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

FORM 10-K

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

For the fiscal year ended March 31, 2020

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**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$0.001**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer []

Accelerated filer []

Non-accelerated filer [X]

Smaller reporting company [X]

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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. []

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

The aggregate market value of the Common Stock of the registrant by non-affiliates as of the last business day of the registrant’s most recently completed second fiscal quarter was \$59,413,840.

As of August 14, 2020, there were 47,622,920 shares of \$0.001 par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

On March 4, 2020, the U.S. Securities and Exchange Commission (the “SEC”) issued an order (Release No. 34-88318) under Section 36 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), granting exemptions from specified provisions of the Exchange Act and certain rules thereunder. On March 25, 2020, the order was modified and superseded by a new SEC order (Release No. 34-88465) (the “SEC Order”), which provides conditional relief to public companies that are unable to timely comply with their filing obligations as a result of the novel coronavirus (“COVID-19”) outbreak.

On June 29, 2020, AMMO, Inc. (“Ammo,” “we,” or “our”) filed a Form 8-K announcing its reliance on the SEC Order with respect to the filing of this Form 10-K for the year ended March 31, 2020 (the “Annual Report”) due to circumstances related to the COVID-19 outbreak. The Company has relied on the SEC Order to extend the filing date of our Annual Report. In particular, COVID-19 and related precautionary responses have made it more difficult as the Company’s receipt of information from certain third parties related to the completion of its financials has been delayed and therefore it has taken us more time, to finish our analysis and compile certain information necessary to make key assessments and estimates.

Pursuant to a Current Report on Form 8-K filed with the Securities and Exchange Commission on June 29, 2020, the Company disclosed that the due date for the filing of the Annual Report had been extended to August 13, 2020. Pursuant to Rule 12b-25 under the Exchange Act and Question 135.13 of the Exchange Act Rules Compliance and Disclosure Interpretations, the Company filed Form 12b-25 on August 13, 2020 further extending the due date for the filing of the Annual Report to August 28, 2020. The Company believes this Annual Report has been within its prescribed extension deadline and thus it shall be deemed timely filed by the SEC.

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ADDITIONAL INFORMATION

Descriptions of agreements or other documents contained in this report are intended as summaries and are not necessarily complete. Please refer to the agreements or other documents filed or incorporated herein by reference as exhibits. Please see the exhibit index at the end of this report for a complete list of those exhibits.

SPECIAL NOTE REGARDING 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 include in Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Reports filed on Form 8-K.

In our Form 10-K, Form 10-Q and Form 8-K filings with the Securities and Exchange Commission, references to “AMMO, Inc.,” “AMMO”, “the Company”, “we,” “us,” “our” and similar terms refer to AMMO, Inc. and its wholly owned operating subsidiaries Enlight Group II, LLC d/b/a Jagemann Munition Components (“Jagemann Munition Components”), SNI, LLC and AMMO Technologies, Inc.

PART I

ITEM 1. BUSINESS.

Introduction

We are a designer, producer, and marketer of performance-driven, high-quality ammunition and ammunition component products for sale to a variety of consumers, including sport and recreational shooters, hunters, individuals seeking home or personal protection, manufacturers and law enforcement and military agencies. To enhance the strength of our brands and drive product demand, we emphasize product innovation and technology to improve the performance, quality, and affordability of our products while providing support to our distribution channel and consumers. We seek to sell products at competitive prices that compete with high-end, custom, hand-loaded ammunition at competitive prices. Additionally, through our acquisition of Jagemann Stamping Company's ammunition casing manufacturing and sales operations ("Jagemann Casings") we are now able to sell ammunition casings products of various types. We emphasize an American heritage by using predominantly American-made components and raw materials in our products that are produced, inspected, and packaged at our facilities in Payson, Arizona and Manitowoc, Wisconsin.

Our production processes focus on safety, consistency, precision, and cleanliness. Each round is developed for a specific purpose with a focus on a proper mix of consistency, velocity, accuracy, and recoil. Each round is chamber gauged and inspected with redundant seven-step quality control processes.

Our Growth Strategy

Our goal is to enhance our position as a designer, producer, and marketer of ammunition products. Key elements of our strategy to achieve this goal are as follows:

Design, Produce, and Market Innovative, Distinctive, Performance-Driven, High-Quality Ammunition and Ammunition Components

We are focused on designing, producing, and marketing innovative, distinctive, performance-driven, high-quality products that appeal to retailers, manufacturers, and consumers that will enhance our users' shooting experiences. Our ongoing research and development activities; our safe, consistent, precision, and clean production processes; and our multi-faceted marketing programs are critical to our success.

Continue to Strengthen Relationships with Channel Partners and Retailers.

We continue to strive to strengthen our relationships with our current distributors, dealers, manufacturers, and mass market and specialty retailers and to attract additional distributors, dealers, retailers, and manufacturers. The success of our efforts depends on the innovation, distinctive features, quality, and performance of our products; the attractiveness of our packaging; the effectiveness of our marketing and merchandising programs; and the effectiveness of our customer support.

Emphasis on Customer Satisfaction and Loyalty

We plan to continue to emphasize customer satisfaction and loyalty by offering innovative, distinctive, high-quality products on a timely and cost- attractive basis and by offering effective customer service, training, and support. We regard the features, quality, and performance of our products as the most important components of our customer satisfaction and loyalty efforts, but we also rely on customer service and support.

Continuously Improving Operations

We plan to continue focusing on improving all aspects of our business, including research and development, component sourcing, production processes, marketing programs, and customer support. We are continuing our efforts to enhance our production by increasing daily production quantities through equipment acquisitions, expanded shifts and process improvements, increased operational availability of our equipment, reduced equipment down times, and increased overall efficiency.

Enhance Market Share, Brand Recognition, and Customer Loyalty

We strive to enhance our market share, brand recognition, and customer loyalty. Industry sources estimate that 70 to 80 million people in the United States own more than approximately 300 million firearms, creating a large installed base for our ammunition products. We are focusing on the premium segment of the market through the quality, distinctiveness, and performance of our products; the effectiveness of our marketing and merchandising efforts; and the attractiveness of our competitive pricing strategies.

Pursue Synergetic Strategic Acquisitions and Relationships

We intend to pursue strategic acquisitions and develop strategic relationships designed to enable us to expand our technology and knowhow, expand our product offerings, strengthen and expand our supply chain, enhance our production process, expand our marketing and distribution, and attract new customers.

Products

We design, produce, and sell ammunition and ammunition components in a variety types, sizes, and calibers for use in handguns and long guns. We ship our ammunition in the form of cartridges (or rounds), and also ammunition casings. A cartridge consists of four components: a case made of brass, steel, or copper that holds together all the other components of the cartridge; the primer, which is an explosive chemical compound that ignites the gunpowder when struck by the firing pin; the gun powder, which is a chemical mixture that burns rapidly and creates an expanding gas when ignited and pushes the bullet out the barrel; and the bullet, or projectile, usually containing lead that is fired through the barrel to strike the target. Some of the bullets we produce for certain applications have a jacket, or outer shell, of brass or copper to improve performance and accuracy. We typically produce centerfire cartridges in which the primer is in the bottom, or center of the cartridge, rather than rimfire cartridges in which the primer is in the rim of the cartridge. Through our recent acquisition of Jagemann Casings we now offer ammunition casings for pistol ammunition through large rifle ammunition.

STREAK Visual Ammunition

STREAK VISUAL AMMUNITION™ enables shooters to see the path of the bullets fired by them. STREAK VISUAL AMMUNITION™ rounds utilize non-flammable phosphor material that produces a glow by the utilization of the light emitted during the round discharge to make STREAK VISUAL AMMUNITION™ glow. The luminescent material is applied only to the aft end of the projectile, making it visible only to the shooter and those within a 30-degree viewing window. As a result, the glow of STREAK VISUAL AMMUNITION™ is not visible to the target unlike conventional tracers, which we believe is important to the military and law enforcement. Unlike conventional tracer ammunition, STREAK VISUAL AMMUNITION™ rounds are not incendiary and do not utilize burning metals to generate light, thereby eliminating heat generation and making them safer for use in various environments and

avoiding serious fire hazards. STREAK VISUAL AMMUNITION™ comes in 380 auto, 9 mm, 40 S&W, 44 magnum, 45 long colt, and 38 special among other calibers.

We hold the exclusive worldwide sales and distribution rights for the patented technology used by our STREAK VISUAL AMMUNITION™ and pay a royalty based on our product sales incorporating this technology.

OPS – One Precise Shot

OPS ammunition is designed to meet a wide variety of demanding engagement scenarios experienced by law enforcement personnel in the line of duty. The hollow point lead-free fragile bullet with hard outer casing and frangible copper core transfers 100% of its energy into the target. These bullets penetrate a variety of barriers, such as drywall, plywood, car doors, and auto glass. Upon entering soft tissue, the jacket and core separate with extensive force of impact, resulting in mass force trauma. The light weight projectile reduces recoil and enhances accuracy. OPS ammunition comes in 9 mm, 40 S&W, 45 auto calibers and a 223 rifle round.

Stelth Subsonic Ammunition

Stelth Subsonic ammunition is designed specifically for superior performance in suppressed firearms. Stelth ammunition finds applications in which silence is paramount, such as in tactical training, predator night hunts, and clandestine operations. The Stelth ammunition is produced to be a clean burning total metal jacket round to slow baffle corrosion and reduce lead emissions that collect in the suppressor body. Stelth pistol ammunition comes in 9mm, 40 S&W, and 45 AC3. It is also available in a 223 rifle round.

Jesse James Ammunition

Jesse James ammunition is jacketed hollow point projectiles designed for self-defense. The load specific development is designed to ensure accuracy, velocity, and consistency and a low recoil. Jesse James ammunition comes in 9mm, 40 S&W, 10mm, 357, 45 auto calibers.

Jeff Rann's American Hunter and Safari Services

Jeff Rann's ammunition is intended for a complete range of game hunting. This high-end hunting ammunition has been designed by Jeff Rann, a well-known professional hunter and sports channel host and the owner of the well-known 777 Ranch in Texas and three ranches in Africa.

AP and HAPI Ammunition

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 the armed forces community demands. 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 other 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 is also available with our patented one-way luminescent or O.W.L. Technology™. Following AMMO's acquisition of Jagemann Casings in March, 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.

Ammunition Casings – Jagemann Muniton Components

Through our recently acquired subsidiary, Jagemann Muniton Components, we now offer ammunition casings for pistol ammunition through large rifle ammunition. Jagemann™ is backed by decades of manufacturing experience that allows the production of high-quality pistol brass and rifle brass components. Borne 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 300 million pieces of brass each year. 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.

Marketing

We market our products to consumers through distributors, dealers, mass market and specialty retailers, and direct to consumer through e-commerce. We maintain consumer-focused product marketing and promotional campaigns, which include print and digital advertising campaigns; social and electronic media; product demonstrations; point-of-sales materials; in-store training, and in-store retail merchandising. Our use of social media includes Instagram, Facebook, Twitter, and You Tube. We also utilize third-party endorsements, social influencers, and brand ambassadors, such as Jesse James, and Jeff Rann.

Manufacturing

We conduct our research and development, manufacturing, assembly, inspection, and packaging operations in a 20,000 square foot facility located in Payson, Arizona. The facility currently produces 36 million rounds of ammunition annually with the capacity to scale to 200 million rounds. Our in-house testing operation at the facility is intended to enhance the performance and reliability of our products.

Our ammunition casing research and development, manufacturing, and inspection operations take place in a 45,000 square foot facility located in Manitowoc, Wisconsin. The facility can currently produce 300 million cases annually with ability to scale. Our inspection process is intended to enhance the performance and reliability of our products.

Research and Development

We conduct research and development activities to enhance existing products and develop new products at our facilities in Payson, Arizona, and Manitowoc, Wisconsin, utilizing our personnel and strategic relationships. We expense all costs associated with our research and development efforts through either our cost of goods sold, as they are performed by the same employees who produce our finished product, or through or general and administrative expenses if the product has not been brought to market.

Suppliers

We purchase certain of the raw materials and components for our ammunition products, including brass, steel, or copper casings; ammunition primers to ignite gun powder; gun powder; and projectiles. We believe we have reliable sources of supply for all our raw material and component needs, but from time to time raw materials and components are subject to shortages and price increases. Most of our suppliers are U.S.-based and provide us the materials and components at competitive rates. We recently secured our supply of ammunition casings through our acquisition of Jagemann Casings. We plan to broaden our supplier base and secure multiple sources for all the raw materials and components we require.

Customers

We sell our products through “Big Box” retailers, manufacturers, local ammunition stores, and shooting range operators. We also sell direct to customers online. Our consumers include sport and recreational shooters, hunters, competitive shooters, individuals desiring home and personal protection, manufacturers, and law enforcement and military agencies, and selected international markets. We distribute our products under five primary product lines: Jeff Rann, OPS, Stelth, STREAK VISUAL AMMUNITION™, and Jagemann Muniton Components ammunition casings. Two customers accounted for approximately 32% of our sales for the year ended March 31, 2020 in comparison to year ended March 31, 2019 in which three customers accounted for approximately 54% of our sales. Quarter to quarter comparisons are not uniform, for example for the three months ended March 31, 2020, three customers for that period accounted for 44% of our total sales, and, for the three months ended March 31, 2019, three customers for that period accounted for 60% of our total sales.

Competition

The ammunition and ammunition casing industry is dominated by a small number of companies, a number of which are divisions of large public companies. We compete primarily on the quality, reliability, features, performance, brand awareness, and price of our products. Our primary competitors include Federal Premium Ammunition, Remington Arms, the Winchester Ammunition division of Olin Corporation, and various smaller manufacturers and suppliers, including Black-Hills Ammunition, CBC Group, Fiocchi Ammunition, Hornady Manufacturing Company, PMC, Rio Ammunition, and Wolf.

Employees

As of August 14, 2020, we had a total of 126 employees. Of these employees, 93 were engaged in manufacturing, 18 in sales and marketing, four in finance and accounting, two in research and development and nine in various executive and administrative functions. None of our employees are represented by a union in collective bargaining with us. We believe that our employee relations are good.

Seasonality

Our business has not exhibited a material degree of seasonality to date. Our net sales could be moderately higher in our third and fourth fiscal quarters because of the fall hunting and holiday seasons.

Intellectual Property

We believe our tradenames, trademarks, and service marks are important factors in distinguishing our products. In addition, we regard our trade secrets, technological resources, knowhow, licensing arrangements, and endorsements as important competitive factors.

Included in an acquisition for 600,000 shares of our Common Stock and \$200,000 paid in cash to the former license holder, we acquired the exclusive license to produce ammunition using the patented “hybrid luminescence technology” owned by the University of Louisiana at Lafayette through October 29, 2028. We use that technology in connection with our STREAK VISUAL AMMUNITION™.

We are a party to a license agreement with Jesse James, a well-known motorcycle designer, and Jesse James Firearms, LLC, a Texas limited liability company, or JFF. The licensing agreement grants us the exclusive worldwide rights through October 15, 2021 to Mr. James’ image rights and all trademarks associated with him in connection with the marketing, promotion, advertising, sale, and commercial exploitation of Jesse James Branded Products. In addition, Mr. James agreed to make himself available for certain promotional activities and to promote Jesse James Branded Products through his own social media outlets. 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 also issued 100,000 shares of our Common Stock upon the execution of the license agreement with the potential issuance of up to 75,000 additional shares of Common stock upon achieving certain gross sales with \$15 million in gross sales required to earn the entire 75,000 shares.

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 for 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. Mr. Rann agreed to make himself available for certain promotional activities and to promote the Branded Products through his own social media outlets. 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. We also issued 100,000 shares of our Common Stock upon the execution of the license agreement with the potential issuance of 75,000 additional shares of Common Stock upon achieving certain gross sales with \$15 million in gross sales required to earn the entire 75,000 shares.

Through our acquisition of SW Kenectics, Inc., we acquired the rights to a patent for modular projectiles. This technology is used in connection with our AP and HAPI lines of ammunition. The Company acquired SW Kenectics, Inc. for a total of up to \$1,500,000 in cash and issued 1,700,002 restricted shares of the Common Stock. The agreement specifies that \$1,250,000 of the cash is deferred pending completion of specific milestones and the 1,700,002 shares of common stock are subject to claw back provisions to ensure agreed upon objective are met. The patent will be amortized over 15 years.

Included in the acquisition of Jagemann Stamping Company's casing division for \$7,000,000 in cash, \$10,400,000 delivered in the form of a Promissory Note, and 4,750,000 shares of our Common Stock, we acquired customer relationships, intellectual property, and the use of a tradename, which will be amortized over 3 years, 3 years and 5 years, respectively. These intangible assets are used in the operation and production of our ammunition casing business through our wholly owned subsidiary, Jagemann Munition Components.

Backlog

At March 31, 2020, we had approximately \$12.7 million in backlog. The Company expects to fill these orders within the next fiscal year ending March 31, 2021. We did not have a material amount of backlog of orders as of March 31, 2019. Backlog consists of orders for which purchase orders have been received and which are generally scheduled for shipment within three months. We generally allow orders that have not yet been shipped to be cancelled. Our backlog may not be indicative of future sale.

Environmental Matters

Our operations are subject to a variety of federal, state, and local laws and regulations relating to environmental protection, including those governing the discharge, treatment, storage, transportation, remediation, and disposal of hazardous materials and wastes; the restoration of damages to the environment; and health and safety matters. We believe that our operations are in material compliance with these laws and regulations. We incur expenses in complying with environmental requirements and could incur higher costs in the future as a result of more stringent requirements that may be enacted in the future.

