recorded Mortgage.

6.7. Other Documents. Prior to any request for an Advance, Borrower shall furnish Lender with copies of such other documents, instruments or materials as may be reasonably required by Lender, if any.

6.8. Restrictions on Transfer. Borrower may not effect or permit a Transfer without Lender's prior written consent, which consent may be withheld or conditioned in Lender's reasonable discretion.

6.9. Application of Loan Proceeds. Borrower shall use the proceeds of the Loan solely for the purpose of paying for Project Costs and such incidental costs relative to the construction of the Project as may be approved from time to time in writing by Lender, and in no event may Borrower use any of the Loan proceeds for personal or other purposes.

6.10. Expenses. Borrower shall pay all costs associated with the Loan and all expenses of Lender with respect thereto including, but not limited to, fees and expenses of Lender's counsel and all other attorney's fees, including but not limited to, attorneys' fees and costs incurred in connection with negotiating the Loan terms, preparing the Loan Documents, reviewing due diligence materials, analyzing compliance with the Loan terms, amending the Loan terms, foreclosure and other enforcement of a Default or an Event of Default, or otherwise incurred in connection with disbursement, administration, collection, closing, or enforcement of the Loan, fees and costs of Lender's Inspecting Architect, consultants, costs of title insurance, transfer taxes, license and Permit fees, recording expenses, surveys, intangible taxes, Appraisal fees, expenses of collection and foreclosure and similar items. Lender has the right but not the duty to disburse the Loan Funds directly to itself for any such costs and expenses without the requirement of an Application For Payment or other draw certification by Borrower. This provision shall survive the repayment of the Loan and shall continue in full force and effect so long as the possibility of such liability, claims or losses exists.

6.11. Placement Agent Commissions. Borrower agrees to pay any Placement Agent commissions and fees that are determined to be due Placement Agent for arranging the Loan and shall indemnify Lender from any liability, claims or losses arising by reason of any placement agent or broker claiming a fee or commission due in connection with the Loan. This provision shall survive the repayment of the Loan and shall continue in full force and effect so long as the possibility of such liability, claims or losses exists. Borrower shall pay all of Placement Agent's attorney's fees and expenses incurred in connection with the Loan.

6.12. Governmental Requirements. Borrower shall comply promptly with any Governmental Requirements, including appropriate supervising boards of fire underwriters and similar agencies and the requirements of any insurer issuing coverage on the Project. Borrower shall comply with and shall require the Contractors to comply with all Governmental Requirements and all rules, regulations, ordinances and laws bearing on the conduct of the Work and the Improvements, including the requirements of any insurer issuing coverage on the Project and the requirements of any supervising boards of fire underwriters or similar agencies.

6.13. Right of Lender to Inspect Premises. Subject to Federal and State laws, rules and regulations and upon advance reasonable notice, Borrower shall permit Lender and Title Company and their representatives and agents to enter upon the Premises to inspect the Work and all Materials to be used in construction thereof and to cooperate and cause the Contractor(s) to cooperate with Lender, Title Company, and their representatives and agents during such inspections; provided, however, that this provision shall not be deemed to impose upon Lender or Title Company any duty or obligation whatsoever to undertake such inspections, to correct any defects in the Work or to notify any person with respect thereto. Notwithstanding the foregoing, Borrower shall be responsible for making inspections as to the Work during the course of construction and shall determine to its own satisfaction that the work done or materials supplied by the Contractor(s) and all Subcontractors has been properly supplied or done in accordance with the applicable contracts. Borrower will hold Lender and Title Company harmless from, and Lender and Title Company shall have no liability or obligation of any kind to Borrower, any third parties or creditors of Borrower in connection with any defective, improper or inadequate workmanship or materials brought in or related to the Work or the Premises, or any Liens arising as a result of such workmanship or materials. Upon Lender's reasonable request, Borrower shall replace or cause to be replaced any such Work or Material found to be deficient. Such inspections are solely for the purpose of Lender's underwriting requirements and such review shall not be construed as a review of suitability, merchantability, fitness, or compliance with Governmental Requirements or otherwise and may not be relied upon by Borrower or any other person or entity.

6.14. Books and Records. Borrower shall set up and maintain accurate and complete books, accounts and records pertaining to the Project including working drawings in a manner reasonably acceptable to Lender. Lender, Title Company and Inspecting Architect shall have the right at all reasonable times to inspect, examine and copy all books and records of Borrower relating to the Project, and to enter and have free access to the Premises and improvements and to inspect all Work done, labor performed, and Materials furnished in or about the Project. Any such inspection is solely for the purpose of Lender's underwriting requirements and such review shall not be construed as a review of suitability, merchantability, fitness, or compliance with Governmental Requirements or otherwise and may not be relied upon by Borrower or any other person or entity.

6.15. Correction of Defects. Borrower shall from time to time promptly correct or cause the Contractor(s) to correct any defects in the Work or any departure from the Plans and Specifications not previously approved by Lender. An Advance of any Loan Funds shall not constitute a waiver of Lender's right to require compliance with this covenant.

6.16. Sign Regarding Construction Financing. Borrower shall allow Lender to erect and maintain during construction at a suitable site on the Premises a sign indicating that construction financing is being provided by Lender and to publicize Lender's financing role.

6.17. Additional Documents. Borrower shall furnish to Lender all instruments, documents, initial surveys, footing or foundation surveys, certificates, Plans and Specifications, Appraisals, financial statements, Title Policy, and other insurance reports and agreements and each and every other document and instrument required to be furnished by Borrower, hereunder, all at Borrower's expense; shall assign and deliver to Lender such documents, instruments, assignments and other writings, and do such other acts necessary or desirable to preserve and protect the Collateral at any time securing or intended to secure the Note, as Lender may reasonably require; and shall do and execute all and such further lawful and reasonable acts, conveyances and assurances for the carrying out of the intents and purposes of this Agreement, as Lender shall reasonably require from time to time.

6.18. General Contract; Assignment of Construction Contracts. By the Closing Date, Borrower shall furnish Lender with the signed General Contract, which shall be acceptable to Lender in its reasonable discretion, copies of all Major Contracts and assign to Lender the Construction Contracts. Borrower shall permit no default under the Construction Contracts; shall not waive any of the obligations of the parties thereunder; and shall do no act which would relieve such parties from their obligations thereunder. Borrower shall make no amendments to such contracts, without the prior written consent of Lender and excepting Minor Changes shall not enter into Change Orders or extras without Lender's consent nor permit any changes to the Scope of the Work. Borrower shall allow all Major Contracts to be subject to the approval of Lender for its underwriting purposes; shall allow Lender to take advantage of all the rights and benefits of the contracts upon any Event of Default by Borrower; and shall submit evidence to Lender that the Contractor(s) will permit Lender to acquire Borrower's interest in such contracts without additional charge or fee beyond payment of the Contract Price should an Event of Default occur hereunder. Lender may not unreasonably withhold or condition such consent or approval under this Section.