Some environmental laws, such as the U.S. federal Superfund law and similar state laws, can impose liability, without regard to fault, for the entire cost of the cleanup of contaminated sites on current or former site owners and operators or parties who sent wastes to such sites. Based on currently available information, we do not believe that environmental matters will have a material adverse effect on our business, operating results, or financial condition.

Regulatory Matters

The manufacture, sale, and purchase of ammunition are subject to extensive federal, state, local, and foreign governmental laws. We are also subject to the rules and regulations of the ATF and various state and international agencies that control the manufacture, export, import, distribution and sale of firearms, explosives, and ammunition. Such regulations may adversely affect demand for our products by imposing limitations that increase the costs or limit the availability of our products.

Our failure to comply with applicable rules and regulations may result in the limitation of our growth or business activities and could result in the revocation of licenses necessary for our business. Applicable laws and regulations provide for the following:

- require the licensing of all persons manufacturing, exporting, importing, or selling ammunition as a business;
- require serialization, labeling, and tracking of the acquisition and disposition of certain types of ammunition;
- regulate the interstate sale of certain ammunition;

- restrict or prohibit the ownership, use, or sale of specified categories of ammunition;

- require registries of so-called “ballistic images” of ammunition fired from new guns;
- govern the sale, export, and distribution of ammunition;
- regulate the use and storage of gun powder or other energetic materials;
- regulate the employment of personnel with certain criminal convictions;
- restrict access to ammunition manufacturing facilities for certain individuals from other countries or with criminal convictions; and
- require compliance with International Traffic in Arms Regulations.

The handling of our technical data and the international sale of our products may also be regulated by the U.S. Department of State and Department of Commerce. These agencies can impose civil and criminal penalties, including denying us from exporting our products, for failure to comply with applicable laws and regulations.

In addition, bills have been introduced in Congress to establish, and to consider the feasibility of establishing a nationwide database recording so-called “ballistic images” of ammunition fired from new guns. Should such a mandatory database be established, the cost to us, our distributors, and our customers could be significant, depending on the type of firearms and ballistic information included in the database. Bills have been introduced in Congress in the past several years that would affect the manufacture and sale of ammunition, including bills to regulate the manufacture, importation, and sale.

We believe that existing federal, state, and local legislation relating to the regulation of firearms and ammunition have not had a material adverse effect on our sales of these products. However, the regulation of firearms and ammunition may become more restrictive in the future, and any such developments might have a material adverse effect on our business, operating results, financial condition, and cash flows. In addition, regulatory proposals, even if never enacted, may affect firearms or ammunition sales as a result of consumer perceptions.

Our History

We were formed under the name Retrospectiva, Inc. in November 1990 to manufacture and import textile products, including both finished garments and fabrics, but ceased operations in 2001. We were inactive from 2001 until following a series of events starting in December 2016. On December 15, 2016, our then principal stockholders sold their outstanding Common Stock to Fred W. Wagenhals, who is our Chairman of the Board, President, Chief Executive Officer, and largest stockholder. On the same date, Mr. Wagenhals became the sole officer and director of our company. As of December 30, 2016, we changed our trading symbol to POWW; we changed our state of incorporation from California to Delaware; we engaged in a 1-for-25 reverse stock split; and we commenced our current business as AMMO, Inc.

Our principal stockholder, Fred Wagenhals, had organized another company on October 13, 2016, which immediately began to take steps to commence the ammunition business. We combined with that company in March 2017, resulting in our acquisition of all the shares of its common stock for 17,285,800 shares of our Common Stock and our succession to its business.

We entered into licensing an endorsement agreement with Jesse James, a well-known motorcycle and gun designer, in October 2016, and a license and endorsement agreement with Jeff Rann, a well-known wild game hunter, guide, and spokesman for the firearm and ammunition industry, in February 2017; received a federal firearms license from the Bureau of Alcohol, Tobacco, and Explosives in February 2017; purchased an ammunition manufacturing facility in Payson, Arizona in March 2017; and built a management team and otherwise prepared ourselves to participate in the ammunition industry.

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. Under the terms of the Merger, we, the sole shareholder of AMMO Technologies Inc., issued to Hallam, Inc.’s two shareholders, 600,000 shares of our common stock, subject to restrictions, and payment of \$200,000. The first payment of \$100,000 to the Hallam, Inc. shareholders was paid on September 13, 2017, and the second payment of \$100,000 was paid on February 6, 2018.

During the summer of 2018, we also began conversations to acquire a small technology company named SW Kenetics Inc. SW Kenetics Inc. developed an innovative line of modular projectiles primarily geared toward tactical military operations. On July 6, 2018 we signed a letter of intent to purchase their company, as we believe their designs, coupled with our STREAK or O.W.L. Technology will position us to more aptly complete for military contracts. On September 27, 2018, we entered into a definitive agreement and plan of merger to acquire SW Kenetics Inc. for a total of up to \$1,500,000 in cash and issue 1,700,002 restricted shares of the Common Stock. The agreement specifies that \$1,250,000 of the cash is deferred pending completion of specific milestones and the 1,700,002 shares of common stock are subject to claw back provisions to ensure agreed upon objectives are met. The acquisition was completed on October 5, 2018.

On March 15, 2019, Enlight Group II, LLC, a wholly owned subsidiary of AMMO, Inc., completed its acquisition of selected assets of Jagemann Stamping Company’s ammunition casing, projectile manufacturing and sales operations pursuant to the terms of the Amended and Restated Asset Purchase Agreement dated March 14, 2019. In accordance with the terms of the Amended APA, Enlight Group II, LLC paid Jagemann Stamping Company a combination of \$7,000,000 in cash, \$10,400,000 delivered in the form of a Promissory Note, and 4,750,000 shares of AMMO, Inc. Common Stock.

This acquisition was a critical element in the Company’s long-term strategy as it secures its supply chain for these important components and creates a more competitive pricing structure that it can leverage across all its targeted markets. This also greatly enhances the Company’s plant capacity and technical expertise required for the further development of military grade projectiles.

ITEM 1A. RISK FACTORS

Purchasing our Common Stock involves a high degree of risk. You should carefully consider the following risk factors, together with all of the information included in this Form 10-K Report, before you decide to purchase shares of our Common Stock. We believe the risks and uncertainties described below are the most significant we face. Additional risks and uncertainties of which we are unaware, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, operating results, and financial condition could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

We have a limited operating history on which you can evaluate our company.

We have a limited operating history on which you can evaluate our company. Although the corporate entity has existed since 1990, we have only operated as an ammunition manufacturer since March 2017. As a result, our business will be subject to many of the problems, expenses, delays, and risks inherent in the establishment of a new business enterprise.

Our performance is influenced by a variety of economic, social, and political factors.

Our performance is influenced by a variety of economic, social, and political factors. General economic conditions and consumer spending patterns can negatively impact our operating results. Economic uncertainty, unfavorable employment levels, declines in consumer confidence, increases in consumer debt levels, increased commodity prices, and other economic factors may affect consumer spending on discretionary items and adversely affect the demand for our products. In times of economic uncertainty, consumers tend to defer expenditures for discretionary items, which affects demand for our products. Any substantial deterioration in general economic

conditions that diminish consumer confidence or discretionary income could reduce our sales and adversely affect our operating results. Economic conditions also affect governmental political and budgetary policies. As a result, economic conditions also can have an effect on the sale of our products to law enforcement, government, and military customers.

Political and other factors also can affect our performance. Concerns about presidential, congressional, and state elections and legislature and policy shifts resulting from those elections can affect the demand for our products. In addition, speculation surrounding control of firearms, firearm products, and ammunition at the federal, state, and local level and heightened fears of terrorism and crime can affect consumer demand for our products. Often, such concerns result in an increase in near-term consumer demand and subsequent softening of demand when such concerns subside. Inventory levels in excess of customer demand may negatively impact operating results and cash flow.

Federal and state legislatures frequently consider legislation relating to the regulation of firearms, including amendment or repeal of existing legislation. Existing laws may also be affected by future judicial rulings and interpretations firearm products, and ammunition. If such restrictive changes to legislation develop, we could find it difficult, expensive, or even impossible to comply with them, impeding new product development and distribution of existing products.

Failure to comply with applicable laws and changing legal and regulatory requirements could harm our business and financial results.

Our policies and procedures are designed to comply with all applicable laws, accounting and reporting requirements, tax rules and other regulations and requirements, including those imposed by the SEC, and foreign countries, as well as applicable trade, labor, safety, environmental, labeling, anti-bribery and corruption laws. The complexity of the regulatory environment in which we operate and the related cost of compliance are both increasing due to additional or changing legal and regulatory requirements, our ongoing expansion into new markets and new channels, and the fact that foreign laws occasionally conflict with domestic laws. In addition to potential damage to our reputation and brand, failure by us or our business partners to comply with the various applicable laws and regulations, as well as changes in laws and regulations or the manner in which they are interpreted or applied, may result in litigation, civil and criminal liability, damages, fines and penalties, increased cost of regulatory compliance and restatements of our financial statements and have an adverse impact on our business and financial results.

War, terrorism, other acts of violence or natural or manmade disasters such as a global pandemic may affect the markets in which the Company operates, the Company's customers, the Company's delivery of products and customer service, and could have a material adverse impact on our business, results of operations, or financial condition.

The Company's business and supply chain may be adversely affected by instability, disruption or destruction in a geographic region in which it operates, regardless of cause, including war, terrorism, riot, civil insurrection or social unrest, and natural or manmade disasters, including famine, food, fire, earthquake, storm or pandemic events and spread of disease (including the recent outbreak of the coronavirus commonly referred to as "COVID- 19").

Such events may cause customers to suspend their decisions on using the Company's products and services, make it impossible to access some of our inventory, and give rise to sudden significant changes in regional and global economic conditions and cycles that could interfere with purchases of goods or services and commitments to develop new products and services. These events also pose significant risks to the Company's personnel and to physical facilities, transportation and operations, which could materially adversely affect the Company's financial results.

Any significant disruption to communications and travel, including travel restrictions and other potential protective quarantine measures against COVID-19 by governmental agencies, could make it difficult for the Company to deliver goods services to its customers. War, riots, or other disasters may increase the need for our products and demand by government and military may make it difficult for use to provide products to customers. Further, travel restrictions and protective measures against COVID-19 could cause the Company to incur additional unexpected labor costs and expenses or could restrain the Company's ability to retain the highly skilled personnel the Company needs for its operations. The extent to which COVID-19 impacts the Company's business, sales and results of operations will depend on future developments, which are highly uncertain and cannot be predicted.

We believe COVID-19 has not yet negatively affected our corporate operations but could at any time and without notice in the foreseeable future. As a result of COVID-19, at any time we may be subject to increased costs,

supply interruptions, and difficulties in obtaining raw materials and components. COVID-19 has resulted in restrictions, postponements and cancellations and the impact, extent and duration of the government imposed restrictions on travel and public gatherings as well as the overall effect of the COVID-19 virus is currently unknown.

Our success depends upon our ability to introduce new products that match customer preferences.

Our success depends upon our ability to introduce new products that match consumer preferences. Our efforts to introduce new products into the market may not be successful, and any new products that we introduce may not result in customer or market acceptance. We develop new products that we believe will match consumer preferences. The development of a new product is a lengthy and costly process and may not result in the development of a successful product. Failure to develop new products that are attractive to consumers could decrease our sales, operating margins, and market share and could adversely affect our business, operating results, and financial condition.

If we are unable to protect our intellectual property, we may lose a competitive advantage or incur substantial litigation costs to protect our rights.

Our future success depends upon our proprietary technology. Our protective measures, including patent and trade secret protection, may prove inadequate to protect our proprietary rights. The right to stop others from misusing our trademarks, service marks, and patents in commerce depends to some extent on our ability to show evidence of enforcement of our rights against such misuse in commerce. Our efforts to stop improper use, if insufficient, may lead to loss of trademark and service mark rights, brand loyalty, and notoriety among our customers and prospective customers. The scope of any patent that we have or may obtain may not prevent others from developing and selling competing products. The validity and breadth of claims covered in technology patents involve complex legal and factual questions, and the resolution of such claims may be highly uncertain, and expensive. In addition, our patents may be held invalid upon challenge, or others may claim rights in or ownership of our patents.

We may be subject to intellectual property infringement claims, which could cause us to incur litigation costs and divert management attention from our business.

Any intellectual property infringement claims against us, with or without merit, could be costly and time-consuming to defend and divert our management's attention from our business. If our products were found to infringe a third party's proprietary rights, we could be required to enter into costly royalty or licensing agreements to be able to sell our products. Royalty and licensing agreements, if required, may not be available on terms acceptable to us or at all.

Our efforts to avoid the patent, trademark, and copyright rights of others may not provide notice to us of potential infringements in time to avoid investing in product development and promotion that must later be abandoned if suitable license terms cannot be reached.

There is no guarantee that our use of conventional technology searching and brand clearance searching will identify all potential rights holders. Rights holders may demand payment for past infringements and/or force us to accept costly license terms or discontinue use of protected technology and/or works of authorship that may include for example photos, videos, and software.

We are engaged in legal proceedings that could cause us to incur unforeseen expenses and could occupy a significant amount of our management's time and attention.

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 controls 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 Committee made of up independent directors represented by special independent legal counsel. The Special Committee and legal counsel found the claims were unsubstantiated and while there were not SEC violations included in the various matters about which the individual was complaining. 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 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.

The claims made to the DOL, and such other litigation or claims that may be made from time to time, could negatively affect our business operations and financial position. As we grow, we will likely see a rise in the number of litigation matters against us. These matters may include employment and labor claims, product liability, and other claims related to our products, as well as consumer and securities class actions, each of which are typically expensive to defend. Litigation disputes could cause us to incur unforeseen expenses, result in content unavailability, service disruptions and otherwise occupy a significant amount of our management's time and attention, any of which could negatively affect our business operations and financial position.

If we are unable to settle outstanding pre-litigation claims, we may be subject to litigation which will have a negative impact on our financials.

If we pursue litigation with respect to outstanding or future legal claims regardless of merit and chances of success, prosecuting and defending such litigation may be lengthy and costly, strain our resources and divert management’s attention from their core responsibilities, which would have a negative impact on our business.

We depend on the sale of our ammunition products.

We manufacture ammunition and ammunition casings for sale to a wide variety of consumers, including gun enthusiasts, collectors, hunters, sportsmen, competitive shooters, individuals desiring home and personal protection, manufacturers, law enforcement and security agencies and officers in the United States and throughout the world. The sale of ammunition and ammunition components is influenced by the sale and usage of firearms. As noted above, sales of firearms are influenced by a variety of economic, social, and political factors, which may result in volatile sales. Ammunition sales represented a substantial amount of our net sales for the year ended March 31, 2020 and March 31, 2019.

Our manufacturing facilities are critical to our success.

Our Arizona and Wisconsin manufacturing facilities are critical to our success, as we currently produce all of our products at these facilities. The facilities also house our principal research, development, engineering, and design functions.

Any event that causes a disruption of the operation of these facilities for even a relatively short period of time would adversely affect our ability to produce and ship our products and to provide service to our customers. We make certain changes in our manufacturing operations from time to time to enhance the facilities and associated equipment and systems and to introduce certain efficiencies in manufacturing and other processes to produce our products in a more efficient and cost-effective manner. We anticipate that we will continue to incur significant capital and other expenditures with respect to these facilities, but we may not be successful in continuing to improve efficiencies.

To the extent demand for our products increase, our future success will depend upon our ability to enhance manufacturing production capacity.

We intend to continue marketing our ammunition products. To the extent demand for our products increase significantly in future periods, one of our key challenges will be to enhance production capacity to meet sales demand, while maintaining product quality. Our inability to meet any future increase in sales demand or access capital for inventory may hinder growth or increase dilution in connection with financing activities conducted to meet any such increase in sales demand.

Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our results of operations.

The inability to obtain sufficient quantities of raw materials and components, including casings, primers, gun powder, projectiles, and brass necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales or orders could adversely impact our operating results. Many of the materials used in the production of our products are available only from a limited number of suppliers. We do not have long-term supply contracts with any suppliers. As a result, we could be subject to increased costs, supply interruptions, and difficulties in obtaining raw materials and components.

Our reliance on third-party suppliers for various raw materials and components for our products exposes us to volatility in the availability, quality, and price of these raw materials and components. Our orders with certain of our suppliers may represent a very small portion of their total orders. As a result, they may not give priority to our business, leading to potential delays in or cancellation of our orders. A disruption in deliveries from our third-party suppliers, capacity constraints, production disruptions, price increases, or decreased availability of raw materials or commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. Quality issues experienced by third party suppliers can also adversely affect the quality and effectiveness of our products and result in liability and reputational harm.

We rely on third-party suppliers for most of our manufacturing equipment.

We also rely on third-party suppliers for most of the manufacturing equipment necessary to produce our products. The failure of suppliers to supply manufacturing equipment in a timely manner or on commercially reasonable terms could delay our plans to expand our business and otherwise disrupt our production schedules and increase our manufacturing costs. Our orders with certain of our suppliers may represent a very small portion of their total orders. As a result, they may not give priority to our business, leading to potential delays in or cancellation of our orders. If any single-source supplier were to fail to supply our needs on a timely basis or cease providing us manufacturing equipment or components, we would be required to locate and contract with substitute suppliers. We may have difficulty identifying a substitute supplier in a timely manner and on commercially reasonable terms. If this were to occur, our business would be harmed.