6.19. Opinions of Counsel. Prior to the Closing Date, Borrower shall furnish such opinions of counsel as Lender may require in connection with the matters contemplated by this Agreement.

6.20. Soil Tests; Soil Remediation. By Closing, Borrower shall provide Lender with a Soil Report prepared by an acceptable engineer certifying as to the status of the soil conditions on the Premises, the need or lack of need for special pilings and foundations and that either any pilings and foundation necessary to support the Improvements have been placed in a manner and quantity sufficient to provide the required support or that no such pilings and foundations are necessary for the support and construction of the Improvements and evidence that the same have been incorporated in the Approved Plans. Borrower shall design, perform and construct the Improvements in a manner that takes into account and implements all of the recommendations of the geotechnical engineer contained in the Soil Report.

6.21. Margin Stock. No part of the proceeds of the Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (a) to purchase or carry "margin stock" (as such term is defined in Regulation U of the Federal Reserve Board) or to extend credit to others for the purpose of purchasing or carrying "margin stock" or to refund indebtedness originally incurred for such purpose, or (b) for any purpose which entails a violation of, or which is inconsistent with, the provisions of Regulations T, U or X as promulgated by the Federal Reserve Board.

6.22. Financial Information. By Closing, Borrower shall provide Lender current financial information regarding Borrower and General Contractor as Lender may reasonably require. During the term of the Loan Borrower shall provide to Lender and Placement Agent the Required Financial Reports when due. In the event Borrower fails to furnish any such Required Financial Reports when due, the same shall be an Event of Default and in addition to any other remedies available to Lender, Lender may cause an audit to be made of Borrower's books and records at the sole cost and expense of Borrower. Notwithstanding the foregoing, upon Lender's delivery of written notice to Borrower of Borrower's failure to timely provide a Required Financial Report, not more often than once per consecutive twelve (12) month period, Borrower shall have a fifteen (15)-day grace period commencing on the day on which Lender delivered such written notice during which time Borrower may deliver the then Required Financial Report and cure the Event of Default (a "**Report Cure**"). The Report Cure is available only one time for one report per consecutive twelve (12) month period notwithstanding the number of Required Financial Reports due at any given time. Lender also shall have the right to examine at their place of safekeeping at reasonable times all books, accounts and records relating to the operation of the Premises. Notwithstanding any of the above requirements, Borrower shall not be obligated to disclose or provide financial information in violation of any Securities Exchange Commission, NASDAQ, or any publicly traded securities regulatory authorities, and all such financial information will be provided only in coordination with the timing of publicly released information. Borrower may require Lender to execute assurances as reasonably requested by Borrower to prohibit any unlawful use of information provided to Lender concerning the Borrower's financial or other material and non-public information.

6.23. Compliance Certificate. Within 120 days after the end of each Fiscal Year, Borrower agrees to provide to Lender a certificate of the manager and/or officer of Borrower in substantially the form attached hereto as **Exhibit E** stating whether he/she has knowledge of the occurrence of any Event of Default under any of the Loan Documents or any event that with the giving of the notice or the passage of time would constitute an Event of Default under any of the Loan Documents, other than Events of Default previously reported and remedied and, if so, stating in reasonable detail the facts with respect to such Event of Default ("**Compliance Certificate**").

6.24. Material Effect. Borrower will transmit to Lender, immediately upon receipt thereof, any communication which could materially affect Lender's security for the Loan or have a material adverse effect on the Premises, the Improvements, or the Project, the financial condition of Borrower and will promptly respond fully to any inquiry of Lender made with respect thereto.

6.25. Environmental Covenants. Borrower shall (a) comply and shall cause all occupants and employees of the Premises to comply with all federal, state and local laws, rules, regulations and orders with respect to the discharge, generation, removal, transportation, storage and handling of Hazardous Substances, (b) remove any Hazardous Substances immediately upon discovery of same, in accordance with applicable laws, ordinances and orders of governmental authorities having jurisdiction thereof, (c) pay or cause to be paid all costs associated with such removal; (d) prevent the migration of Hazardous Substances from or through the Premises onto or under other properties; (e) keep the Premises free of any lien imposed pursuant to any state or federal law, rule, regulation or order in connection with the existence of Hazardous Substances on the Premises; (f) not install or permit to be incorporated into any improvements in the Premises or to exist in or on the Premises any asbestos, asbestos-containing materials, urea formaldehyde insulation or any other chemical or substance which has been determined to be a hazard to health and environment; (g) not cause or permit to exist, as a result of an intentional or unintentional act or omission on the part of Borrower, any employee, or any occupant of the Premises, a releasing, spilling, leaking, pumping, emitting, pouring, emptying or dumping of any Hazardous Substances onto the Premises or into waters or other lands; and (h) give all notifications and prepare all reports required by Environmental Laws or any other law with respect to Hazardous Substances existing on, released from or emitted from the Premises.

6.26. Environmental Indemnification. Borrower indemnifies and holds harmless Lender, its officers, directors, employees, agents, contractors, subcontractors, licensees, invitees, successors and assigns ("**Indemnified Parties**") from and against any and all claims, losses, liabilities (including without limitation strict liability), suits, obligations, fines, damages, judgments, injuries, administrative orders, consent agreements and orders, penalties, actions, causes of action, charges, costs and expenses, including without limitation attorneys' fees and consultants' fees (a) arising out of the inclusion in the Premises of Hazardous Substances or the presence on, the release from, the generation, manufacture, refining, treatment, storage, handling or disposal on, in or from the Premises of any Hazardous Substances, or any underground or above ground storage tanks containing Hazardous Substances and the cost of removal and remediation of the foregoing, or (b) arising out of the transportation, discharge or removal from the Premises of any Hazardous Substance, or (c) arising out of the inclusion in any product manufactured on the Premises of a Hazardous Substance; or (d) arising out of the failure to perform the removal or abatement of or to institute a safe, effective and environmentally approved control plan for any Hazardous Substance or the replacement or removal of any soil, water, surface water, or ground water containing Hazardous Substance in accordance with Environmental Laws; or (e) arising out of the existence of any environmental lien against the Premises pursuant to any Environmental Laws; or (f) arising out of any violation or claim of violation of Environmental Laws with respect to the Premises; or (g) arising out of any administrative proceedings and negotiations of any description with any and all persons, political subdivisions, or governmental agencies in connection with an alleged or actual violation of an Environmental Law or presence of Hazardous Substances on the Premises; or (h) arising out of any breach of any of the representations and covenants contained herein relating to Hazardous Substances and Environmental Laws (collectively the "**Indemnified Loss**"). Borrower shall bear, pay and discharge such Indemnified Loss as and when the same becomes due and payable.