We do not have long-term purchase commitments from our customers, and their ability to cancel, reduce, or delay orders could reduce our revenue and increase our costs.

Our customers do not provide us with firm, long-term volume purchase commitments, but instead issue purchase orders for our products as needed. As a result, customers can cancel purchase orders or reduce or delay orders at any time. The cancellation, delay, or reduction of customer purchase orders could result in reduced sales, excess inventory, unabsorbed overhead, and reduced income from operations.

We often schedule internal production levels and place orders for raw materials and components with third party suppliers before receiving firm orders from our customers. Therefore, if we fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of products to deliver to our customers. Factors that could affect our ability to accurately forecast demand for our products include the following:

- an increase or decrease in consumer demand for our products or for the products of our competitors;
- our failure to accurately forecast consumer acceptance of new products;
- new product introductions by us or our competitors;
- changes in our relationships within our distribution channels;
- changes in general market conditions or other factors, which may result in cancellations of orders or a reduction or increase in the rate of reorders placed by retailers;
- changes in laws and regulations governing the activities for which we sell products, such as hunting and shooting sports;
- weak economic conditions or consumer confidence, which could reduce demand for discretionary items, such as our products; and
- the domestic political environment, including debate over the regulation of firearms, ammunition, and related products.

Inventory levels in excess of consumer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have an adverse effect on our business, operating results, and financial condition. If we underestimate demand for our products, our manufacturing facilities or third-party suppliers may not be able to react quickly enough to meet consumer demand, resulting in delays in the shipment of products and lost revenue, and damage to our reputation and customer and consumer relationships. We may not be able to manage inventory levels successfully to meet future order and reorder requirements.

Our revenue depends primarily on sales by various retailers and distributors, some of which account for a significant portion of our sales.

Our revenue depends on our sales through various leading national and regional retailers, local specialty firearms stores, and online merchants. The U.S. retail industry serving the outdoor recreation market has become relatively concentrated. Our sales could become increasingly dependent on purchases by several large retail customers. Consolidation in the retail industry could also adversely affect our business. If our sales were to become increasingly dependent on business with several large retailers, we could be adversely affected by the loss or a significant decline in sales to one or more of these customers. In addition, our dependence on a smaller group of retailers could result in their increased bargaining position and pressures on the prices we charge.

The loss of any one or more of our retail customers or significant or numerous cancellations, reductions, delays in purchases or changes in business practices by our retail customers could have an adverse effect on our business, operating results, and financial condition.

These sales channels involve a number of special risks, including the following:

- we may be unable to secure and maintain favorable relationships with retailers and distributors;
- we may be unable to control the timing of delivery of our products to end-user consumers;
- our retailers and distributors are not subject to minimum sales requirements or any obligation to market our products to their customers;
- our retailers and distributors may terminate their relationships with us at any time; and
- our retailers and distributors market and distribute competing products.

We have two customers that accounted for approximately 32% of our net sales for the year ended March 31, 2020, in comparison to three customers that accounted for approximately 54% of our net sales for the year ended March 31, 2019. Although we intend to expand our customer base, our revenue would likely decline if we lost any major customers or if one of these sizable customers were to significantly reduce its orders for any reason. Because our sales are made by means of standard purchase orders rather than long-term contracts, we cannot assure you that our customers will continue to purchase our products at current levels, or at all.

In addition, periods of sluggish economies and consumer uncertainty regarding future economic prospects in our key markets can have an adverse effect on the financial health of our customers, which may in turn have a material adverse effect on our business, operating results, and financial condition.

We extend credit to our customers for periods of varying duration based on an assessment of the customer's financial condition, generally without requiring collateral, which increases our exposure to the risk of uncollectable receivables. In addition, we face increased risk of order reduction or cancellation when dealing with financially ailing retailers or retailers struggling with economic uncertainty. We may reduce our level of business with customers and distributors experiencing financial difficulties and may not be able to replace that business with other customers, which could have a material adverse effect on our business, operating results, and financial condition.

An inability to expand our E-commerce business could reduce our future growth.

Consumers are increasingly purchasing products online. We operate direct-to-consumer e-commerce stores to maintain an online presence with our end users. The future success of our online operations depends on our ability to use our marketing resources to communicate with existing and potential customers. We face competitive pressure to offer promotional discounts, which could impact our gross margin and increase our marketing expenses. We are limited, however, in our ability to fully respond to competitor price discounting because we cannot market our products at prices that may produce adverse relationships with our customers that operate brick and mortar locations as they

may perceive themselves to be at a disadvantage based on lower e-commerce pricing to end consumers. There is no assurance that we will be able to successfully expand our e-commerce business to respond to shifting consumer traffic patterns and direct-to-consumer buying trends.

In addition, e-commerce and direct-to-consumer operations are subject to numerous risks, including implementing and maintaining appropriate technology to support business strategies; reliance on third-party computer hardware/software and service providers; data breaches; violations of state, federal or international laws, including those relating to online privacy; credit card fraud; telecommunication failures; electronic break-ins and similar disruptions; and disruption of Internet service. Our inability to adequately respond to these risks and uncertainties or to successfully maintain and expand our direct-to-consumer business may have an adverse impact on our business and operating results.

Our gross margins depend upon our sales mix.

Our gross margin is higher when our sales mix is skewed toward our higher-margin proprietary product lines versus a lower contribution from mid-market ammunition that we also manufacture. If our actual sales mix results in a lower overall percentage from our proprietary lines, our gross margins will be reduced, affecting our results of operations.

We may have difficulty collecting amounts owed to us.

Certain of our customers may experience business challenges and credit-related issues. We perform ongoing credit evaluations of customers, but these evaluations may not be completely effective. We grant payment terms to most customers ranging from 30 to 90 days and do not generally require collateral. Should more customers than we anticipate experience liquidity issues, or if payments are not received on a timely basis, we may have difficulty collecting amounts owed to us by such customers and our business, operating results, and financial condition could be adversely impacted. Retail consolidation could result in more concentrated credit-related risks.

We face intense competition that could result in our losing or failing to gain market share and suffering reduced sales.

We operate in intensely competitive markets that are characterized by price erosion and competition from major domestic and international companies. Competition in the markets in which we operate is based on a number of factors, including price, quality, product innovation, performance, reliability, styling, product features, and warranties, and sales and marketing programs. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share.

Our competitors include Federal Premium Ammunition, Remington Arms, the Winchester Ammunition Division of Olin Corporation, and various smaller manufacturers and importers, including Black Hills Ammunition, CBC Group, Fiocchi Ammunition, Hornady, PMC, Rio Ammunition, and Wolf. Most of our competitors have greater market recognition, larger customer bases, long-term government contracts, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to invest more funds in intellectual property and product development, to negotiate lower prices for raw materials and components, to deliver competitive products at lower prices, and to introduce new products and respond to consumer requirements more quickly than we can.

Our competitors could introduce products with superior features at lower prices than our products and could also bundle existing or new products with other more established products to compete with us. Certain of our competitors may be willing to reduce prices and accept lower profit margins to compete with us. Our competitors could also gain market share by acquiring or forming strategic alliances with other competitors.

Finally, we may face additional sources of competition in the future because new distribution methods offered by the Internet and electronic commerce have removed many of the barriers to entry historically faced by start-up companies. Retailers also demand that suppliers reduce their prices on products, which could lead to lower margins. Any of the foregoing effects could cause our sales to decline, which would harm our financial position and results of operations.

Our ability to compete successfully depends on a number of factors, both within and outside our control. These factors include the following:

- our success in developing, producing, marketing, and successfully selling new products;
- our ability to address the needs of our consumer customers;
- the pricing, quality, performance, and reliability of our products;
- the quality of our customer service;
- the efficiency of our production; and
- product or technology introductions by our competitors.

Because we believe technological and functional distinctions among competing products in our markets are perceived by many end-user consumers to be relatively modest, effectiveness in marketing and manufacturing are particularly important competitive factors in our business.

Seasonality and weather conditions may cause our operating results to vary from quarter to quarter.

Because many of our products are used for seasonal outdoor sporting activities, our operating results may be significantly impacted by unseasonable weather conditions. Accordingly, our operating results could suffer when weather patterns do not conform to seasonal norms.

Shipments of ammunition for hunting are highest during the months of June through September to meet consumer demand for the fall hunting season and holidays. The seasonality of our sales may change in the future. The hunting for our next fiscal year season may be affected by travel restrictions and other limitations imposed as a result of Covid-19 that are unpredictable and may not be indicative of prior or future seasons. Seasonal variations in our operating results may reduce our cash on hand, increase our inventory levels, and extend our accounts receivable collection periods. This in turn may cause us to increase our debt levels and interest expense to fund our working capital requirements.

We manufacture and sell products that create exposure to potential product liability, warranty liability, or personal injury claims and litigation.

Our products are used in activities and situations that involve risk of personal injury and death. Our products expose us to potential product liability, warranty liability, and personal injury claims and litigation relating to the use or misuse of our products, including allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product or activities associated with the product, negligence, and strict liability. If successful, any such claims could have a material adverse effect on our business, operating results, and financial condition. Defects in our products may result in a loss of sales, recall expenses, delay in market acceptance, and damage to our reputation and increased warranty costs, which could have a material adverse effect on our business, operating results, and financial condition. Although we maintain product liability insurance in amounts that we believe are reasonable, we may not be able to maintain such insurance on acceptable terms, if at all, in the future and product liability claims may exceed the amount of insurance coverage. In addition, our reputation may be adversely affected by such claims, whether or not successful, including potential negative publicity about our products.

The failure to manage our growth could adversely affect our operations.

The failure to manage our growth could adversely affect our operations. To continue to expand our business and enhance our competitive position, we must make significant investments in equipment, facilities, systems, and personnel. In addition, we must commit significant funds to enhance our sales, marketing, information technology, and research and development efforts. As a result of the increase in fixed costs and operating expenses, our failure to

increase our sales sufficiently to offset these increased costs could adversely affect our business, operating results, and financial condition.

Managing our planned growth effectively will require us to take a number of steps, including the following:

- enhance our operational, financial, and management systems;
- enhance our facilities and purchase additional equipment; and
- successfully hire, train, and retain additional employees, including additional personnel for our technological, sales, and marketing efforts.

The expansion of our products and customer base may result in increases in our overhead and selling expenses. We may be required to increase staffing and other expenses and our expenditures on capital equipment and leasehold improvements to meet the demand for our products. Any increase in expenditures in anticipation of future sales that do not materialize would adversely affect our profitability.

Our business is highly dependent upon our brand recognition and reputation, and the failure to maintain or enhance our brand recognition or reputation would likely have a material adverse effect on our business.

Our brand recognition and reputation are critical aspects of our business. We believe that maintaining and further enhancing our brands, particularly our STREAK VISUAL AMMUNITION™ brands, and our reputation are critical to retaining existing customers and attracting new customers. We also believe that the importance of our brand recognition and reputation will continue to increase as competition in our markets continues to develop.

We anticipate that our advertising, marketing, and promotional efforts will increase in the foreseeable future as we continue to seek to enhance our brands and consumer demand for our products. Historically, we have relied on print and electronic media advertising to increase consumer awareness of our brands to increase purchasing intent and conversation. We anticipate that we will increasingly rely on other forms of media advertising, including social media and e-marketing. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our advertising, promotion, public relations, and marketing programs. These brand promotion activities may not yield increased revenue and the efficacy of these activities will depend on a number of factors, including our ability to do the following:

- determine the appropriate creative message and media mix for advertising, marketing, and promotional expenditures;
- select the right markets, media, and specific media vehicles in which to advertise;
- identify the most effective and efficient level of spending in each market, media, and specific media vehicle; and
- effectively manage marketing costs, including creative and media expenses, to maintain acceptable customer acquisition costs.

In addition, certain of our current or future products may benefit from endorsements and support from particular sportsmen, athletes, or other celebrities, and those products and brands may become personally associated with those individuals. As a result, sales of the endorsed products could be materially and adversely affected if any of those individuals' images, reputations, or popularity were to be negatively impacted.

Increases in the pricing of one or more of our marketing and advertising channels could increase our marketing and advertising expenses or cause us to choose less expensive but possibly less effective marketing and advertising channels. If we implement new marketing and advertising strategies, we may incur significantly higher costs than our current channels, which in turn could adversely affect our operating results. Implementing new marketing and advertising strategies also could increase the risk of devoting significant capital and other resources to endeavors that do not prove to be cost effective. We also may incur marketing and advertising expenses significantly in advance of the time we anticipate recognizing revenue associated with such expenses and our marketing and

advertising expenditures may not generate sufficient levels of brand awareness and conversation or result in increased revenue. Even if our marketing and advertising expenses result in increased sales, the increase might not offset our related expenditures. If we are unable to maintain our marketing and advertising channels on cost-effective terms or replace or supplement existing marketing and advertising channels with similarly or more effective channels, our marketing and advertising expenses could increase substantially, our customer base could be adversely affected, and our business, operating results, financial condition, and reputation could suffer.

Our operating results may experience significant fluctuations.

Many factors contribute to significant periodic and seasonal quarterly fluctuations in our results of operations. These factors include the following:

- the cyclical nature of the markets we serve;
- the timing and size of new orders;
- the cancellation of existing orders;
- the volume of orders relative to our capacity;
- product introductions and market acceptance of new products or new generations of products;
- timing of expenses in anticipation of future orders;
- changes in product mix;
- availability of production capacity;
- changes in cost and availability of labor and raw materials;
- timely delivery of products to customers;
- pricing and availability of competitive products;
- new product introduction costs;
- changes in the amount or timing of operating expenses;
- introduction of new technologies into the markets we serve;
- pressures on reducing selling prices;
- our success in serving new markets;
- adverse publicity regarding the safety, performance, and use of our products;
- the institution and adverse outcome of any litigation;
- political, economic, or regulatory developments; and
- changes in economic conditions.
- COVID-19, or other pandemics.

As a result of these and other factors, we believe that period-to-period comparisons of our results of operations may not be meaningful in the short term, and our performance in a particular period may not be indicative of our performance in any future period.

The failure to attract and retain key personnel could have an adverse effect on our operating results.

Our success depends substantially on the efforts and abilities of our senior management and key personnel. The competition for qualified management and key personnel is intense. Although we maintain noncompetition and nondisclosure covenants with many of our key personnel, we do not have employment agreements with many of them. The loss of services of one or more of our key employees or the inability to hire, train, and retain additional key personnel could delay the development and sale of our products, disrupt our business, and interfere with our ability to execute our business plan.

In addition, our ability to maintain our competitive position is dependent to a large degree on the efforts and skills of our senior management team, including Fred Wagenhals, our President and Chief Executive Officer. The loss of the services of one or more of our key personnel could materially and adversely affect our operations.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

In the future, we may require additional capital to fund the planned expansion of our business and to respond to business opportunities, challenges, potential acquisitions, or unforeseen circumstances. We could encounter unforeseen difficulties that may deplete our capital resources rapidly, which could require us to seek additional financing in the near future. The timing and amount of any additional financing that is required to continue the expansion of our business and the marketing of our products will depend on our ability to improve our operating results and other factors. We may not be able to secure additional debt or equity financing in a timely basis or on favorable terms, or at all. Such financing could result in substantial dilution of the equity interests of existing stockholders. We have no commitments for any additional financing should the need arise. If we are unable to secure any necessary additional financing, we may need to delay expansion plans, conserve cash, and reduce operating expenses. There is no assurance that any additional financing will be sufficient, that the financing will be available on terms favorable to us or to existing stockholders and at such times as required, or that we will be able to obtain the additional financing required for the continued operation and growth of our business. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. If we raise additional funds through further issuances of equity, convertible debt securities, or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our Common Stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited.

We need to continue as a going concern if our business is to succeed.

Because of our recurring losses and limited capital resources, the audit report of our independent registered public accountants on our consolidated financial statements for the year ended March 31, 2020 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern. Factors identified in the report include our historical net losses, and the need for additional financing to continue our business plan and service our debt repayments. If we are not able to attain profitability in the near future our financial condition could deteriorate further, which would have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment. Further, we may be unable to pay our debt obligations as they become due, which include obligations to secured creditors. If we are unable to continue as a going concern, we might have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. Additionally, we are subject to customary operational covenants, including limitations on our ability to incur liens or additional debt, pay dividends, redeem stock, make specified investments and engage in merger, consolidation or asset sale transactions, among other restrictions. In addition, the inclusion of an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern and our lack of cash resources may materially adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

We may not be able to utilize our net operating loss carry forwards.

At March 31, 2020, we had Federal net operating loss carry forwards (“NOLs”) for income tax purposes of \$29,459,502. There were \$5,144,926 of NOLs generated prior to 2018 will begin to expire in 2036. The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) signed in to law on March 27, 2020 provided that NOLs generated in a taxable year beginning in 2018, 2019, or 2020, may now be carried back five years and forward indefinitely. In addition, the 80% taxable income limitation is temporarily removed, allowing NOLs to fully offset net taxable income. However, we do not know if or when we will have any earnings and capital gains against which we

could apply these carry forwards. Furthermore, as a result of changes in the ownership of our common stock, our ability to use our federal NOLs will be limited under Internal Revenue Code Section 382. State NOLs are subject to similar limitations in many cases. As a result, our substantial NOLs may not have any value to us.

Potential strategic alliances may not achieve their objectives, which could impede our growth.

We anticipate that we will enter into strategic alliances in the future. We continue to explore strategic alliances designed to expand our product offerings, enter new markets, and improve our distribution channels. Strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances may impede our ability to introduce new products and enter new markets.

Any acquisitions that we undertake will involve significant risks, and any acquisitions that we undertake in the future could disrupt our business, dilute stockholder value, and harm our operating results.

We have a strategy to expand our operations through strategic acquisitions to enhance existing products and offer new products, enter new markets and businesses, strengthen and avoid interruption from our supply chain, and enhance our position in current markets and businesses. Acquisitions involve significant risks and uncertainties. We cannot accurately predict the timing, size, and success of any future acquisitions. We may be unable to identify suitable acquisition candidates or to complete the acquisitions of candidates that we identify. Increased competition for acquisition candidates or increased asking prices by acquisition candidates may increase purchase prices for acquisitions to levels beyond our financial capability or to levels that would not result in the returns required by our acquisition criteria. Unforeseen expenses, difficulties, and delays frequently encountered in connection with expansion through acquisitions could inhibit our growth and negatively impact our operating results.

Our ability to complete acquisitions that we desire to make will depend upon various factors, including the following:

- the availability of suitable acquisition candidates at attractive purchase prices;
- the ability to compete effectively for available acquisition opportunities;
- the availability of cash resources, borrowing capacity, or stock at favorable price levels to provide required purchase prices in acquisitions;
- the ability of management to devote sufficient attention to acquisition efforts; and
- the ability to obtain any requisite governmental or other approvals.

We may have little or no experience with certain acquired businesses, which could involve significantly different supply chains, production techniques, customers, and competitive factors than our current business. This lack of experience would require us to rely to a great extent on the management teams of these acquired businesses. These acquisitions also could require us to make significant investments in systems, equipment, facilities, and personnel in anticipation of growth. These costs could be essential to implement our growth strategy in supporting our expanded activities and resulting corporate structure changes. We may be unable to achieve some or all of the benefits that we expect to achieve as we expand into these new markets within the time frames we expect, if at all. If we fail to achieve some or all of the benefits that we expect to achieve as we expand into these new markets, or do not achieve them within the time frames we expect, our business, financial condition, and results of operations could be adversely affected.

As a part of any potential acquisition, we may engage in discussions with various acquisition candidates. In connection with these discussions, we and each potential acquisition candidate may exchange confidential operational and financial information, conduct due diligence inquiries, and consider the structure, terms, and conditions of the potential acquisition. In certain cases, the prospective acquisition candidate agrees not to discuss a potential acquisition with any other party for a specific period of time and agrees to take other actions designed to enhance the possibility of the acquisition, such as preparing audited financial information. Potential acquisition discussions frequently take place over a long period of time and involve difficult business integration and other issues. As a result of these and other factors, a number of potential acquisitions that from time-to-time appear likely to occur do not result in binding legal agreements and are not consummated, but may result in increased legal, consulting, and other costs.

Unforeseen expenses, difficulties, and delays frequently encountered in connection with future acquisitions could inhibit our growth and negatively impact our profitability. Any future acquisitions may not meet our strategic objectives or perform as anticipated. In addition, the size, timing, and success of any future acquisitions may cause substantial fluctuations in our operating results from quarter to quarter. These interim fluctuations could adversely affect the market price of our Common Stock.

If we finance any future acquisitions in whole or in part through the issuance of Common Stock or securities convertible into or exercisable for Common Stock, existing stockholders will experience dilution in the voting power of their Common Stock and earnings per share could be negatively impacted. The extent to which we will be able or willing to use our Common Stock for acquisitions will depend on the market price of our Common Stock from time-to-time and the willingness of potential acquisition candidates to accept our Common Stock as full or partial consideration for the sale of their businesses. Our inability to use our Common Stock as consideration, to generate cash from operations, or to obtain additional funding through debt or equity financings to pursue an acquisition could limit our growth.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, and harm our operations.

We may be unable to effectively complete an integration of the management, operations, facilities, and accounting and information systems of acquired businesses with our own; to implement effective controls to mitigate legal and business risks with which we have no prior experience; to manage efficiently the combined operations of the acquired businesses with our operations; to achieve our operating, growth, and performance goals for acquired businesses; to achieve additional sales as a result of our expanded operations; or to achieve operating efficiencies or otherwise realize cost savings as a result of anticipated acquisition synergies. The integration of acquired businesses involves numerous risks and uncertainties, including the following:

- the potential disruption of our core businesses;
- risks associated with entering markets and businesses in which we have little or no prior experience;
- diversion of management's attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with increased regulatory or compliance matters;
- failure to retain key customers, suppliers, or personnel of acquired businesses;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- greater than anticipated costs and expenses related to the integration of the acquired business with our business;
- potential unknown liabilities associated with the acquired company;
- risks associated with weak internal controls over information technology systems and associated cyber security risks;
- meeting the challenges inherent in effectively managing an increased number of employees in diverse locations;
- failure of acquired businesses to achieve expected results;
- the risk of impairment charges related to potential write-downs of acquired assets in future acquisitions; and
- the challenge of creating uniform standards, controls, procedures, policies, and information systems.

Breaches of our information systems could adversely affect our reputation, disrupt our operations, and result in increased costs and loss sales.

There have been an increasing number of cyber security incidents affecting companies around the world, which have caused operational failures or compromised sensitive corporate data. Although we do not believe our systems are at a greater risk of cyber security incidents than other similar organizations, such cyber security incidents may result in the loss or compromise of customer, financial, or operational data; disruption of billing, collections, or normal operating activities; disruption of electronic monitoring and control of operational systems; and delays in financial reporting and other management functions. Possible impacts associated with a cyber security incident may include among others, remediation costs related to lost, stolen, or compromised data; repairs to data processing systems; increased cyber security protection costs; reputational damage; and adverse effects on our compliance with applicable privacy and other laws and regulations.

A failure of our information technology systems, or an interruption in their operation due to internal or external factors including cyber-attacks, could have a material adverse effect on our business, financial condition or results of operations.

Our operations depend on our ability to protect our information systems, computer equipment, and information databases from systems failures. We rely on our information technology systems generally to manage the day-to-day operations of our business, operate elements of our manufacturing facility, manage relationships with our customers, fulfill customer orders, and maintain our financial and accounting records. Failure of our information technology systems could be caused by internal or external events, such as incursions by intruders or hackers,

computer viruses, cyber-attacks, failures in hardware or software, or power or telecommunication fluctuations or failures. The failure of our information technology systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous adverse consequences, including reduced effectiveness and efficiency of operations, increased costs, or loss of important information, any of which could have a material adverse effect on our business, operating results, and financial condition. Any technology and information security processes and disaster recovery plans we use to mitigate our risk to these vulnerabilities may not be adequate to ensure that our operations will not be disrupted should such an event occur.

We are subject to extensive regulation and could incur fines, penalties and other costs and liabilities under such requirements.

Like many other manufacturers and distributors of consumer products, we are required to comply with a wide variety of laws, rules, and regulations, including those relating to labor, employment, the environment, the export and import of our products, and taxation. These laws, rules, and regulations currently impose significant compliance requirements on our business, and more restrictive laws, rules and regulations may be adopted in the future.

Our operations are subject to a variety of laws and regulations relating to environmental protection, including those governing the discharge, treatment, storage, transportation, remediation, and disposal of certain materials and wastes, and restoration of damages to the environment, and health and safety matters. We could incur substantial costs, including remediation costs, resource restoration costs, fines, penalties, and third-party property damage or personal injury claims as a result of liabilities under or violations of such laws and regulations or the permits required thereunder. While environmental laws and regulations have not had a material adverse effect on our business, operating results, financial condition, the ultimate cost of environmental liabilities is difficult to accurately predict and we could incur material additional costs as a result of requirements or obligations imposed or liabilities identified in the future.

As a manufacturer and distributor of consumer products, we are subject to the Consumer Products Safety Act, which empowers the Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Products Safety Commission could require us to repurchase or recall one or more of our products. In addition, laws regulating certain consumer products exist in some cities and states, and in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future. Any repurchase or recall of our products could be costly to us and could damage our reputation. If we were required to remove, or we voluntarily removed, our products from the market, our reputation could be tarnished, and we could have large quantities of finished products that we are unable to sell. We are also subject to the rules and regulations of the Bureau of Alcohol, Tobacco, Firearms and Explosives, or the ATF. If we fail to comply with ATF rules and regulations, the ATF may limit our growth or business activities, levy fines against or revoke our license to do business. Our business, and the business of all producers and marketers of ammunition and firearms, is also subject to numerous federal, state, local, and foreign laws, regulations, and protocols. Applicable laws have the following effects:

- require the licensing of all persons manufacturing, exporting, importing, or selling firearms and ammunition as a business;
- require background checks for purchasers of firearms;
- impose waiting periods between the purchase of a firearm and the delivery of a firearm;
- prohibit the sale of firearms to certain persons, such as those below a certain age and persons with criminal records;
- regulate the use and storage of gun powder or other energetic materials;
- regulate our employment of personnel with criminal convictions; and
- restrict access to firearm manufacturing facilities for individuals from other countries or with criminal convictions.

Also, the export of our products is controlled by International Traffic in Arms Regulations, or ITAR, and Export Administration Regulations, or EAR. The ITAR implements the provisions of the Arms Export Control Act and is enforced by the U.S. Department of State. The EAR implements the provisions of the Export Administration Act and is enforced by the U.S. Department of Commerce. Among their many provisions, the ITAR and the EAR require a license application for the export of many of our products. In addition, the ITAR requires congressional approval for any firearms export application with a total value of \$1 million or higher. Further, because our manufacturing process includes certain toxic, flammable and explosive chemicals, we are subject to the Chemical Facility Anti-Terrorism Standards, as administered by the U.S. Department of Homeland Security, which require that we take additional reporting and security measures related to our manufacturing process.

Several states currently have laws in effect that are similar to, and, in certain cases, more restrictive than, these federal laws. Compliance with all of these regulations is costly and time-consuming. Inadvertent violation of any of these regulations could cause us to incur fines and penalties and may also lead to restrictions on our ability to manufacture and sell our products and services and to import or export the products we sell.

Changes in government policies and firearms legislation could adversely affect our financial results.

The sale, purchase, ownership, and use of firearms are subject to numerous and varied federal, state, and local governmental regulations. Federal laws governing firearms include the National Firearms Act, the Federal Firearms Act, the Arms Export Control Act, and the Gun Control Act of 1968. These laws generally govern the manufacture, import, export, sale, and possession of firearms and ammunition. We hold all necessary licenses to legally sell ammunition in the United States.

Currently, the federal legislature and several state legislatures are considering additional legislation relating to the regulation of firearms and ammunition. These proposed bills are extremely varied. If enacted, such legislation could effectively ban or severely limit the sale of affected firearms and ammunition. In addition, if such restrictions are enacted and are incongruent, we could find it difficult, expensive, or even practically impossible to comply with them, which could impede new product development and the distribution of existing products. We cannot assure you that the regulation of our business activities will not become more restrictive in the future and that any such restriction will not have a material adverse effect on our business.

Any change to the interpretations Second Amendment would dramatically impact our ability to conduct business.

Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation, and export controls and trade sanctions, could result in fines or criminal penalties if we expand our business abroad.

The expansion of our business internationally would expose us to trade sanctions and other restrictions imposed by the United States and other governments. The U.S. Departments of Justice, Commerce, Treasury and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the Foreign Corrupt Practices Act, anti-boycott provisions and other federal statutes, sanctions and regulations and, increasingly, similar or more restrictive foreign laws, rules and regulations, which may also apply to us. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance. In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws and we expect the relevant agencies to continue to increase these activities. A violation of these laws, sanctions or regulations could result in restrictions on our exports, civil and criminal fines or penalties and could adversely impact our business, operating results, and financial condition.

Our charter documents and Delaware law could make it more difficult for a third party to acquire us and discourage a takeover.

Our Certificate of Incorporation, Bylaws, and Delaware law contain certain provisions that may have the effect of deterring or discouraging, among other things, a non-negotiated tender or exchange offer for shares of Common Stock, a proxy contest for control of our company, the assumption of control of our company by a holder of a large block of Common Stock, and the removal of the management of our company. Such provisions also may have the effect of deterring or discouraging a transaction which might otherwise be beneficial to stockholders. Our certificate of incorporation also may authorize our board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of Common Stock. Delaware law also imposes conditions on certain business combination transactions with “interested stockholders.” Our certificate of incorporation authorizes our Board of Directors to fill vacancies or newly created directorships. A majority of the directors then in office may elect a successor to fill any vacancies or newly created directorships. Such provisions could limit the price that investors might be willing to pay in the future for shares of our Common Stock and impede the ability of the stockholders to replace management.

The elimination of monetary liability against our directors, officers, and employees under Delaware law and the existence of indemnification rights to our directors, officers, and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers, and employees. We also may have entered into contractual indemnification obligations under employment agreements with our executive officers. The foregoing indemnification obligations could result in our incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against our directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and our stockholders.

Our results of operations could be impacted by unanticipated changes in tax provisions or exposure to additional income tax liabilities.

Our business operates in many locations under government jurisdictions that impose income taxes. Changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain revenues or the deductibility of certain expenses, and higher excise taxes thereby affecting our income tax expense and profitability. In addition, audits by income tax authorities could result in unanticipated increases in our income tax expense.

Limited or No Public Market for our securities.

There has been a limited public market for our Common Stock and no public market for our outstanding stock options and warrants. Our Common Stock is currently quoted on the OTCQB Market. The daily trading volume of our Common Stock has been limited.

We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market or how liquid that market might become. The lack of an active market may reduce the value of shares of our Common Stock and impair the ability of our stockholders to sell their shares at the time or price at which they wish to sell them. An inactive market may also impair our ability to raise capital by selling our Common Stock and may impair our ability to acquire or invest in other companies, products, or technologies by using our Common Stock as consideration.

We may be unable to list our stock on a national exchange, such as NASDAQ.

There has been a limited public market for our Common Stock. Although it is our intention to qualify for the trading of our Common Stock on a national exchange, we may not meet or maintain certain qualifying requirements. If we are unable to meet these requirements, we may be limited to trading conducted on the OTCQB Market.

The market price of our Common Stock may be volatile and could decline.

The market price of our Common Stock has fluctuated substantially in the past and is likely to continue to be highly volatile and subject to wide fluctuations in the future. A number of factors could cause the market price of our Common Stock to decline, many of which we cannot control, including the following:

- our ability to execute our business plan;
- actual or anticipated changes in our operating results;
- variations in our quarterly results;
- changes in expectations relating to our products, plans, and strategic position or those of our competitors or customers;
- announcements or introduction of technological innovations or new products by us or our competitors;
- market conditions within our market;
- the sale of even small blocks of Common Stock by stockholders;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of public companies in general and small emerging companies in particular;
- changes in investor perceptions;
- the level and quality of any research analyst coverage of our Common Stock, changes in earnings estimates or investment recommendations by securities analysts, or our failure to meet such estimates;
- any financial guidance we may provide to the public, any changes in such guidance, or our failure to meet such guidance;
- various market factors or perceived market factors, including rumors, whether or not correct, involving us, our customers, or our competitors;
- future sales of our Common Stock;
- Introductions of new products or new pricing policies by us or by our competitors;
- regulatory or environmental laws that restrict the sale of ammunition containing lead;
- acquisitions or strategic alliances by us or by our competitors;
- litigation involving us, our competitors, or our industry;
- regulatory, legislative, political, and other developments that may affect us, our customers, and the purchasers of our products;
- the gain or loss of significant customers;
- the volume and timing of customers' orders;

- recruitment or departure of key personnel;
- developments with respect to intellectual property rights;
- our international acceptance;
- market conditions in our industry, the business success of our customers, and economy as a whole;
and
- general global economic and political instability.

In addition, the market prices of small emerging companies have experienced significant price and volume fluctuations that often have been unrelated or disproportionate to their operating performance. In the past, companies that have experienced volatility in the market price of their securities have been the subject of securities class action litigation. If we were the object of a securities class action litigation, it could result in substantial losses and divert management's attention and resources from other matters.

Sales of large numbers of shares could adversely affect the price of our Common Stock

Most of our Common Stock shares currently outstanding are restricted securities as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. All outstanding shares of Common Stock are or will be eligible for resale in the public markets at various times within the next six months with respect to affiliates, subject to compliance with the volume and manner of sale requirements of Rule 144 under the Securities Act of 1933, as amended, and with respect to all restricted securities held by affiliates.

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated for purposes of Rule 144) who beneficially owns restricted securities with respect to which at least six months has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our Common Stock or the average weekly trading volume in our Common Stock during the four calendar weeks preceding such sale. Sales under Rule 144 also are subject to certain manner-of-sale provisions and notice requirements and to the availability of current public information about us. A person who is not an affiliate, who has not been an affiliate within three months prior to sale, and who beneficially owns restricted securities with respect to which at least six months has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell such shares under Rule 144 without regard to any of the volume limitations or other requirements described above. Sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices.

As a former shell company, resales of shares of our restricted common stock in reliance on Rule 144 of the Securities Act are subject to the requirements of Rule 144(i).

We previously were a "shell company" and, as such, sales of our securities pursuant to Rule 144 under the Securities Act, cannot be made unless, among other things, at the time of a proposed sale, we are subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and have filed all reports and other materials required to be filed by Section 13 or 15(d) of the Exchange Act, as applicable, during the preceding 12 months, other than Form 8-K reports. Because, as a former shell company, the reporting requirements of Rule 144(i) will apply regardless of holding period, restrictive legends on certificates for shares of our common stock cannot be removed except in connection with an actual sale that is subject to an effective registration statement under, or an applicable exemption from the registration requirements of, the Securities Act. Because our unregistered securities cannot be sold pursuant to Rule 144 unless we continue to meet such requirements, any unregistered securities we issue will have limited liquidity unless we continue to comply with such requirements.