6.27. Updated Appraisals. Borrower agrees that Lender shall have the right to obtain, at Borrower's expense, an updated Appraisal of the Project from an appraiser approved by Lender at any time that an Event of Default shall have occurred hereunder, and is continuing. In the event that Lender shall elect to obtain such an Appraisal, Lender may immediately commission an appraiser acceptable to Lender to prepare the Appraisal and Borrower shall fully cooperate with Lender and the appraiser in obtaining the necessary information to prepare such Appraisal. In the event that Borrower fails to cooperate with Lender in obtaining such an Appraisal or in the event that Borrower shall fail to pay for the cost of such Appraisal immediately upon demand, such event shall constitute an Event of Default hereunder and Lender shall be entitled to exercise all remedies available to it hereunder. If no Event of Default has occurred and is continuing, any updated Appraisal shall be at the expense of the Lender.

6.28. Operation of Project Generally. Borrower covenants and agrees with respect to the Project:

(a) Except as disclosed in writing to Lender, Borrower has obtained all Licenses and certificates necessary or required to operate the Project and shall continuously hold and maintain the same until the Indebtedness Secured Hereby is paid in full.

(b) Until the Loan is paid in full, Borrower and the Project (and the operation thereof) will be in compliance in all material respects with the applicable provisions of every law, ordinance, statute, regulation, order, standard, restriction or rule of any federal, state or local government or quasi-governmental body, agency, board or authority having jurisdiction over the operation of the Project, including, without limitation, (i) fire safety codes, and (ii) the applicable provisions of rules, regulations and published interpretations to which the Project is subject. So long as any part of the Indebtedness Secured Hereby remains unpaid, Borrower shall operate or cause the Project to be operated in compliance with such laws or regulations.

(c) All required Licenses (i) will be obtained prior to the operation of the Project; (ii) will not be transferred to any facility other than the Project, (iii) have not and will not be pledged as collateral security for any other loan or indebtedness, and (iv) will be free from restrictions or known conflicts which would materially impair the use or operation of the Project as intended, and (v) will not be provisional, probationary or restricted. Borrower shall not rescind, withdraw, revoke, amend, modify, supplement, or otherwise alter the nature, tenor or scope of the Licenses for the Project. So long as any part of the Indebtedness Secured Hereby remains unpaid, Borrower shall operate or cause the Project to be operated in a manner such that the Licenses remain in full force and effect.

(d) Neither Borrower nor the Project are subject to any proceeding, suit or investigation by any federal, state or local government or quasi-governmental body, agency, board or authority or any other administrative or investigative body which may result in the imposition of a fine, alternative, interim or final sanction, or which would have a material adverse effect on Borrower or the operation of the Project, or which would result in the revocation, transfer, surrender, suspension or other impairment of the Project, nor any license.

(e) Neither the execution nor the delivery of the Note, the Mortgage, or the other Loan Documents, Borrower's performance thereunder, the recording of the Mortgage, nor the exercise of any remedies by Lender will adversely affect (i) the right to receive any third party payments and third party reimbursements with respect to the Project, nor materially reduce the third party payments and third party reimbursements to be received upon the opening of the Project and until the Indebtedness Secured Hereby is paid in full; or (ii) any of the Licenses. Borrower has not pledged any such payments for any other loan or indebtedness.

6.29. Prompt Payment. Borrower shall deliver to Lender, within 24 hours after receipt, a copy of any notice Borrower receives from any Contractor or any Subcontractor or Supplier stating an intent to suspend or terminate the Construction Contract if the person or entity giving the notice does not receive payment for work performed by the person or entity giving such notice.

6.30. Indebtedness. Firelight covenants and agrees that it shall not incur any additional Debt without the prior written consent of Lender, which consent may be withheld or conditioned in Lender's absolute discretion. Lender acknowledges that Ammo is the borrower of a credit facility issued by FSW as lender, which credit facility encumbers certain personal property owned by Ammo and used in its manufacturing facility, some of which will be located at the Project, that is not included in the Collateral. Ammo hereby represents and warrants that FSW has reviewed the Loan Documents and consented to Lender making the Loan.

6.31. Debt Service Coverage Ratio. Ammo shall maintain a Debt Service Coverage Ratio of: (a) not less than 1.25 to 1.00 for the period defined below and continuing to and including the Maturity Date. The Debt Service Coverage Ratio shall be tested on an annual basis, as of July 1, 2022 for each previous year. Within five (5) business days of filing, Borrower shall provide to Lender a certificate of the chief financial officer of Borrower in substantially the form attached hereto as **Exhibit F** setting forth Borrower's Debt Service Coverage Ratio and the calculations used to evidence the same.

6.32. Covenants, Conditions, Restrictions and Impositions. Borrower shall timely observe, comply with and pay all Covenants, Conditions, Restrictions and Impositions.

6.33. Change of Use/Management Agreements. Borrower shall not alter or change the use of the Project or enter into any management agreement or operating lease for the Project, unless Borrower notifies Lender and provide Lender a copy of the proposed lease agreement or management agreement, obtain Lender's prior written consent thereto, which consent may be withheld in Lender's reasonable discretion, and attain and provide Lender with a subordination agreement in a form satisfactory to Lender, as determined by Lender in its reasonable discretion, from such manager or lessee subordinating to all rights of Lender.

6.34. Condition of Premises; Minimum Capital Expenditures. Borrower shall maintain (or cause the Manager to maintain) the Premises in good order and condition, consistent with the operation of a manufacturing facility. For each Fiscal Year until the Indebtedness Secured Hereby is paid in full, Borrower shall incur not less than the Minimum Capital Expenditures. Within 45 days after the end of each fiscal year, Borrower shall provide evidence satisfactory to Lender that it has incurred not less than the Minimum Capital Expenditures, including paid invoices identifying the capital expenditure(s).

6.35. Management Agreement. Borrower shall not enter into, amend or terminate any management agreement with any manager, or waive or forgive any default of any manager, without Lender's consent, which consent may be withheld or conditioned in Lender's sole discretion.

6.36. Leases; Other Occupancy Agreements. Borrower may not enter into any lease of any part of the Premises to a non-Affiliate of Borrower without first obtaining Lender's written consent to the terms of the Lease, which may be withheld or conditioned in Lender's sole discretion.

6.37. Operation of Project as a Manufacturing Facility. Borrower covenants and agrees with respect to the Project:

(a) Borrower shall continuously hold and maintain the Project as a manufacturing facility until the Indebtedness Secured Hereby is paid in full, and shall not materially change the size, nature or use of thereof unless Borrower has obtained Lender's written consent to any such change, which may be withheld or conditioned in Lender's sole discretion.

(b) Until the Loan is paid in full, Borrower and the Project (and the operation thereof) will be in compliance in all material respects with the applicable provisions of every law, ordinance, statute, regulation, order, standard, restriction or rule of any federal, state or local government or quasi-governmental body, agency, board or authority having jurisdiction over the operation of an ammunition manufacturing facility. So long as any part of the Indebtedness Secured Hereby remains unpaid, Borrower shall operate or cause the Project to be operated in compliance with such laws or regulations.

(c) All required Licenses (i) will be obtained prior to the operation of the manufacturing facility at the Project (ii) will not be transferred to any facility other than the Project, (iii) have not and will not be pledged as collateral security for any other loan or indebtedness, and (iv) will be free from restrictions or known conflicts which would materially impair the use or operation of the Project as intended, and (v) will not be provisional, probationary or restricted. Borrower shall not rescind, withdraw, revoke, amend, modify, supplement, or otherwise alter the nature, tenor or scope of the Licenses. So long as any part of the Indebtedness Secured Hereby remains unpaid, Borrower shall operate or cause the Project to be operated in a manner such that the Licenses remain in full force and effect.

(d) Neither the execution nor the delivery of the Note, the Mortgage or the other Loan Documents, Borrower's performance thereunder, the recording of the Mortgage, nor the exercise of any remedies by Lender, will adversely affect any of the Licenses required for Borrower to operate the Project as an ammunition manufacturing facility.

(e) Borrower shall post all Licenses as required to be posted under applicable law.

6.38. Maintain Single Purpose Entity Status. Firelight shall not:

(a) Engage in any business or activity other than the ownership, operation and maintenance of the Premises, and activities incidental thereto;

(b) Acquire or own any material assets other than (i) the Premises, and (ii) such machinery, equipment, fixtures and other personal property as may be necessary for the operation of the Premises and Borrower's business;

(c) Merge into or consolidate with any Person other than an Affiliate, or dissolve, terminate or liquidate in whole or in part, transfer or otherwise dispose of all or substantially all of its assets (except as permitted in the Loan Documents) or change its legal structure, without in each case Lender's consent;

(d) Without the prior written consent of Lender, amend, modify, terminate or fail to comply with the provisions of its Certificate of Organization, any operating agreement or Limited Liability Company Agreement, or any similar organizational document, as same may be further amended or supplemented, if such amendment, modification, termination or failure to comply would adversely affect its status as a Single Purpose Entity or its ability to perform its obligations hereunder, under the Note or any other document evidencing or securing the Loan;

(e) Own any subsidiary or make any investment in, any Person without the consent of Lender;

- (f) Commingle its funds or assets with assets of, or pledge its assets with or for, any of its members, Affiliates, principals or any other Person;
- (g) Except as otherwise provided for in this Agreement, incur any debt, secured or unsecured, direct or contingent (including guaranteeing any obligation), other than the Loan and trade payables incurred in the ordinary course of business, payable within ninety (90) days of the date incurred, based on historical amounts;
- (h) Fail to maintain its records, books of account and bank accounts separate and apart from those of its members, principals and Affiliates, and the Affiliates of any of its members, principals, and any other Person;
- (i) Enter into any contract or agreement with any of its members, principals or Affiliates, or the Affiliates of any of its members, principals, except upon terms and conditions that are intrinsically fair and substantially similar to those that would be available on an arms-length basis with third parties;
- (j) Seek its dissolution or winding up in whole, or in part;
- (k) Maintain its assets in such a manner that it will be costly or difficult to segregate, ascertain or identify its individual assets from those of any of its members, principals and Affiliates, or the Affiliate of any of its members, principals or any other Person;
- (l) Hold itself out to be responsible for the debts of another Person or pay another Person's liabilities out of its own funds;
- (m) Make any loans or advances to any third party, including any of its members, principals or Affiliates, or the Affiliates of any of its members, principals;
- (n) Fail to have prepared and filed its own tax returns;
- (o) Agree to, enter into or consummate any transaction which would render it unable to confirm that (i) it is not an "employee benefit plan" as defined in Section 3(32) of ERISA, which is subject to Title I of ERISA, or a "governmental plan" within the meaning of Section 3(32) of ERISA; (ii) it is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans; and (iii) less than twenty-five percent (25%) of each of its outstanding class of equity interests are held by "benefit plan investors" within the meaning of 29 C.F.R. § 2510.3-101(f)(2); or
- (p) Fail either to hold itself out to the public as a legal Person separate and distinct from any other Person or to conduct its business solely in its own name, in order not (i) to mislead others as to the identity with which such other party is transacting business, or (ii) to suggest that it is responsible for the debts of any third party (including any of its members, principals or Affiliates, or any general partner, principal or Affiliate thereof).
- 6.39. No Developer Fee. Borrower shall not pay any developer fee, construction management fee or the like to any third parties, including Affiliates, without Lender's consent.

ARTICLE VII
CONDITIONS PRECEDENT TO AN ADVANCE

7.1. Conditions Precedent to First Advance. It shall be a condition precedent to the first Advance that:

(a) Title. The Premises shall have been acquired by Firelight, and marketable fee simple title to the Premises has been vested in Firelight subject only to the Permitted Exceptions, and the Mortgage, and the other Loan Documents shall have been duly executed and recorded in such offices as to require to create a valid and binding enforceable first lien against the Premises and the Title Policy shall have been issued insuring Lender to that effect.

(b) Closing Documents. The Closing Documents shall have been duly executed and delivered to Lender and shall be in full force and effect with no default thereunder.

(c) No Material Adverse Change. (i) No material adverse change has occurred (A) in the financial status or legal existence of Borrower, (B) in the Project, and (ii) no materially adverse event has occurred that would cause the actual Project Costs to deviate from the Total Project Cost Statement, except for Minor Changes, without Lender's prior written consent.