Exercise of warrants, and issuance of incentive stock grants may have a dilutive effect on our stock, and negatively impact the price of our Common Stock.

As of March 31, 2020, we had 8,504,372 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 966,494 shares of Common Stock at an exercise price of \$1.65 per share until April 2025; (2) warrants to purchase 4,641,745 shares of our Common Stock at an exercise price of \$2.00 per share over the next three to five years; and (3) warrants to purchase 2,896,133 shares of Common Stock at an exercise price of \$2.40 over the next five years.

As documented in Note 8 of the financial statements, the Company is to issue warrants to the holders of the convertible notes and placement agent. As of March 31, 2020, the key terms of the investor and placement agent warrants are still unknown such that there is still no grant of the warrants for accounting purposes. The Company will

determine the fair value of the warrants at the time the key terms of the Warrants become known and the Warrants are issued.

In November 2017, the Board of Directors approved the 2017 Equity Incentive Plan, or (“the Plan”). Under the Plan, 485,000 shares of common stock were reserved and authorized to be issued. As of December 31, 2017, 200,000 shares of common stock were approved and issued under the Plan, and we recognized approximately \$250,000 of related consulting expense. On January 10, 2018, 200,000 shares were awarded, and we recognized \$330,000 of compensation expense. During the year ended March 31, 2020 there were no shares were awarded. There are 85,000 shares remaining to be issued under the Plan.

We plan to adopt an Incentive Stock Plan designed to assist us in attracting, motivating, retaining, and rewarding high-quality executives, directors, officers, employees, and individual consultants by enabling such persons to acquire or increase a proprietary interest in our company to strengthen the mutuality of interests between such persons and our stockholders and providing such persons with performance incentives to expand their maximum efforts in the creation of stockholder value under the plan. We will be able to grant stock options, restricted stock, restricted stock units, stock appreciation rights, bonus stocks, and performance awards under the plan.

To the extent that any of the outstanding warrants and options described above are exercised, dilution, to the interests of our stockholders may occur. For the life of such warrants and options, the holders will have the opportunity to profit from a rise in the price of the Common Stock with a resulting dilution in the interest of the other holders of Common Stock. The existence of such warrants and options may adversely affect the market price of our Common Stock and the terms on which we can obtain additional financing, and the holders of such warrants and options can be expected to exercise them at a time when we would, in all likelihood, be able to obtain additional capital by an offering of our unissued capital stock on terms more favorable to us than those provided by such warrants and options.

Effect of Issuance of Preferred Stock

Our Certificate of Incorporation allows us to issue Preferred Stock with voting, liquidation, and dividend rights senior to those of the Common Stock without the approval of our stockholders. The issuance of Preferred Stock could have the effect of making it more difficult for a third party to acquire a majority of the outstanding stock of our company and result in the dilution of the value of the then current stockholders’ Common Stock. We have no current plans to issue shares of Preferred Stock.

Resale of Common Stock

All of our outstanding shares of Common Stock and shares of our Common Stock that may be issued upon the exercise of our outstanding options and warrants may only be resold if they are registered pursuant to an effective registration statement under the Securities Act of 1933 or are resold pursuant to an applicable exemption and are qualified or exempt under the securities laws of the applicable states. We filed a registration statement under the Securities Act covering the resale of shares of Common Stock issued or underlying warrants sold by a private placement that closed in April 2018. This registration statement was declared effective by the Securities and Exchange Commission in September 2019. We agreed to file registration statements for our Convertible Promissory Note offering ending January 2019, our private placement offering ending in August 2019, and our Convertible Promissory Note offering ending January 2020. We filed a registration statement to register the Offerings ending August 2019 and January 2020 in March 2020 which was declared effective by the Securities and Exchange Commission on March 19, 2020. In the absence of this registration statement, such sale of such shares of our Common Stock could only be made under Rule 144.

We do not expect to pay any dividends for the foreseeable future

We do not anticipate paying any dividends to our stockholders for the foreseeable future. Accordingly, stockholders may have to sell some or all of their Common Stock to generate cash flow from their investment. Stockholders may not receive a gain on their investment when they sell our Common Stock and may lose some or all of the amount of their investment. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable law, and other factors our board of directors deems relevant.

Our management has concluded that we have material weaknesses in our internal controls over financial reporting and that our disclosure controls and procedures are not effective.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. During the audit of our financial statements for the year ended March 31, 2020, our management identified material weaknesses in our internal control over financial reporting. If these weaknesses continue, investors could lose confidence in the accuracy and completeness of our financial reports and other disclosures.

In addition, our management has concluded that our disclosure controls and procedures were not effective due to the lack of segregation of duties. These material weaknesses, if not remediated, create an increased risk of misstatement of the Company's financial results, which, if material, may require future restatement thereof. A failure to implement improved internal controls, or difficulties encountered in their implementation or execution, could cause future delays in our reporting obligations and could have a negative effect on us and the trading price of our common stock.

If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent financial fraud. As a result, current and potential stockholders could lose confidence in our financial reporting.

We currently have deficiencies in our internal control structure that they consider to be "significant deficiencies" and may not be able to cure the deficiencies anytime in the near future. A "significant deficiency" is defined as a deficiency, or a combination of deficiencies, in internal controls over financial reporting such that there is more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal controls.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we could be subject to regulatory action or other litigation and our operating results could be harmed. We are required to document and test our internal control procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act" or "SOX"), which requires our management to annually assess the effectiveness of our internal control over financial reporting.

We currently are not an "accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") requires us to include an internal control report with our Annual Report on Form 10-K. That report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. This report must also include disclosure of any material weaknesses in internal control over financial reporting that we have identified. As of March 31, 2020, the management of the Company assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Management concluded, during the fiscal year ended March 31, 2020, that the Company's internal controls and procedures were not effective to detect the inappropriate application of U.S. GAAP rules. Management realized there were deficiencies in the design or operation of the Company's internal control that adversely affected the Company's internal controls which management considers to be material weaknesses. A material weakness in the effectiveness of our internal controls over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition. For additional information, see Item 9A – Controls and Procedures.

Our intended business, operations and accounting are expected to be substantially more complex than they have been in the past. It may be time consuming, difficult and costly for us to develop and implement the internal

controls and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal controls and other finance personnel in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act, then we may not be able to obtain the independent accountant certifications required by such act, which may preclude us from keeping our filings with the SEC current.

If we are unable to maintain the adequacy of our internal controls, as those standards are modified, supplemented, or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Failure to achieve and maintain an effective internal control environment could cause us to face regulatory action and cause investors to lose confidence in our reported financial information, either of which could adversely affect the value of our common stock.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our ability to produce accurate financial statements and on our stock price.

Under SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting with our Form 10-K. The internal control report must contain (1) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, and (3) management's assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not internal control over financial reporting is effective.

To achieve compliance with the applicable SEC regulations within the prescribed future period, we would be required to engage in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. Despite our efforts, we can provide no assurance as to our conclusions with respect to the effectiveness of our internal control over financial reporting. There is a risk that we will be able to conclude that our internal controls over financial reporting are effective, as has been the case with a significant number of companies attempting to comply with these regulations for the first time. This could result in an adverse reaction in the financial markets resulting from a loss of confidence in the reliability of our financial statements.

If we fail to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information, limit our ability to raise needed capital, and have a negative effect on the trading price of our Common Stock.

Although our Common Stock is not currently a penny stock, it has been a penny stock in the past and may be considered a penny stock in the future.

The SEC has adopted a number of rules to regulate "penny stocks" that restricts transactions involving stock which is deemed to be penny stock. Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities and Exchange Act of 1934, as amended. These rules may have the effect of reducing the liquidity of penny stocks. "Penny stocks" generally are equity securities with a price of less than \$5.00 per share, other than securities: (i) registered on certain national securities exchanges if current price and volume information with respect to transactions in such securities is provided by the exchange; (ii) quoted on the Nasdaq Stock Market if current price and volume information with respect to transactions in such securities is provided by the system; (iii) issued by an issuer that has net tangible assets (i.e., total assets less intangible assets and liabilities) in excess of \$2,000,000, if the issuer has been in continuous operation for at least three years, or \$5,000,000, if the issuer has been in continuous operation for less than three years; or (iv) issued by an issuer that has average revenue of at least \$6,000,000 for the last three years. As of the date of our most recent audited financial statements reported on by an independent public accountant, we have net tangible assets in excess of \$5,000,000. As such, our Common Stock is not a penny stock. Nonetheless, our Common Stock has in the past constituted, and may again in the future constitute, "penny stock" within the meaning of the rules. The additional sales practice and disclosure requirements imposed upon U.S. broker-dealers may discourage such broker-dealers from effecting transactions in shares of our Common Stock, which could severely limit the market liquidity of such shares and impede their sale in the secondary market.

A U.S. broker-dealer selling penny stock to anyone other than an established customer or "accredited investor" (generally, an individual with net worth in excess of \$1,000,000 or an annual income exceeding \$200,000, or \$300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the "penny stock" regulations require the U.S. broker-dealer to deliver, prior to any transaction involving a "penny stock", a disclosure schedule prepared in accordance with SEC standards relating to the "penny stock" market, unless the broker-dealer or the transaction is otherwise exempt. A U.S. broker-dealer is also required to disclose commissions payable to the U.S. broker-dealer and the registered representative and current quotations for

the securities. Finally, a U.S. broker-dealer is required to submit monthly statements disclosing recent price information with respect to the “penny stock” held in a customer’s account and information with respect to the limited market in “penny stocks”.

Stockholders should be aware that, according to the SEC, the market for “penny stocks” has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) “boiler room” practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, resulting in investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities.

Although our Common Stock is not currently a penny stock, no assurance can be given that our Common Stock will ever be listed on The Nasdaq Stock Market or any other exchange, or that our net tangible assets will continue to exceed \$5,000,000 for the next year of operations or that our net tangible assets will exceed \$2,000,000 thereafter such that our common stock will remain a non-penny stock.

Our certification of incorporation designates the Court of Chancery in the State of Delaware as the sole and exclusive forum for actions or proceedings that may be initiated by our stockholders, which could discourage claims or limit shareholders’ ability to make a claim against the Company, our directors, officers, and employees.

Our Amended and Restated Certificate of Incorporation states that unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for any stockholder (including a beneficial) to bring (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) an action asserting a claim of break of fiduciary duty owed by any director, officer, or other employee of the Corporation to the Corporation or the Corporation’s stockholders, (iii) any action asserting a claim against the Corporation, its directors, officers, or employees arising pursuant to any provision of the Delaware General Corporation Law or the Corporation’s certificate of incorporation or bylaws, or (iv) any action asserting a claim against the Corporation, its directors, officers, or employees governed by the internal affairs doctrine, except for, as to each of (i) through (iv) above, any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction.

These exclusive forum provisions do not apply to claims under the Securities Act or the Exchange Act. The exclusive forum provision may discourage claims or limit shareholders’ ability to submit claims in a judicial forum that they find favorable and may create additional costs as a result. If a court were to determine the exclusive forum provision to be inapplicable and unenforceable in an action, we may incur additional costs in conjunction with our efforts to resolve the dispute in an alternative jurisdiction, which could have a negative impact on our results of operations.

ITEM 2. PROPERTIES

Our executive offices are located in Scottsdale, Arizona where we lease approximately 21,000 square feet under a month-to-month triple net lease for approximately \$18,000 per month. This space houses our principal executive, administration, and marketing functions.

We lease a 20,000 square foot facility located in Payson, Arizona for approximately \$10,000 per month under a lease expiring in November 2021. We utilize the facility for our principal ammunition manufacturing, testing, research and development, packaging, and shipping activities. We believe that this facility will be adequate to meet our needs in the near future.

We lease a 50,000 square foot facility located in Manitowoc, Wisconsin for approximately \$33,000 per month. We utilize this facility for our ammunition casing manufacturing, research and development, packing and shipping activities, We believe this facility will be adequate to meet our needs in the near future.

ITEM 3. 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 3 of our Financial Statements for additional disclosure.

ITEM 4. MINE SAFETY DISCLOSURE

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY. RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

Market Information

Information about our Common Stock is reported by OTC Markets Group, Inc. at www.otcmarkets.com. OTC Markets Group, Inc. is a provider of trading systems, pricing, and financial information for over the counter, or OTC, markets. OTC Markets Group, Inc. provides broker-dealers, market data providers, issuers and investors with software and information services that improve the transparency and efficiency of the OTC markets. Currently, our Common Stock trades under the symbol POWW. The table below sets forth the high and low prices of our Common Stock as reflected by OTC Markets Group, Inc. for the period from April 1, 2018 to March 31, 2020. Quotations represent prices between dealers, do not include retail markups, markdowns or commissions, and do not necessarily represent prices at which actual transactions were affected. Prior to December 11, 2018, our common stock was traded on the OTC Pink Sheets Open Market which is not considered to be an established trading market. After December 11, 2018, our common stock has traded on the OTCQB Market.

<u>Fiscal Year Ended</u>	<u>High</u>	<u>Low</u>
<u>March 31, 2019</u>		
First Quarter	\$ 7.95	\$ 4.75
Second Quarter	\$ 6.09	\$ 2.98
Third Quarter	\$ 4.00	\$ 1.50
Fourth Quarter	\$ 4.26	\$ 2.70
<u>March 31, 2020</u>		
First Quarter	\$ 3.10	\$ 1.90
Second Quarter	\$ 2.14	\$ 1.55
Third Quarter	\$ 1.68	\$ 0.99
Fourth Quarter	\$ 1.95	\$ 1.05

On August 14, 2020, the closing stock price reported by OTC Markets Group, Inc. was \$2.89, and an average daily volume of 72,990 shares of Common Stock was reported for the past 30 days.

(a) Common Stock

Prior to December 11, 2018, our Common Stock (“POWW”) was traded on the OTC Pink Sheets Open Market which is not considered to be an established trading market. After December 11, 2018, our common stock has

traded on the OTCQB Market, under the symbol (“POWW”). There is currently no market for our warrants, and we cannot guarantee that a market for the warrants will develop.

The ability of individual stockholders to trade their shares in a particular state may be subject to various rules and regulations of that state. A number of states require that an issuer's securities be registered in their state or appropriately exempted from registration before the securities are permitted to trade in that state. Presently, we have no plans to register our securities in any particular state.

(b) Holders of Common Equity

As of August 14, 2020, a total of 47,622,920 shares of our Common Stock were outstanding and there were approximately 465 holders of record.

(c) Dividend Information

We have never declared or paid dividends on our Common Stock. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including the terms of any credit arrangements, our financial condition, operating results, current and anticipated cash needs and plans for expansion. At the present time, we intend to retain any earnings in our business, and therefore do not anticipate paying dividends in the foreseeable future.

(d) Securities Authorized for Issuance under Equity Compensation Plans

Equity Incentive Plan

In November 2017, the Board of Directors approved the 2017 Equity Incentive Plan, or the Plan. Under the Plan, 485,000 shares of the Common stock was reserved and authorized to be issued. At December 31, 2017, 200,000 shares of Common Stock were approved and issued under the Plan, and we recognized approximately \$250,000 of related compensation expenses. On January 10, 2018, 200,000 shares were awarded, and we recognized \$330,000 of compensation expense. There are 85,000 remaining to be issued.

Transfer Agent

We have appointed Action Stock Transfer Corporation (“AST”) as the transfer agent for our Common Stock. The principal office of AST is located at 2469 E. Fort Union Blvd, Suite 214, Salt Lake City, UT 84121, and its telephone number is (801) 274-1088.

Penny Stock Rules

Due to the price of our common stock, and the fact that we are not listed on Nasdaq or a national securities exchange, our stock is characterized as a “penny stock” under applicable securities regulations. Our stock will therefore be subject to rules adopted by the Securities and Exchange Commission, or SEC, regulating broker-dealer practices in connection with transactions in penny stocks. The broker or dealer proposing to effect a transaction in a penny stock must furnish his customer a document containing information prescribed by the SEC and obtain from the customer an executed acknowledgment of receipt of that document. The broker or dealer must also provide the customer with pricing information regarding the security prior to the transaction and with the written confirmation of the transaction. The broker or dealer must also disclose the aggregate amount of any compensation received or receivable by him in connection with such transaction prior to consummating the transaction and with the written confirmation of the trade. The broker or dealer must also send an account statement to each customer for which he has executed a transaction in a penny stock each month in which such security is held for the customer’s account. The existence of these rules may have an effect on the price of our stock, and the willingness of certain brokers to effect transactions in our stock.