(d) Loan is Balanced. The total amount of the Loan Funds available for Project Costs, plus any other Owner Equity deposited in the Construction Escrow Account shall be sufficient, in the reasonable opinion of Lender to complete and pay for all Work in its entirety. To the extent the total shall be insufficient at any time, in Lender's reasonable opinion to complete the Work and pay for the same in full or be less than the Project Costs, Borrower shall immediately deposit in the Construction Escrow Account additional Owner Equity funds in an amount equal to such deficiency.

(e) Representations and Warranties. The representations and warranties in Article V shall be true and correct on and as of the date of each Advance as originally made, and as if remade on the date of the Advance in question.

(f) Covenants. Borrower shall have complied with all of the covenants made by them in Article VI.

(g) General Contractor Sworn Construction Statement. The General Contractor shall have submitted to Lender and Title Company the Sworn Construction Statement. From time to time if the Project Cost changes or the Scope of the Work changes, Borrower shall furnish to Lender any amendments or additions to the original statement as so submitted.

(h) Total Project Cost Statement. Borrower shall have submitted to Lender and Title Company the Total Project Cost Statement approved by Lender and a timetable with a schedule of anticipated advances shall have been furnished to and approved by Lender. From time to time if the Project Cost changes or the Scope of the Work changes, Borrower shall furnish to Lender any amendments or additions to the original statement as so submitted.

(i) Approvals. All required Approvals shall have been satisfied.

(j) No Event of Default. No Event of Default has occurred and is continuing under this Agreement or under any other Loan Document.

(k) Disbursing Agreement. The Disbursing Agreement shall have been executed and delivered, and all requirements of the Disbursement Agreement for an Advance shall have been satisfied (including without limitation the requirement that Inspecting Architect has approved the Work done to date and confirmed the progress of the Work done to date and agreeing with the percentage of completion stated in the Application For Payment.

(l) Permits. All Permits shall have been issued without conditions (other than as may be satisfied by the Work).

(m) Site Plan Approval. The City shall have approved the construction of the Project, the site plan for the Project, and the Plat shall have been recorded with the appropriate office for the recording of the same in Manitowoc County, Wisconsin.

ARTICLE VIII
METHODS OF DISBURSEMENTS OF LOAN PROCEEDS

8.1. Procedure. All Advances shall be disbursed pursuant to the Disbursing Agreement and shall be secured by the Loan Documents.

8.2. Disbursement for Approved Project Costs Only. Except as provided in Section 3.1 and Section 6.10 (regarding Lender's right to disburse funds), no disbursement will be made for other than Project Costs set forth in the approved Total Project Cost Statement and then, except for Minor Changes, not to exceed the Line Items set forth therein without Lender's prior written consent.

ARTICLE IX
DISBURSEMENT OF FINAL LOAN BALANCE

9.1. Disbursement of Final Balance. At no time and in no event shall Lender be obligated to disburse the final balance of the proceeds of the Loan and any Retainage until:

(a) The General Contractor shall have provided a written statement certifying that all Work has been completed and all conditions to be performed under the General Contract have been fulfilled and there is no reason that the General Contractor shall not be paid in full.

(b) The Project Architect shall have confirmed Final Completion of all of the Work.

(c) Lender's Inspecting Architect shall have confirmed Final Completion of all of the Work.

(d) Lender shall have received a satisfactory "as-built" update to the original ALTA survey reflecting the final location of the Improvements as fully completed on the Premises.

(e) Title Company shall have been furnished with final lien waivers from all Contractors waiving all rights to assert a Lien against the Premises for all Work done and if required by Lender or Title Company, other data establishing payment or satisfaction of obligations, such as receipts, releases and waivers of liens, claims, security interests or encumbrances arising out of the Work.

(f) Lender shall have received evidence that all of the terms, provisions and conditions of this Agreement on the part of Borrower to be performed or caused to be performed through the date of such final disbursement have been fulfilled to the satisfaction of Lender.

(g) The elevators at the Project (if any) have passed any relevant elevator inspections, and the related certificate has been issued to Borrower with a copy delivered to Lender.

(h) Borrower has obtained all Licenses required by applicable law to operating the Project, and copies thereof have been delivered to Lender.

ARTICLE X
EVENTS OF DEFAULT

It shall be an “**Event of Default**” under this Agreement on the happening of any of the following:

10.1. Failure to Pay. Borrower fails to pay any amount payable under this Agreement, the Note or the other Loan Documents, including principal, interest or other charges, after the date such payment is due and such failure remains unremedied for five (5) Business Days after written notice thereof shall have been given to Borrower by Lender;

10.2. Failure to Perform Covenants. Borrower fails to perform or observe any term, covenant or agreement contained in any Loan Document on its part to be performed or observed and any such failure remains unremedied for thirty (30) days after written notice thereof shall have been given to Borrower by Lender, provided, however, that no Event of Default shall be deemed to exist if, within said thirty (30) day period, Borrower has commenced appropriate action to remedy such failure and is diligently and continuously pursuing such action until such cure is completed, unless such cure is or cannot be completed within ninety (90) days after written notice shall have been given;

10.3. Failure to Complete Construction. General Contractor shall fail to commence construction within the time limits required by this Agreement, General Contractor shall default under the General Contractor Agreement, or the Project shall not be completed by the Outside Project Completion Date except where such failure is due to Force Majeure and Completion is achieved as soon as reasonably possible.

10.4. Breach of Representation or Warranty. Any representations or warranties made or agreed to be made in any of the Loan Documents or this Agreement shall be breached by Borrower or shall prove to be false or misleading in any material respect.

10.5. Filing of Liens Against the Premises. Except as provided for in Section 6.4 herein, any Lien shall be asserted or filed against the Premises or any Lien or notice of work stoppage shall be served on Lender and such Lien or notice of work stoppage shall not be released or bonded over and stayed to Lender’s satisfaction within 30 days after the assertion or filing thereof.

10.6. Litigation Against Borrower. Any suit shall be filed against Borrower which (a) creates a stoppage of the Work or enjoins the ongoing construction or (b) which, if adversely determined, would substantially impair the ability of Borrower to perform its obligations under the Loan Documents or complete the Work by the Completion Date, and which is not dismissed within 60 days after its filing.

10.7. Judgment, Writ, Attachment or Levy Upon the Premises. A judgment, writ or warrant of attachment or execution or similar process, levy or seizure in an amount greater than One Hundred Thousand and 00/100 Dollars (\$100,000.00) be made under any process against the Premises and such action shall not be released or bonded over to Lender's satisfaction within ten (10) business days after the assertion or filing thereof and shall continue unreleased and in effect for a period of 60 days or more.

10.8. Acceleration of Other Debts. Borrower does, or omits to do, any act, or any event occurs, as a result of which any material obligation of Borrower, not arising hereunder, may be declared due and payable by the holder thereof and which continues uncured for 15 days thereafter and which materially affects Borrower's ability to perform its obligations hereunder.

10.9. Non-Permitted Transfers. Except as permitted by Section 6.9, a Transfer shall occur without the prior, written consent of Lender.

10.10. Abandonment. The Project is abandoned or Work thereon ceases or delays for a period of at least 15 days which period has not been accounted for in any written construction timeline or schedule delivered and approved by Lender, or delays in construction occur or construction is delayed for any period of time for any reason whatsoever so that Completion of Improvements cannot be accomplished in the reasonable judgment of Lender on or before the Completion Date except where such delay is due to Force Majeure and resumption of construction is achieved as soon as reasonably possible.

10.11. Bankruptcy of Borrower. Borrower shall fail to pay its debts as they become due, or shall make an assignment for the benefit of its creditors, or shall admit in writing its inability to pay its debts as they become due, or shall file a petition under any chapter of the Federal Bankruptcy Code or any similar law, state or federal, now or hereafter existing, or shall become "insolvent" as that term is generally defined under the Federal Bankruptcy Code, or shall in any involuntary bankruptcy case commenced against it file an answer admitting insolvency or inability to pay its debts as they become due, or shall fail to obtain a dismissal of such case within 90 days after its commencement or convert the case from one chapter of the Federal Bankruptcy Code to another chapter, or be the subject of an order for relief in such bankruptcy case, or be adjudged bankrupt or insolvent, or shall have a custodian, trustee or receiver appointed for, or have any court take jurisdiction of its property, or any part thereof, in any voluntary proceeding for the purpose of reorganization, arrangement, dissolution or liquidation and such custodian, trustee or receiver shall not be discharged, or such jurisdiction shall not be relinquished, vacated or stayed within 90 days of the appointment.

10.12. Attachment. Any part of Lender's commitment to make the Advances hereunder shall at any time be subject or liable to attachment, seizure, garnishment or levy at the suit of any creditor of Borrower or at the suit of any Contractor or creditor of the Contractor and such attachment, seizure, garnishment, or levy is not terminated or released within a period of 20 days following receipt by Borrower of notice of such attachment, seizure, garnishment, or levy.

10.13. Destruction. Any part of the Project is materially damaged or destroyed by fire or other casualty and within 10 days thereafter (a) the loss shall prove not to be adequately covered by (a) insurance actually collected or in the process of collection and (b) additional Owner Equity funds deposited with Lender and (b) construction does not or cannot continue in a timely manner after such loss such that the Project shall be completed by the Completion Date.

10.14. Eminent Domain. The Premises shall be the subject of condemnation by a Governmental Authority in an eminent domain proceeding or a temporary taking adverse to Borrower that delays the construction of the Project beyond the Completion Date or prevents the construction of the Project in accordance with the Contract Documents.

10.15. Change in Borrower Status. If either Borrower shall be dissolved, liquidated or wound up or shall fail to maintain its existence as a going concern in good condition; in the event of an administrative dissolution by the Secretary of State of Delaware if a reinstatement does not occur within a period of 15 days following receipt by Borrower of notice of such dissolution.

10.16. Default under Construction Contract(s) or Architect's Contract. If Borrower shall fail to meet or perform any condition of any Construction Contract(s) or the Architect's Contract to which it is a party prior to the expiration of any applicable grace period which results in a breach of the Construction Contract(s) or the Architect's Contract or such Construction Contract(s) or Architect's Contract shall be terminated by the Contractor(s) or Architect.

10.17. Default under Management Agreement. If Borrower or any Manager shall fail to meet or perform any condition of any Management Agreement pertaining to the Project prior to the expiration of any applicable grace period or such Management Agreement shall be terminated.

ARTICLE XI
REMEDIES OF LENDER

11.1. Exercise of Rights. Upon the Event of Default Lender may at its option exercise one or more of the following:

(a) Acceleration. Accelerate the repayment of the Loan.

(b) Foreclosure. Exercise any of the various remedies provided in any of the Loan Documents, including the foreclosure of the Mortgage.

(c) Cumulative Rights. Cumulatively exercise all other rights, options, and privileges provided by law or in any other instrument or document given to Lender in connection with the Loan.

(d) Cease Making Advances. Cease making Advances and may instruct Title Company to refrain from making any Advances under the Disbursing Agreement but Lender may instruct Title Company to make Advances after the happening of any such event without thereby waiving the right to refrain from making other further Advances or to exercise any of the other rights Lender may have.

(e) Receiver. Seek the appointment of a receiver to take possession of the Project and to operate the Project and to complete the Project.

(f) Rights to Enter and Complete. To the extent permitted under applicable law, require Borrower to vacate the Premises and Lender may, at its election, (whether prior to any sale pursuant to a foreclosure of the Mortgage or during any period of redemption) either through itself, its agents or a receiver appointed by a court of competent jurisdiction:

- (i) Do all things necessary to protect its interest in the Project and the security afforded the Loan by a completed Project;
- (ii) Enter into possession;
- (iii) Perform or cause to be performed any and all Work and labor necessary to complete the Project;
- (iv) Employ security personnel to protect the Premises;
- (v) Take such action as necessary to prevent waste;
- (vi) Comply with, effect a cure under and/or prevent a failure or default under any Lease of the Premises; and/or
- (vii) Comply with, effect a cure under and/or prevent a failure or default under the Construction Contract(s);