Recent Sales of Unregistered Securities; Use of Proceeds from Unregistered Securities

The following securities were issued in reliance on the exemptions from registration under the Securities Act in Section 4(a)(2) of the Securities Act and Regulation D thereunder. The sale of these securities; did not involve any solicitation or advertisement, were for investment purposes only and not for resale, and did not include more than 35 non-accredited investors. The securities were issued with restrictions on the resale of the securities. From October 13, 2016 (Inception) through March 31, 2020, we issued and sold the following unregistered securities:

- 15,034,000 shares of common stock were issued to the company’s founders from October 13, 2016 through February 1, 2017.
- 4,770,120 shares of common stock were issued to investors through our private friends and family offering at a price per share of \$1.25, for an aggregate purchase price of \$5,962,650 and these investors were also issued warrants to purchase an additional 4,770,120 shares of common stock. These shares were issued from October 14, 2016 to December 19, 2017. Additionally, 1,865,300 warrants to purchase 1,865,300 shares of common stock were exercised at a price per share of \$2.50, for an aggregate purchase price of approximately \$4,663,250 from May 25, 2018 through July 6, 2018.
- 6,208,912 shares of common stock were issued to investors through a private placement offering by Paulson Investment Company, the placement agent. The shares were issued from December 19, 2017 to March 27, 2018 at a price per share of \$1.65 for an aggregate value of \$10,244,704. In addition, these investors received warrants to purchase a total of 3,104,456 shares of common stock with their purchase. We paid the placement agent a 12% cash commission of \$1,254,961 based on the cash raised and a fee payable in warrants of 744,969 equaling 12% of the total units sold. The warrants were issued on June 9, 2018.
- 1,967,886 shares of common stock were issued to investors through a private placement offering by Paulson Investment Company, the placement agent. The shares were issued from April 3, 2018 to April 20, 2018 at a price per share of \$1.65 for an aggregate value of \$3,247,030. In addition, these investors were received warrants to purchase 983,943 shares of common stock with their purchase. We paid the placement agent a 12% cash commission of \$389,644 based on the cash raised and a fee payable in warrants of 236,244 equaling 12% of the total units sold. The warrants were issued on June 9, 2018.

- 100,000 shares of common stock valued at \$125,000 were issued for licensing agreements with Jesse James on October 13, 2016.

- 2,920 shares of common stock were issued to existing shareholders in connection with a reverse stock split effective December 30, 2016.
- 100,000 shares of common stock valued at \$125,000 were issued for licensing agreements with Jeff Rann on February 15, 2017.
- 20,000 shares were issued on June 30, 2017 to an individual who furnished organization fees and this individual was also issued warrants to purchase 20,000 shares of common stock for their compensation.
- 600,000 shares were issued to acquire use of a patent at a price per share of \$1.25 totaling \$750,000 on September 28, 2017.
- 10,495 shares were issued on June 20, 2018 through a cashless exercise of 14,719 warrants previously issued to Paulson Investment Company, LLC.
- 1,780,499 shares of common stock were issued to employees as compensation with values per share ranging from \$1.00 to \$3.28 for an aggregate compensation expense of \$3,122,262 from July 1, 2017 through March 31, 2020. Additionally, employees received warrants to purchase 125,000 shares of common stock on March 31, 2018.
- 715,104 shares of common stock were issued for professional services at a price per share ranging from \$1.00 to \$3.15 totaling \$830,925 from January 31, 2017 through March 31, 2020. In addition, the service providers received warrants to purchase 381,500 shares of common stock from September 30, 2017 to November 11, 2017. There were 107,500 warrants to purchase 107,500 shares of common stock were exercised from June 6, 2018 through June 15, 2018 at a price per share ranging from \$0.50 to \$2.50, for an aggregate purchase price of \$104,375.
- 1,700,002 shares were issued to the shareholders of SW Kenetics, Inc. on October 5, 2018 at a price per share of \$2.72 for the acquisition of SW Kenetics Inc. for a valuation of \$4,624,005. These shares are subject to clawback provisions.
- 49,600 shares valued at \$2.50 per share totaling \$124,000 were repurchased by the Company and subsequently retired on December 20, 2018. The shares were originally issued as compensation for legal fees.
- 5,061,220 shares of common stock were issued to investors through a private placement offering with Paulson serving as placement agent. The shares were issued from December 27, 2018 to August 30, 2019 at a price per share of \$2.00 for an aggregate value of \$10,122,440. In addition, these investors received five-year warrants to purchase 2,530,610 shares of common stock at an exercise price of \$2.40 per share (the "Paulson Investor Warrants"). Paulson agent collected a 12% cash commission of \$1,163,608 based on the cash raised and a fee payable in warrants of 553,346 (the "Placement Agent Warrants") equaling 12% of the total units sold. The Placement Agent Warrants are five-year warrants to purchase 553,610 shares of common stock at an exercise price of \$2.00 per share and were issued from December 27, 2018 to August 30, 2019.
- 4,750,000 shares of the Common Stock was issued to Jagemann Stamping Company through our subsidiary Enlight Group II, LLC (d/b/a Jagemann Munition Components) in connection with the acquisition of the casing division of Jagemann Stamping Company on March 14, 2019. The shares were valued at a price per share of \$2.00 each.
- 731,039 shares of Common Stock and Warrants to purchase 365,523 shares of Common Stock were issued to holders for the conversion of Convertible Promissory Notes of \$1,410,000 and Accrued interest of \$52,065 on March 29, 2019. Previously, on February 28, 2019, the Company notified the holders of Convertible Promissory Notes of an offer to convert their Notes and Accrued Interest into Common Stock at a conversion price of \$2.00 per share and receive one-half warrant exercisable at \$2.40 per share for five years in conjunction with each converted share. Additionally, on June 5, 2019, 127,291 shares of Common Stock

were issued to the remaining holders for the conversion of their Convertible Promissory Notes of \$300,000 and accrued interest of \$18,226. The Company accrued \$42,300 for a 3% cash conversion fee on the principal converted payable to the placement agent, Paulson Investment Company.

Subsequent to March 31, 2020, the Company issued 180,916 shares of Common Stock to employees as compensation with values per share ranging from \$1.56 to \$2.50 for a total value of \$339,132. The Company sold 11,500 shares to employee for a total value of \$14,375 or \$1.25 per share. The Company issued 8,336 shares for services provided to the Company totaling \$13,171 or \$1.58 per share. Additionally, the Company issued 1,157,143 shares of its Common Stock for Cash to investors at \$1.75 per share totaling \$2,025,000.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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. and its wholly owned operating subsidiaries AMMO Munitions, Inc., Enlight Group II, LLC d/b/a Jagemann Muniton Components ("Jagemann Muniton Components"), SNI, LLC and AMMO Technologies, Inc. (inactive).

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.

When we began our operations in early 2017, our focus was to sell the inventory of ammunition we acquired through an asset purchase of a private company located in northern Arizona. The inventory consisted primarily of standard pistol and rifle rounds and two proprietary lines that had not received much traction in the market. We sold the remaining inventory at a discount during 2017 to help fund the development of our manufacturing operations. This accounted for the majority of our sales through the end of the third quarter of the calendar year of 2017.

With the prior inventory successfully sold and new products being produced, our next objective for the calendar year ending December 31, 2017 was to identify ammunition technologies unique to the industry that could be quickly implemented by our manufacturing team. We met with several organizations and projectile manufacturers looking for innovative products that could be used to establish us as a niche or high-end manufacturer for the recreational shooter, the American hunter, law enforcement, and military forces. Among the first of these technologies to meet our requirements was STREAK VISUAL AMMUNITION™, a one-way luminescent or OWL Technology application. We believe our STREAK VISUAL AMMUNITION™ line is the only non-incendiary tracer round in the ammunition market today. We secured the exclusive license to manufacture and sell the STREAK VISUAL AMMUNITION™ line of ammunition in 2017. We have filed for and received Trademark Protection for the STREAK VISUAL AMMUNITION™ product name from the United States Patent and Trademark Office (USPTO) on July 17, 2018. Additionally, we filed for Trademark Protection for the O.W.L. Technology™ product name on June 6, 2018.

We formally introduced the STREAK VISUAL AMMUNITION™ portfolio of calibers, along with our rebranded One Precise Shot (OPS) and Stelth subsonic line of suppression ammunition, to the general public at the SHOT Show in Las Vegas held in January 2018. This product introduction resulted in the opening of major retail outlets across the United States and attracted the attention of distributors in the international community. We believe this was a critical milestone in establishing us as a significant player in technology-based ammunition.

To help promote our new products, we hired new sales and marketing personnel in late 2017, and early 2018. We also augmented our Board of Directors to include professionals who could provide guidance for our teams through their prior experience in the industries we have targeted: commercial retail – focused on the gun or hunting enthusiast; US Law Enforcement; the US Military; and international markets for both military and law enforcement. Together this team has worked to open sales channels and distribution networks and capitalize on industry relationships to introduce our products to the influencers required to grow our sales.

During the summer of 2018, we also began conversations to acquire a small technology company named SW Kenetics Inc. SW Kenetics Inc. developed an innovative line of modular projectiles primarily geared toward tactical military operations. On July 6, 2018 we signed a letter of intent to purchase their company, as we believe their designs, coupled with our STREAK or O.W.L. Technology will position us to more aptly compete for military contracts. On September 27, 2018, we entered into a definitive agreement and plan of merger to acquire SW Kenetics Inc. for a total of up to \$1,500,000 in cash and issue 1,700,002 restricted shares of the Company's common stock. The agreement specifies that \$1,250,000 of the cash is deferred pending completion of specific milestones and the 1,700,002 shares of common stock are subject to claw back provisions to ensure agreed upon objective are met. The acquisition was completed on October 5, 2018.

On March 15, 2019, Enlight Group II, LLC, a wholly owned subsidiary of AMMO, Inc., completed its acquisition of 100% of the assets of Jagemann Stamping Company's ammunition casing, projectile manufacturing and sales operations pursuant to the terms of the Amended and Restated Asset Purchase Agreement dated March 14, 2019. In accordance with the terms of the Amended APA, Enlight Group II, LLC paid Jagemann Stamping Company a combination of \$7,000,000 in cash, \$10,400,000 delivered in the form of a Promissory Note, and 4,750,000 shares of AMMO, Inc. common stock.

This acquisition was a critical element in the Company's long-term strategy as it secures its supply chain for these important components and creates a more competitive pricing structure that it can leverage across all its targeted markets. This also greatly enhances the Company's plant capacity and technical expertise required for the further development of military grade projectiles.

The Company's 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 the armed forces community demands are met by their equipment. Following AMMO's acquisition of Jagemann Casings in March, the Company has aligned its manufacturing operations to support the large caliber demand from military personnel, such as the 12.7mm and .50 caliber BMG configurations.

The focus for our 2021 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.

We also intend to increase our product offerings through potential acquisitions that bring new technologies that provide solutions for United States Military requirements. Our first step in this process is the addition of equipment to support the manufacture of 50 caliber ammunition. Not only is there an increasing demand for quality ammunition in this category for military applications, it also has a growing demand from commercial markets, and gun enthusiasts.

Our addressable market includes the 2.6 million law enforcement officers around the world (800,000 domestically and 1.8 million internationally) who annually recertify with their firearms; 1.3 million enlisted personnel in the U.S. Armed Forces, and more than 30 million handgun owning households in the United States with later

expansion to international markets for civilian purchasers which, based on industry statistics, represents addressable revenue of billions of dollars annually. Each of these markets has unique challenges or barriers to entry. We believe with the strategies we are developing; we will be well positioned to grow our future market share based on our commitment to innovation and meeting the changing needs and demographics of ammunition buyers.

Our History

Our ammunition manufacturing business has been fully operational for just over two years. Although our corporate entity commenced in 1990 as a textile manufacturer and importer, then called Retrospectiva, our manufacturing operations formally began in March of 2017 when we acquired our ammunition business.

Results of Operations

Our financial results for the year ended March 31, 2020 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. Although we continue to focus on growing our top line revenue, and streamlining our operations, we did experience a decline in our gross profit margin for the year ended March 31, 2020. This was the result of a significant increase in depreciation and amortization expenses related to the addition of assets from the acquisition of Jagemann Stamping Company's ammunition casing, projectile manufacturing, and sales operations ("Jagemann Casings"), sales of products that carry lower margins, as well as increases to costs of raw materials and overhead.

The following table presents summarized financial information taken from our consolidated statements of operations for the year ended March 31, 2020 compared with the year ended March 31, 2019:

	For the Year Ended	
	March 31, 2020	March 31, 2019
Net Sales	\$ 14,780,365	\$ 4,565,652
Cost of Products Sold	18,455,904	4,795,346
Gross Margin	(3,675,539)	(229,694)
Sales, General & Administrative Expenses	10,161,954	8,750,964
Loss from Operations	(13,837,493)	(8,980,658)
Other income (expense)		
Other income (expense)	(719,187)	(2,728,754)
Loss before provision for income taxes	\$ (14,556,680)	\$ (11,709,412)
Provision for income taxes		-
Net Loss	\$ (14,556,680)	\$ (11,709,412)

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 income (loss), and other results under generally accepted accounting principles (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 Annual Report on Form 10-K 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 Year Ended March 31, 2020	For the Year Ended March 31, 2019
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Reconciliation of GAAP net income to Adjusted EBITDA

Net (Loss)	\$ (14,556,680)	\$ (11,709,412)
Depreciation and amortization	4,455,962	599,863
Interest expense, net	719,187	610,600
Employee stock awards	901,526	1,172,974
Stock grants	534,929	703,030
Stock for services	352,300	22,350
Contingent consideration fair value	(190,377)	-
Stock and warrants for promissory note conversion	-	358,000
Purchase of Jagemann Munition Components	-	2,118,154
Adjusted EBITDA	<u>\$ (7,783,153)</u>	<u>\$ (6,124,441)</u>

Adjusted EBITDA is a non-GAAP financial measure that displays our net 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: depreciation and amortization, and share-based compensation expenses. 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, and contingent consideration fair value adjustments, as these items are not components of our core operations. We have not included adjustment for any provision or benefit for income taxes as we currently record a valuation allowance.

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 periods ended March 31, 2020 and March 31, 2019. “Proprietary Ammunition” include those lines of ammunition manufactured by our facilities that are sold under the brand names: STREAK VISUAL AMMUNITION™, One Precise Shot (OPS), Night Ops, Jeff Rann, 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 much lower gross margins.

	For the Year Ended	
	March 31, 2020	March 31, 2019
Proprietary Ammunition	\$ 3,029,911	\$ 2,585,768
Standard Ammunition	3,561,285	1,399,806
Ammunition Casings	8,189,169	580,078
Total Sales	<u>\$ 14,780,365</u>	<u>\$ 4,565,652</u>

Sales for the year ended March 31, 2020 increased 224% or \$10,214,713, over the year ended March 31, 2019. This increase was the result of \$7,609,091 of sales from our recently acquired casing operations, coupled with \$2,161,479 of respective increased sales in bulk pistol and rifle ammunition, summarized in Standard Ammunition above and an increase of \$444,143 of respective sales of Proprietary Ammunition. 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.

We added ammunition casings to our product offerings at March 15, 2019 and expect the ammunition casing sales to continue to be a significant part of our sales moving forward.

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. This line was formally launched at SHOT Show in Las Vegas, where our team demonstrated or presented the capability to more than 15 countries around the world. 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 April 16, 2019, we received renewal for our 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.

Cost of Goods Sold

Cost of goods sold increased by approximately \$13.7 million from \$4.8 million to \$18.5 million, respectively for the year ended March 31, 2020 compared with the year ended March 31, 2019. This was the result of a significant increase to non-cash depreciation related to our newly acquired casing operations, expensing of increased labor, overhead, and raw materials used to produce finished product during 2020 as compared to 2019. Although sales increased, when comparing the year ended March 31, 2020 to the year ended March 31, 2019, they did not meet management's expectations and did not allow us to cover a greater percentage of our fixed manufacturing costs, which include our non-cash amortization and depreciation expense. As a percentage of sales, cost of goods sold increased by 18.9% when comparing the year ended March 31, 2020 to the year ended March 31, 2019.

Gross Margin

Our gross margin percentage decreased to -24.9% from -5.0% during the year ended March 31, 2020 as compared to the same period in 2019. This was a result of the increased non-cash depreciation related to our recently

acquired casing operations and a level of sales that did not allow us to cover a greater percentage of our fixed manufacturing costs, which include our non-cash amortization and depreciation expense.

Our production facility was designed to manufacture approximately 200 million rounds of ammunition a year, when fully staffed. To date, we are operating at a fraction of that volume, while maintaining equivalent quality systems, regulatory compliance, equipment and facility costs, as well as plant management.

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™, OPS, 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;
- Reduced component costs through acquisition our recent casing operation acquisition expansion of strategic relationships with component providers;
- 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 year ended March 31, 2020, our operating expenses increased by approximately \$1.4 million over the year ended March 31, 2019, but decreased as a percentage of sales from 191.7% for the year ended March 31, 2019 to 68.8% for the year ended March 31, 2020. This increase in expenses was the result of non-cash amortization expense of \$1.6 million for the year ended March 31, 2020. Additionally, the increase was related to the expansion our sales and support team, stock compensation expense associated with issuance of our Common Stock in lieu of cash compensation for employees, board members, and key consultants for the organization during the period, and trade show and marketing costs associated with introducing our new lines of ammunition. Operating expenses for the years ended March 31, 2020 and 2019 periods included noncash stock compensation of approximately \$1.6 million and \$1.9 million, respectively. We also experienced increases as a result of new investor and public relations programs, and professional fees associated with our acquisition activity, our public filings, and our efforts to uplist the Company from the OTC to a national exchange. We expect to see administrative expenditures decrease as a percentage of sales in the 2021 fiscal year, as we leverage our work force and expand our sales opportunities.

During the year ended March 31, 2020, our selling and marketing expenses decreased by approximately \$250,000. The decrease was related to efficiencies in our marketing expenses.

Our corporate general & administrative expenses increased approximately \$258,000 in the current period from the prior year mainly due to increased professional and legal fees, which included noncash stock compensation of \$352,000 and a decrease related to a noncash fair value adjustment to Contingent Consideration of approximately \$190,000.