and in furtherance thereof Borrower irrevocably, absolutely and unconditionally agrees that Lender may disburse that portion of the Loan not previously disbursed (including any Retainage) and such amounts as Lender may deem necessary or appropriate to complete the Project and to protect the Project and the lien of the Loan Documents and to do all of the things in connection with the Project which Borrower may do on its own behalf and hereby appoints Lender as its attorney in fact to perform the foregoing. It is understood and agreed that this power of attorney shall be deemed to be a power coupled with an interest which cannot be revoked by death or otherwise. Said attorney-in-fact shall also have power to prosecute and defend all actions and proceedings in connection with the construction of the Project and to take such action and require such performance as it deems necessary. In accordance therewith, Borrower hereby assigns and quitclaims unto Lender all sums to be advanced hereunder including Retainage. Any funds so disbursed or fees or charges so incurred shall be included in any amount necessary for Borrower to pay to redeem the Premises after any foreclosure sale over and above and notwithstanding the bid price at any foreclosure sale. BORROWER EXPRESSLY ACKNOWLEDGES AND AGREES THAT THE FAILURE TO COMPLETE THE PROJECT WILL SUBJECT LENDER TO IRREPARABLE HARM AND LOSS INCLUDING THE LOSS OF THE COMPLETED PROJECT AS SECURITY FOR THE LOAN AND EXPRESSLY COVENANTS AND AGREES THAT IT WILL COOPERATE WITH LENDER IN LENDER'S EXERCISE OF ITS REMEDIES HEREUNDER, WILL NOT OBJECT OR CONTEST THE EXERCISE OF LENDER'S REMEDIES HEREUNDER AND EXPRESSLY WAIVES AND RELINQUISHES ANY RIGHT NOW OR HEREAFTER EXISTING AT LAW, IN EQUITY, OR BY STATUTE TO OBJECT TO THE EXERCISE BY LENDER OF ALL OR ANY OF THE AFORESAID REMEDIES. BORROWER ACKNOWLEDGES, THAT IT IS REPRESENTED BY COUNSEL AND THE REMEDIES HEREIN AND THE CONTENT AND EFFECT OF THIS WAIVER HAVE BEEN FULLY DISCUSSED WITH, AND EXPLAINED BY COUNSEL AND EXECUTES AND DELIVERS THIS WAIVER ONLY UPON A FULL UNDERSTANDING OF THE SAME AND THE RIGHTS WAIVED HEREUNDER. BORROWER FURTHER UNDERSTANDS THAT LENDER HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT IN RELIANCE UPON THIS WAIVER AND THE RIGHT TO EXERCISE SUCH REMEDIES AND BUT FOR SUCH WAIVER WOULD NOT MAKE THE LOAN.

11.2. Rights Cumulative. No right or remedy by this Agreement or by any Loan Document or instrument delivered by Borrower pursuant hereto, conferred upon or reserved to Lender shall be or is intended to be exclusive of any other right or remedy and each and every right and remedy shall be cumulative and in addition to any other right or remedy or now or hereafter arising at law or in equity or by statute. Except as Lender may hereafter otherwise agree in writing, no waiver by Lender of any breach by or default of Borrower of any of its obligations, agreements, or covenants under this Agreement shall be deemed to be a waiver of any subsequent breach of the same or any other obligation, agreement or covenant, nor shall any forbearance by Lender to seek a remedy for such breach be deemed a waiver of its rights and remedies with respect to such a breach, nor shall Lender be deemed to have waived any of its rights and remedies unless it be in writing and executed with the same formality as this Agreement. Upon any nonpayment or nonperformance of any of the Indebtedness Secured Hereby, Lender may proceed directly to enforce hereunder the payment of any amounts owing by Borrower under any Loan Document, as applicable.

ARTICLE XII
INTENTIONALLY OMITTED

ARTICLE XIII
GENERAL CONDITIONS AND ADDITIONAL PROVISIONS

13.1. Rights of Third Parties. All conditions of the obligations of Borrower hereunder are imposed solely and exclusively for the benefit of Lender and no other person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lender will refuse to make advances in the absence of strict compliance with any or all thereof, and no other person shall, under any circumstances, be deemed to be a beneficiary of such conditions, any and all of which may be freely waived in whole or in part by Lender at any time if in its sole discretion it deems it desirable to do so. In particular, Lender makes no representations and assumes no duties or obligations as to third parties concerning the quality of the construction of the Improvements or the absence therefrom of defects. In this connection, Borrower agrees to, and shall indemnify Lender from any liability, claims, or losses resulting from the disbursement of the Loan proceeds or from the condition of the Premises whether related to the quality of construction or otherwise and whether arising during or after the term of the Loan made by Lender to Borrower in connection therewith. This provision shall survive the repayment of said Loan and shall continue in full force and effect so long as the possibility of any such liability, claims or losses exists.

13.2. Evidence of Satisfaction of Conditions. Any condition of this Agreement which requires the submission of evidence of the existence or non-existence of a specified fact or facts implies as a condition the existence or non-existence, as the case may be, of such fact or facts, and Lender shall, at all times, be free independently to establish to its satisfaction and in its absolute discretion such existence or non-existence at its sole cost and expense except as otherwise expressly provided in the Loan Documents.

13.3. Assignment. Borrower may not assign this Loan Agreement or any of its rights or obligations hereunder, or any of the other Loan Documents, including the right to an Advance, without the prior written consent of Lender.

13.4. Successors and Assigns Included in Parties. Whenever in this Agreement one of the parties hereto is named or referred to, the heirs, legal representatives, successors and assigns of such parties shall be included and all covenants and agreements contained in this Agreement by or on behalf of Borrower, or by or on behalf of Lender shall bind and inure to the benefit of their respective heirs, legal representatives, successors and assigns, whether so expressed or not.

13.5. Headings. The headings of the sections, paragraphs and subdivisions of this Agreement are for the convenience of reference only, and are not to be considered a part hereof and shall not limit or otherwise affect any of the terms hereof.

13.6. Invalid Provisions to Affect No Others. If fulfillment of any provision hereof, or any transaction related thereto at the time performance of any such provision shall be due, shall involve transcending the limit of validity prescribed by law, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity; and such clause or provision shall be deemed invalid as though not herein contained, and the remainder of this Agreement shall remain operative in full force and effect.

13.7. Number and Gender. Whenever the singular or plural number, masculine or feminine or neuter gender is used herein, it shall equally include the other.

13.8. Amendments. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge, or termination is sought.

13.9. Notices. Any notices and other communications permitted or required by the provisions of this Agreement (except for email or telephone notices expressly permitted) shall be in writing and shall be deemed to have been properly given or served by depositing the same with the United States Postal Service, or any official successor thereto, designate as Certified Mail, Return Receipt Requested, bearing adequate postage, or deposited with reputable private courier or overnight delivery service, and addressed as follows:

Each notice to Lender shall be addressed as follows:

Hiawatha National Bank
777 Walton Drive, PO Box 337
Plymouth, WI 53073
Attn: Max J. Scheuer, Senior Lending Officer
Email:

and a copy to:

Seth N. Kahn
Managing Director
Northland Networks, Inc.
150 South 5th Street, Suite 3300
Minneapolis, MN 55402
Email:

and a copy to:

Stinson LLP
Attn: Michael T. Hatting
50 South Sixth Street, Suite 2600
Minneapolis, MN 55402
Email:

Each notice to Borrower shall be addressed as follows:

AMMO, Inc.
Firelight Group I, LLC
7681 East Gray Road
Scottsdale, AZ 85260
Attn: Rob Wiley, CFO
Email:
with copy to:

Steimle Birschbach
Attn: Andrew Steimle, Attorney
21 Maritime Drive PO Box 2225
Manitowoc, WI 54221-2225
Email:

Each such notice shall be effective three (3) days after being deposited or delivered as aforesaid. The time period within which a response to any such notice must be given, however, shall commence to run from the date of receipt of the notice by the addressee thereof. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to be receipt of the notice sent. By giving to the other party hereto at least 10 days' notice thereof, either party hereto shall have the right from time to time to change its address and shall have the right to specify as its address any other address within the United States of America.

13.10. Governing Law. Notwithstanding the place of execution of this instrument, the parties to this instrument have contracted for Wisconsin law to govern this instrument and it is controllingly agreed that this instrument is made pursuant to and shall be construed and governed by the laws of the State of Wisconsin without regard to the principles of conflicts of law.

13.11. Consent to Jurisdiction. Borrower submits and consents to personal jurisdiction of the Courts of the State of Wisconsin and United States District Court for the Eastern District of Wisconsin for the enforcement of this instrument and waives any and all personal rights under the laws of any state or the United States of America to object to jurisdiction in the State of Wisconsin or to transfer or change the venue of any litigation brought against Borrower by Lender in accordance with this paragraph. At Lender's election, (a) litigation may be commenced in, and (b) all actions or proceedings in any way, manner, or respect arising out of or from or related to this Agreement or the other Loan Documents shall be litigated only in, any state court of general jurisdiction for the State of Wisconsin or a United States District Court located in that state, at the election of Lender. Nothing contained herein shall prevent Lender from bringing any action against any other party or exercising any rights against any security given to Lender, or against Borrower personally, or against any property of Borrower, within any other state. Commencement of any such action or proceeding in any other state shall not constitute a waiver of consent to jurisdiction or of the submission made by Borrower to personal jurisdiction within the State of Wisconsin.

13.12. Jury Trial Waiver. Borrower hereby irrevocably waives the right to trial by jury with respect to any action in which Borrower is a party.

13.13. Participation. Without Borrower's consent, Lender may in its sole and exclusive discretion issue participations in the Loan and/or assign all or a portion of its obligations to make the Loan to participant(s) in the Loan or other lenders. Without Borrower's consent, Lender may assign its rights hereunder to any such participant(s) or assignee(s) who shall have the rights of Lender hereunder and may divulge all information received by it from Borrower or any other source, including but not limited to information relating to the Loan, to the Project to Borrower, and to any such participant(s) or other lenders, and Borrower shall cooperate with Lender in satisfying the reasonable requirements of any such participant(s) or other lenders for consummating such a purchase or participation.

13.14. Lender may in its sole and exclusive discretion issue participations in the Loan and/or assign all or a portion of its obligations to make the Loan to participant(s) in the Loan or other lenders provided, unless released by Borrower, Lender shall at all times remain directly obligated to Borrower to perform the obligations of Lender hereunder. Upon notice to Borrower by Lender, Lender may assign its rights hereunder to any such participant(s) or assignee(s) who shall have the rights of Lender hereunder. Lender may divulge all information received by it from Borrower or any other source, including but not limited to information relating to the Loan, to the Project and to Borrower, to any such participant(s) or other lenders, and Borrower shall cooperate with Lender, at Lender's expense, in satisfying the reasonable requirements of any such participant(s) or other lenders for consummating such a purchase or participation.

13.15. Counterparts. This instrument may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument, but in making proof hereof it shall only be necessary to produce one such counterpart. The signatures to this instrument may be executed on separate pages and when attached to this instrument shall constitute one complete document.

13.16. JOINT AND SEVERAL LIABILITY. BY SIGNING THIS AGREEMENT, AMMO AND FIRELIGHT AGREE THAT EACH IS LIABLE, JOINTLY AND SEVERALLY, FOR THE PAYMENT OF THE NOTE AND ALL OBLIGATIONS OF BORROWER UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND THAT THE LENDER CAN ENFORCE SUCH OBLIGATIONS AGAINST AMMO AND/OR FIRELIGHT IN THE LENDER'S SOLE AND UNLIMITED DISCRETION.

IN WITNESS WHEREOF, Borrower has signed and delivered this Construction Loan Agreement as of the Effective Date.

BORROWER:

AMMO INC.,
a Delaware corporation

By: _____
Name: Fred W. Wagenhals
Its: CEO and Chairman of the Board

FIRELIGHT GROUP I, LLC,
a Delaware limited liability company

By: _____
Name: Fred W. Wagenhals
Title: Chairman and CEO of AMMO, Inc.
Its: Sole Member/Manager

IN WITNESS WHEREOF, Lender has signed and delivered this Construction Loan Agreement as of the Effective Date.

LENDER:

HLAWATHA NATIONAL BANK
a national banking association

By: _____
Name: James W. Meisser
Its: President/CEO

TABLE OF EXHIBITS

Exhibit A – Total Project Cost Statement
Exhibit B – Insurance Requirements
Exhibit C – Legal Description of Premises
Exhibit D – Request For Funds Form
Exhibit E – Form of Compliance Certificate
Exhibit F – Debt Service Coverage Ratio Certificate
Exhibit G – Site Plan

CERTIFICATION

I, Fred W. Wagenhals, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AMMO, Inc.;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2022

By: /s/ Fred W. Wagenhals
 Name: Fred W. Wagenhals
 Title: Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Robert D. Wiley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AMMO, Inc.;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2022

By: /s/ Robert D. Wiley
 Name: Robert D. Wiley
 Title: Chief Financial Officer (Principal Financial Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with Quarterly Report of AMMO, Inc. (the “Company”) on Form 10-Q for the period ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Fred W. Wagenhals, Chief Executive Officer (Principal Executive Officer) of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2022

By: /s/ Fred W. Wagenhals
Name: Fred W. Wagenhals
Title: Chief Executive Officer (Principal Executive Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with Quarterly Report of AMMO, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Rob Wiley, Chief Financial Officer (Principal Financial Officer) of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2022

By: /s/ Rob Wiley
Name: Rob Wiley
Title: Chief Financial Officer (Principal Financial Officer)