Employee salaries and related expenses decreased approximately \$243,000 for the year ended March 31, 2020 compared to the comparable period ended in 2019. This was a result of decreased expenses related to employee stock compensation of approximately \$440,000, which was offset with an increase other payroll related expenses of \$197,000.

Depreciation and amortization expenses increased approximately \$1.0 million from the period due to amortization expenses in connection with our newly acquired subsidiary, Jagemann Munition Components.

Interest and Other Expenses

For the year ended March 31, 2020, interest expenses increased by approximately \$109,000 compared with the comparable year ended March 31, 2019. The change from the prior period was mainly due to approximately \$352,000 of accrued to interest expense in connection with related party note payables for the year ended March 31, 2020, approximately \$179,000 of interest expense recognized for our Factoring Liability, and a decrease of interest expense and debt discount amortization related to Convertible Promissory notes of approximately \$455,000. Interest expense for the year ended March 31, 2020 included \$121,000 of non-cash debt discount amortization related to the Convertible Promissory Notes in comparison to debt discount amortization of \$151,856 and noncash interest expense of \$424,091 for the year ended March 31, 2019.

We recognized a loss on the purchase of Jagemann Munition Components of \$2,118,154 for the year ending March 31, 2019.

Net Loss

As a result of higher production, selling, and payroll expenses, we ended the year ended March 31, 2020 with respective net losses of approximately \$14.6 million compared with respective net losses of approximately \$11.7 million for the year ended March 31, 2019.

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 March 31, 2020, we had \$884,274 of cash and cash equivalents, a decrease of \$1,296,972 from March 31, 2019.

Working Capital is summarized and compared as follows:

	March 31, 2020	March 31, 2019
Current assets	\$ 9,157,110	\$ 8,626,870
Current liabilities	12,225,609	4,482,375
	<u>\$ (3,068,499)</u>	<u>\$ 4,144,495</u>

Changes in cash flows are summarized as follows:

Operating Activities

For the year ended March 31, 2020, net cash used in operations totaled \$5,359,435. This was primarily the result of a net loss of \$14,556,680, increases in our period end accounts receivable of \$1,679,887, which was offset by increases in accounts payable and accrued liabilities of \$3,277,010 and \$1,106,411. The cash used in operations were partially offset by the benefit of non-cash expenses for depreciation and amortization of \$4,455,962, employee stock compensation of \$901,526, stock issued for services of \$352,200, stock grants totaling \$534,929, and an increase related to an adjustment to the fair value of contingent consideration of \$190,377.

For the year ended March 31, 2019, net cash used in operations totaled \$7,294,007. This was the result of a net loss of \$11,709,412 and increases in our inventory of \$2,367,591 and accounts receivable of \$131,113. The cash used in operations was partially offset by non-cash items and changes in operating assets and liabilities, which included, a loss recorded on the purchase of Jagemann Casings of \$2,118,154, stock issued for compensation of \$1,172,974, stock grants of \$703,030, a \$1,483,168 increase in accounts payable and accrued liabilities, a \$215,489 increase in our prepaid expenses, a \$106,320 increase in allowance for doubtful accounts, depreciation and amortization of \$599,863, and warrants for the conversion of promissory notes valued at \$358,800.

Investing Activities

During the year ended March 31, 2020, we used \$462,385 in net cash for investing activities compared with \$9,541,907 for the comparable period in 2019. The \$462,385 of cash used to purchase fixed assets such as new production equipment and to acquire end cap displays for the sale of our product at retailers.

During the year ended March 31, 2019, we used \$9,541,907 in net cash for investing activities. Of the total cash used for investing activities, \$7,000,000 was used in connection with the acquisition of the ammunition casing division of Jagemann Stamping Company, \$2,291,906 was used to purchase fixed assets such as new production equipment and leasehold improvements to expand production at our Payson, Arizona manufacturing facility and Scottsdale, Arizona corporate offices, and to acquire end cap displays for the sale of our product at retailers. The remaining \$250,000 was used as consideration for acquiring SW Kenetics Inc.

Financing Activities

We financed our operations primarily from the issuance of equity instruments. During the year ended March 31, 2020, net cash provided by financing activities was \$4,524,848. This was the net effect of \$2,465,540 generated from the sale of Common Stock, net of cash payments of \$285,981 in conjunction with the Unit offerings. We issued \$2,500,000 in Convertible Promissory Notes, net of \$329,000 of issuance costs. Additionally, \$9,747,281 was

generated from accounts receivable factoring, which was offset by payments of \$7,741,302. There was \$819,731 of cash was generated from the issuance of a related party note payable, These increases to our financing activities were offset by payment of \$1,885,000 on the related party notes payable, \$466,421 toward our insurance premium note payable and a \$300,000 payment of our Contingent Consideration Payable.

During the year ended March 31, 2019, net cash provided by financing activities was \$14,635,717. This was the net effect of \$10,903,930 generated from the sale of Common Stock, \$4,767,625 from the exercise of warrants, \$1,534,000 from the issuance of Convertible Promissory notes, net of cash payments of \$1,704,653 in conjunction with the unit and debt offerings, and a payment \$500,000 on the Promissory Note in connection with the acquisition of the casing division of Jagemann Stamping Company. These sales of our securities were offset by payment of \$191,275 toward our insurance premium note payable, \$124,000 for the purchase of Common Stock and a \$50,000 payment of our Contingent Consideration Payable.

Liquidity and Capital Resources

Existing working capital, cash flow from 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 adopted the Financial Accounting Standards Board’s (“FASB”) Accounting Standard Codification (“ASC”) Topic 205-40, Presentation of Financial Statements – Going Concern, which requires that management evaluate whether there are relevant conditions and events that, in the aggregate, raise substantial doubt about the entity’s ability to continue as a going concern and to meet its obligations as they become due within one year after the date that the financial statements are issued. Accordingly, management has concluded that we do not have sufficient funds to support operations within one year after the date the financial statements are issued and, therefore, we concluded there was substantial doubt about the Company’s ability to continue as a going concern.

To fund further operations, we will need to raise additional capital. We may obtain additional financing in the future through conventional financing relationships and through the continued sales of our Common Stock. Our ability to continue as a going concern or meet the minimum liquidity requirements in the future is dependent on its ability to raise significant additional capital, of which there can be no assurance. If the necessary financing is not obtained or achieved, we will likely be required to reduce its planned expenditures, which could have an adverse impact on the results of operations, financial condition and our ability to achieve its strategic objective. There can be no assurance that financing will be available on acceptable terms, or at all.

Contractual Obligations

The Company’s contractual obligations by maturity as of March 31, 2020 are as follows:

	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 years
Operating Leases	\$ 3,421,758	\$ 740,715	\$ 1,351,419	\$ 935,496	\$ 394,128
Related Party Note Payable (1)	6,420,005	1,230,719	5,189,286	-	-
Contingent Consideration Payable (2)	900,000	-	900,000	-	-
	<u>\$10,741,763</u>	<u>\$ 1,971,434</u>	<u>\$ 7,440,705</u>	<u>\$ 935,496</u>	<u>\$ 394,128</u>

(1) Related Party Note Payable includes interest expenses of approximately \$616,265.

(2) Contingent consideration is to be paid upon achievement of specific milestones. The date of payment included herein is based upon management estimates.

Off-Balance Sheet Arrangements

As of March 31, 2020, 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

Our discussion and analysis of our financial condition and results of operation are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues, and expenses. We have identified several accounting principles that we believe are key to the understanding of our financial statements. These important accounting policies require our most difficult subjective judgments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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.

Inventory

We state inventories at the lower of cost and net realizable value. We determine cost by using the weighted-average cost of raw materials method, which approximates the first-in, first-out method and includes allocations of manufacturing labor and overhead. We make provisions when necessary, to reduce excess, potential damaged or obsolete inventories. These provisions are based on our best estimates. At March 31, 2020, and March 31, 2019, 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.

Revenue Recognition

We generate revenue from the production and sale of ammunition. We recognize revenue according to 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. The Company applies the following five-step model to determine revenue recognition:

- Identification of a contract with a customer
- Identification of the performance obligations in the contact
- determination of the transaction price
- allocation of the transaction price to the separate performance allocation
- recognition of revenue when performance obligations are satisfied

The Company only applies the five-step model when it is probable that the Company will collect the consideration it is 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 determines those that are performance obligations, and assesses whether each promised good or service is distinct. If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. 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 the Company's product, which typically occurs upon shipment of the product. In the current period, the Company began accepting contract liabilities or Unearned Revenue. We included Unearned Revenue in our accrued liabilities. The Company will recognize revenue when the performance obligation is met.

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 year ended March 31, 2020 and 2019, we recognized \$643,735 and \$327,497, 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.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to us as of March 31, 2020. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash, 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.

Income Taxes

We follow ASC subtopic 740-10, “Accounting for Income Taxes” for recording the provision for income taxes. ASC 740-10 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggest that is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Stock-Based Compensation

We grant stock-based compensation to key employees and directors as a means of attracting and retaining highly qualified personnel. We also grant stock in lieu of cash compensation for key consultants and service providers. We recognize expense related to stock-based payment transactions in which we receive employee or non-employee services in exchange for equity. We measure stock compensation based on the closing fair market value of our Common Stock on the date of grant.

In addition to our base of employees, we also use the services of several contract personnel and other professionals on an “as needed basis”. We plan to continue to use consultants, legal and patent attorneys, engineers and accountants as necessary. We may also expand our staff to support the market roll-out of our products to both the commercial and government related organizations. A portion of any key employee compensation likely would include direct stock grants, which would dilute the ownership interest of holders of existing shares of our Common Stock.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financials are submitted as a separate section of this Annual Report on Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective April 22, 2020, AMMO, Inc. (the “Company”) dismissed KWCO, PC (“KWCO”) as the Company’s independent registered public accounting firm. The decision to change accountants was approved by the Company’s Audit Committee and Board of Directors.

KWCO reports on the Company’s consolidated financial statements for the past two fiscal periods did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company’s two most recent fiscal periods and through April 22, 2020, there were (i) no disagreements on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference to the subject matter of the disagreements in connection with its reports on the Company’s consolidated financial statements for such periods, and (ii) no “reportable events” within the meaning of Item 304(a)(1)(v) of Regulation S-K.

The Company provided KWCO with a copy of the disclosures it is making in this Form 8-K and requested that KWCO furnish a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the statements made herein. A copy of KWCO’s letter dated April 28, 2020, was filed as Exhibit 16.1 to our Form 8-K on April 28, 2020.

Effective April 22, 2020, the Company, upon approval of the Audit Committee and Board of Directors, engaged Marcum LLP (“Marcum”) as the Company’s new independent registered public accounting firm. The decision to change accountants was approved by the Company’s Audit Committee and Board of Directors.

Prior to April 22, 2020, the Company did not consult with Marcum regarding (i) the application of accounting principles to specified transactions, the type of audit opinion that might be rendered on the Company’s financial statements, and neither written or oral advice was provided that would be an important factor considered by the Company in reaching a decision as to an accounting, auditing or financial reporting issues, or (ii) any matter that was the subject of a disagreement between the Company and its predecessor auditor as described in Item 304(a)(1)(iv) or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

As of March 31, 2020, our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

a) Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of March 31, 2020.

During the year ended March 31, 2020, management identified the following weaknesses, which were deemed to be material weaknesses in internal control over financial reporting. 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 (ii) ineffective corporate governance controls (iii) controls that may not be adequately designed or operating effectively and (iv) ineffective or delayed communication of certain contracts entered into in the ordinary course of business, whether written or oral.

Pursuant to Regulation S-K Item 308(b), this Annual Report on Form 10-K does not include an attestation report of our company's registered public accounting firm regarding internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost.

b) Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2020, there were no changes in our internal controls over financial reporting, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There were no disclosures of any information required to be filed on Form 8-K during the three months ended March 31, 2020 that were not filed.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Identification of Directors and Executive Officers and Term of Office

The following table sets forth the names and ages of our current directors and executive officers. Our Board of Directors appoints our executive officers. Each director of the Company serves for a term of one year or until the successor is elected at the Company's annual shareholders' meeting and is qualified, subject to removal by the Company's shareholders. Each officer serves, at the pleasure of the Board of Directors.

Name	Age	Position
Fred W. Wagenhals 7681 E. Gray Road Scottsdale, AZ 85260	79	Chairman of the Board, Chief Executive Officer and President
Robert D. Wiley 7681 E. Gray Road Scottsdale, AZ 85260	28	Chief Financial Officer
Steve Hilko 7681 E. Gray Road Scottsdale, AZ 85260	65	Chief Operating Officer
Randy Luth 7681 E. Gray Road Scottsdale, AZ 85260	66	Director
Harry S. Markley 7681 E. Gray Road Scottsdale, AZ 85260	57	Director
Russell William Wallace, Jr. 7681 E. Gray Road Scottsdale, AZ 85260	63	Director
Robert J. Goodmanson 7681 E. Gray Road Scottsdale, AZ 85260	65	Director

Fred Wagenhals has been the Chairman of the Board, President, and Chief Executive Officer of our company since December 2016. Mr. Wagenhals was a private investor from August 2005 until December 2016. Mr. Wagenhals served as Chairman, President, and Chief Executive Officer of Action Performance Companies, Inc., a Nasdaq-listed marketer and distributor of licensed motorsports merchandise, from November 1993; Chairman of the Board and Chief Executive Officer from May 1992 until September 1993; and President from July 1993 until September 1993. Action-Performance Companies, Inc. was sold in August 2005 to International Speedway Corp. and Speedway Motorsports. Mr. Wagenhals is a member of the Die-Cast hall of Fame; was named an Entrepreneur of the Year for the Retail/Wholesale category by the Center for Entrepreneurial leadership Inc.; and received the Anheuser-Bush Entrepreneur in Residence Award at the University of Arizona College of Business and Public Administration.

Robert D. Wiley has been the Chief Financial Officer of our company since January 2019. Mr. Wiley has served as the Controller of the Company since May 2018 and was responsible for our accounting department, including external financing reporting, compliance, accounting policy, and tax accounting. Previously, Mr. Wiley was a Certified Public Accountant at Moss Adams, LLP from June 2015 through April 2018. Mr. Wiley earned his Master of Taxation at Arizona State University. Mr. Wiley also received a Bachelor of Science degree in Accounting from Arizona State University. Mr. Wiley is a Certified Public Accountant licensed in the state of Arizona.

Steve Hilko has been the Chief Operating Officer of our company since March 2017. Mr. Hilko was Vice President of Development and Logistics for Action International Marketing, a sports and entertainment license product company from May, 2014 until December, 2016; a principal of the Concept Consortium, an international consulting firm from May, 2008 until May 2014, and Vice President of Design and Production of Lionel, a consumer goods company, from May of 2006 until May, 2008; and Vice President of Research, Development and Operations of Action Performance Companies, Inc. from August, 1998 until May of 2006.

Robert J. Goodmanson has been a Director of our company since May 2019. Mr. Goodmanson has more than 30 years' experience in the investment industry. He is currently employed at Tealwood Asset Management, a fully Registered Investment Advisor in Minneapolis. He founded and was CEO of Maxwell Simon, Inc. a FINRA registered full service Broker-Dealer and a licensed registered Investment Advisory firm. Maxwell Simon's focus was on institutional fixed income, advisory, private and public equity transactions. Prior, Rob held senior positions at Tucker Anthony and Robert W Baird where he was a Divisional Director. For three years he served on the FINRA Board of Governors for District 4 in Kanas City.

Randy Luth has been a director of our company since November 2017. Mr. Luth founded and has served as the president of Luth-AR-LLC, a producer of products for the AR-15 Market, since 2013. Mr. Luth was the Chief Executive Officer of DPMS Panther Arms, a producer of AR-15 firearms and firearm components, from 1986 until its sale in December 2007 to the Freedom Group.

Harry S. Markley has been a director of our company since March 2018. Mr. Markley served with the Phoenix Police Department for more than 30 years, most recently as Assistant Chief of the Patrol Division from 2013 through 2017 and Commander of the Family Investigations Bureau from 2002 to 2013. Mr. Markley currently serves as the Law Enforcement Senior Advisor for the United States of America Department of Commerce.

Russell William "Rusty" Wallace, Jr. has been a director of our company since June 2017. Mr. Wallace is the principal shareholder of the Rusty Wallace Automotive Group, a group of eight automotive dealerships located in Eastern Tennessee, and owns Rusty Wallace Racing, which has fielded entrees in the NASCAR Cup Series. Mr. Wallace competed in NASCAR races for more than 16 years and had 55 victories prior to his retirement in 2005. Mr. Wallace serves as an analyst for ABC and ESPN. He is a member of the NASCAR Hall of Fame, the International Motorsports, Hall of Fame, the Motorsports Press Association Hall of Fame, and the Motorsports Hall of Fame of America.

Family Relationships

There are no family relationships among our directors and executive officers. The Company's Executive Vice President is the son of our Chief Executive Officer, Fred Wagenhals.

Director Independence and Corporate Governance Matters

Our Board of Directors will periodically review relationships that directors have with the Company to determine whether the directors are independent. Directors are considered "independent" as long as they do not accept any consulting, advisory or other compensatory fee (other than director fees) from the Company, are not an affiliated person of the Company or its subsidiaries (e.g., an officer or a greater-than-ten-percent stockholder) and are independent within the meaning of applicable laws, regulations and the Nasdaq listing rules. In this latter regard, the Board of Directors will use the Nasdaq listing rules (specifically, Section 5605(a)(2) of such rules) as a benchmark for determining which, if any, of its directors are independent, solely in order to comply with applicable SEC disclosure rules. However, this is for disclosure purposes only. It should be understood that, as a corporation whose shares are not listed for trading on any securities exchange, our Company is not required to have any independent directors at all on its Board of Directors, or any independent directors serving on any particular committees of the Board of Directors.

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Robert J. Goodmanson, Randy Luth, Harry S. Markley, and Russell W. Wallace Jr. are independent directors, as "independence" is defined by the listing standards of the Nasdaq Stock Exchange, or Nasdaq, and by the Securities and Exchange Commission, or SEC, because they have no relationship with us that would interfere with their exercise of independent judgment in carrying out their responsibilities as a director. Fred Wagenhals is not "independent" as defined by the listing standards, as he are employed by us and serves as an employee director.

Board Committees

Our bylaws authorize our Board of Directors to appoint from among its members one or more committees consisting of one or more directors. On April 24, 2018, our Board of Directors established an Audit Committee, a Compensation Committee, and a Nominations and Corporate Governance Committee, each consisting entirely of independent directors as “independence” is defined by the SEC.

Committee Charters, Corporate Governance Guidelines, and Codes of Conduct and Ethics

Our Board of Directors has adopted charters for the Audit, Compensation, and Nominations and Corporate Governance Committees describing the authority and responsibilities delegated to each committee by our Board of Directors. Our Board of Directors has also adopted Corporate Governance Guidelines, a Code of Conduct, and a Code of Ethics for the CEO and Senior Financial Officers. We post on our website, at www.ammo-inc.com, the charters of our Audit, Compensation, and Nominations and Corporate Governance Committees; our Corporate Governance Guidelines, Code of Conduct, and Code of Ethics for the CEO and Senior Financial Officers, and any amendments or waivers thereto; and any other corporate governance materials specified by SEC regulations. These documents are also available in print to any stockholder requesting a copy in writing from our Secretary at the address of our executive offices.

The Audit Committee

The purpose of the Audit Committee includes overseeing the accounting and financial reporting processes of our company and audits of the financial statements of our company and providing assistance to our Board of Directors with respect to its oversight of the integrity of our company’s financial statements, our company’s compliance with legal and regulatory requirements, the independent registered public accountant’s qualifications and independence, and the performance of our company’s independent registered public accountant. The primary responsibilities of the Audit Committee are set forth in its charter and include various matters with respect to the oversight of our company’s accounting and financial reporting process and audits of the financial statements of our company on behalf of our Board of Directors. The Audit Committee also selects the independent registered public accountant to conduct the annual audit of the financial statements of our company; reviews the proposed scope of such audit; approves the fees for services provided by the independent registered public accountant, reviews accounting and financial controls of our company with the independent registered public accountant and our financial accounting staff; and reviews and approves any transactions between us and our directors, officers, and their affiliates.

The Audit Committee currently consists of Robert J. Goodmanson, Randy Luth, and Russell W. Wallace Jr. Robert J. Goodmanson, whose background is detailed in the director biographies on the prior page, qualifies as the “audit committee financial expert” in accordance with applicable rules and regulations of the SEC. Mr. Goodmanson serves as Chair of the Audit Committee.

The Compensation Committee

The purpose of the Compensation Committee includes determining, or when appropriate, recommending to our Board of Directors for determination, the compensation of the Chief Executive Officer and other executive officers of our company and discharging the responsibilities of our Board of Directors relating to compensation programs of our company in light of the goals and objectives of our compensation program for that year. As part of its responsibilities, the Compensation Committee evaluates the performance of our Chief Executive Officer and, together with our Chief Executive Officer, assesses the performance of our other executive officers. The Compensation Committee is entitled to delegate its responsibilities to a subcommittee of the Compensation Committee, which complies with the applicable rules and regulations of the Nasdaq Stock Market, the SEC, and other regulatory bodies. From time to time, the Compensation Committee may retain the services of independent compensation consultants to review a wide variety of factors relevant to executive compensation, trends in executive compensation, and the identification of relevant peer companies. The Compensation Committee makes all determinations regarding the engagement, fees, and services of its compensation consultants, and its compensation consultants report directly to the Compensation Committee.

The Compensation Committee currently consists of Russell W. Wallace Jr. and Harry Marley.

The Nominations and Corporate Governance Committee

The purpose of the Nominations and Corporate Governance Committee includes the selection or recommendation to our Board of Directors of nominees to stand for election as directors at each election of directors, the oversight of the selection and composition of committees of our Board of Directors, the oversight of the evaluations of our Board of Directors and management, and the development and recommendation to our Board of Directors of a set of corporate governance principles applicable to our company.

The Nominations and Corporate Governance Committee will consider persons recommended by stockholders for inclusion as nominees for election to our Board of Directors if the information required by our bylaws is submitted in writing in a timely manner addressed and delivered to our Secretary at the address of our executive offices. The Nominations and Corporate Governance Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our Board of Directors.

The Nomination and Corporate Governance Committee currently consists of Randy Luth and Harry Markley.

Executive Sessions

We regularly schedule executive sessions in which independent directors meet without the presences or participation of management. The chairs of various committees of our Board of Directors serve as the presiding director of such executive sessions on a rotating basis.

Risk Assessment of Compensation Policies and Practices

We have assessed the compensation policies and practices with respect to our employees, including our executive officers, and have concluded that they do not create risks that are reasonably likely to have a material adverse effect on our company.

Board's Role in Risk Oversight

Risk is inherent in every business. As is the case in virtually all businesses, we face a number of risks, including operational, economic, financial, legal, regulatory, and competitive risks. Our management is responsible for the day-to-day management of the risks we face. Our Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management.

In its oversight role, our Board of Directors' involvement in our business strategy and strategic plans plays a key role in its oversight of risk management, its assessment of management's risk appetite, and its determination of the appropriate level of enterprise risk. Our Board of Directors receives updates at least quarterly from senior management and periodically from outside advisors regarding the various risks we face, including operational, economic, financial, legal, regulatory, and competitive risks. Our Board of Directors also reviews the various risks we identify in our filings with the SEC and risks relating to various specific developments, such as acquisitions, debt and equity placements, and new service offerings.

Our board committees assist our Board of Directors in fulfilling its oversight role in certain areas of risk. Pursuant to its charter, the Audit Committee oversees the financial and reporting processes of our company and the audit of the financial statements of our company and provides assistance to our Board of Directors with respect to the oversight and integrity of the financial statements of our company, our company's compliance with legal and regulatory requirements, the independent registered public accountant's qualification and independence, and the performance of our independent registered public accountant. The Compensation Committee considers the risk of our compensation policies and practices and endeavors to assure that it is not reasonably likely that our compensation plans and policies would have a material adverse effect on our company. Our Nominations and Corporate Governance

Committee oversees governance related risk, such as board independence, conflicts of interests, and management and succession planning.

Board Diversity

We seek diversity in experience, viewpoint, education, skill, and other individual qualities and attributes to be represented on our Board of Directors. We believe directors should have various qualifications, including individual character and integrity; business experience; leadership ability; strategic planning skills, ability, and experience; requisite knowledge of our industry and finance, accounting, and legal matters; communications and interpersonal skills; and the ability and willingness to devote time to our company. We also believe the skill sets, backgrounds, and qualifications of our directors, taken as a whole, should provide a significant mix of diversity in personal and professional experience, background, viewpoints, perspectives, knowledge, and abilities. Nominees are not to be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability, or any other basis proscribed by law. The assessment of prospective directors is made in the context of the perceived needs of our Board of Directors from time to time.

All of our directors have held high-level positions in business or professional service firms and have experience in dealing with complex issues. We believe that all of our directors are individuals of high character and integrity, are able to work well with others, and have committed to devote sufficient time to the business and affairs of our company. In addition to these attributes, the description of each director's background set forth above indicates the specific qualifications, skills, perspectives, and experience necessary to conclude that each individual should continue to serve as a director of our company.

Board Leadership Structure

We believe that effective board leadership structure can depend on the experience, skills, and personal interaction between persons in leadership roles and the needs of our company at any point in time. Our Corporate Governance Guidelines support flexibility in the structure the Board by not requiring the separation of the roles of Chairman of the Board and Chief Executive Officer.

Our Board of Directors currently believes that it is in the best interests of our company to have our Chief Executive Officer also serve as the Chairman of the Board. We believe that our Chairman and Chief Executive Officer provides strong, clear, and unified leadership that is critical in our relationships with our stockholders, employees, customers, suppliers, and other stakeholders. The extensive knowledge of the Chief Executive Officer regarding our operations and industries and the markets in which we compete uniquely positions him to identify strategies and prioritize matters for board review and deliberation. Additionally, we believe the combined role of Chairman and Chief Executive Officer facilitates centralized board leadership in one person, so there is no ambiguity about accountability. The Chief Executive Officer serves as a bridge between management and the Board, ensuring that both groups act with a common purpose. This structure also eliminates conflict between two leaders and minimizes the possibility of two spokespersons sending difference messages.

The Board does not believe that combining the position creates significant risks, including any risk that the Chairman and Chief Executive Officer will have excessive or undue influence over the agenda or deliberations of the Board. We believe we have effective and active oversight by experienced independent directors and independent committee chairs, and the independent directors meet together in executive session at virtually every Board meeting.

The Chairman of the Board provides guidance to the Board; facilitates an appropriate schedule for Board meetings; sets the agenda for Board meetings; presides over meetings of the Board; and facilitates the quality, quantity, and timeliness of the flow of information from management that is necessary for the board to effectively and responsibly perform its duties.

The Chief Executive Officer is responsible for the day-to-day leadership of our company and setting our company's strategic direction.

Director and Officer Hedging and Pledging

We have a policy prohibiting directors and officers from purchasing financial instruments (including prepaid forward contracts, equity swaps, collars, and exchange funds) designed to hedge or offset decreases in the market value of compensatory awards of our equity securities directly or indirectly held by them. Additionally, we have a policy prohibiting directors and officers from pledging of shares.

Stock Ownership Guidelines

Our Board of Directors believes that the alignment of directors' interests with those of our stockholders is strengthened when board members are also stockholders. Therefore, our Board of Directors is adopting minimum stock ownership guidelines under which non-employee directors are expected to acquire shares of our Common Stock with a value, at least equal to the annual retainer paid for serving on the Board. Non-employee directors will be expected to satisfy at least the minimum guidelines beginning on the later of five years following (i) the date the guidelines were adopted or (ii) the date the individual becomes a non-employee director. This program is designed to ensure that directors acquire a meaningful ownership interest in our company during their tenure on the Board.

Clawback Policy

We have adopted a clawback policy. In the event we are required to prepare an accounting restatement of our financial results as a result of a material noncompliance by us with any financial reporting requirement under the federal securities laws, we will have the right to use reasonable efforts to recover from any current or former executive officers who received incentive compensation (whether cash or equity) from us during the three-year period preceding the date on which we were required to prepare the accounting restatement, any excess incentive compensation awarded as a result of the misstatement. This policy is administered by the Compensation Committee of our Board of Directors. The policy is effective for financial statements for periods beginning on or after April 1, 2018. Once final rules are adopted by the SEC regarding the clawback requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we will review this policy and make any amendments necessary to comply with the new rules.

Board and Committee Meetings

Our Board of Directors held six formal boarding meetings and three formal Audit Committee meetings during year ended March 31, 2020. Our Board of Directors held four formal Board of Directors meetings and four formal Audit Committee meetings, and no other formal Committee Meetings during the year ended March 31, 2019.

Annual Meeting Attendance

We encourage each of our directors to attend annual meetings of stockholders. To that end, and to the extent reasonably practicable, we will schedule a meeting of our Board of Directors on the same day as our annual meeting of stockholders.

Communications with Directors

Stockholders and other interested parties may communicate with our Board of Directors or specific members of our Board of Directors, including our independent directors and the members of our various board committees, by submitting a letter addressed to the Board of Directors of our company in care of any specified individual director or directors at the address of our executive offices. Any such letters are sent to the indicated directors.

Compliance with Section 16(a) of Exchange Act

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who beneficially own 10% or more of a class of securities registered under Section 12 of the Exchange Act to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Directors, executive officers and greater than 10% stockholders are required by the rules and regulations of the SEC to furnish the Company with copies of all reports filed by them in compliance with Section 16(a). To the Company's knowledge, based solely on a review of reports furnished to it, all of the Company's officers, directors and ten percent holders have made the required filings.

Legal Proceedings

During the past ten years, none of our current directors or executive officers has been:

- the subject of any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- convicted in a criminal proceeding or is subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
- found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, that has not been reversed, suspended, or vacated;
- subject of, or a party to, any order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of a federal or state securities or commodities law or regulation, law or regulation respecting financial institutions or insurance companies, law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization, any registered entity or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

None of our directors, officers or affiliates, or any beneficial owner of 5% or more of our common stock, or any associate of such persons, is an adverse party in any material proceeding to, or has a material interest adverse to, us or any of our subsidiaries.

ITEM 11 EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth for the year ended March 31, 2020, and March 31, 2019, information with respect to compensation for services in all capacities to us and our subsidiaries earned by the Company's Chief Executive Officer and all other executive officers of the Company and any employee of the Company whose cash compensation exceeded \$100,000. We refer to these executive officers as our "named executive officers."

Name and Principal Position	Period Ended	Salary (1)	Bonus (1)	Stock Awards (2)	Option Awards (2)	Nonequity incentive plan compensation	Nonqualified deferred compensation earnings	All other compensation (3)	Total
Fred W. Wagenhals President, Chief Executive Officer, and Director	3/31/2020	\$ 120,000	\$ 0	\$ 180,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 300,000
	3/31/2019	\$ 120,000	\$ 0	\$ 156,375	\$ 5	\$ 0	\$ 0	\$ 0	\$ 276,375

Steve Hilko (4) Chief Operating Officer								
		120,00						120,00
3/31/2020	\$	0	\$	0	\$	0	\$	0
		120,00						120,00
3/31/2019	\$	0	\$	0	\$	0	\$	0

Robert D. Wiley(5) Chief Financial Officer								
		103,33						190,12
3/31/2020	\$	3	\$	0	\$	86,794	\$	0
								7
								154,31
3/31/2019	\$	77,917	\$	0	\$	76,395	\$	0
								2

(1) The amounts in this column reflect the amounts earned during the fiscal year, whether or not actually paid during such year.

(2) The amounts in this column reflect the aggregate grant date fair value of options awards granted to our named executive officers during the transition period or fiscal year, as applicable, calculated in accordance with FASB ASC Topic 718. *Stock Compensation*. The valuation assumptions used in determining such amounts are described in the footnotes to our audited consolidated financial statements included in this Annual Report on Form 10-K. The amounts reported in this column reflect our accounting expense for these awards and do not correspond to the actual economic value that may be received by our named executive officers from their option awards.

(3) The named executive officers participate in certain group life, health, disability insurance, and medical reimbursement plans not disclosed in the Summary Compensation Table that are generally available to salaried employees and do not discriminate in scope, terms, and operation.

(4) Mr. Hilko assumed his position in March 2017.

(5) Mr. Wiley assumed his position in January 2019.

Consulting Agreements, Employment Agreements and Other Arrangements

As of March 31, 2020, other than the foregoing as set forth in the Notes to Summary Compensation Table, the Company has no agreement that provides for payment to executive officers at, following, or in connection with the resignation, retirement or other termination, or a change in control of Company or a change in any executive officer's responsibilities following a change in control.

Director Compensation

The following table sets forth, for the year ended March 31, 2020, information with respect to compensation for services in all capacities to us and our subsidiaries earned by our directors, who are not officers, who served during the year ended March 31, 2020.

Name and Principal Position	Fees Earned or Paid		Option Awards (2)	Nonequity incentive plan compensation	Nonqualified deferred compensation earnings	All other compensation (3)	Total
	In Cash (1)	Stock Awards (2)					
Robert J. Goodmanson (4)	\$ 0	\$80,000	\$ 0	\$ 0	\$ 0	\$ 0	\$80,000
Russell William Wallace Jr.	\$ 0	\$80,000	\$ 0	\$ 0	\$ 0	\$ 0	\$80,000
Randy Luth	\$ 0	\$80,000	\$ 0	\$ 0	\$ 0	\$ 0	\$80,000
Harry Markley	\$ 0	\$80,000	\$ 0	\$ 0	\$ 0	\$ 0	\$80,000
Dan O'Connor (5)	\$ 0	\$90,000	\$ 0	\$ 0	\$ 0	\$ 0	\$90,000
Tom Jagemann (6)	\$ 0	\$20,000	\$ 0	\$ 0	\$ 0	\$ 0	\$20,000
Kathy Hanrahan (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) The amounts in this column reflect the amounts earned during the fiscal year, whether or not actually paid during such year.

(2) The amounts in this column reflect the aggregate grant date fair value of options awards granted to our directors during the transition period or fiscal year, as applicable, calculated in accordance with FASB ASC Topic 718. *Stock Compensation*. The valuation assumptions used in determining such amounts are described in the footnotes to our audited consolidated financial statements included in our Transition Report on Form 10-K for the transition period ended December 31, 2017. The amounts reported in this column reflect our accounting expense for these awards and

do not correspond to the actual economic value that may be received by our named executive officers from their option awards.

(3) We do not currently pay cash compensation for services of our directors. Instead we make an annual grant to each director of 40,000 shares of our Common Stock. We reimburse all officers and directors for reasonable and necessary expenses incurred in their capacities as such. The named directors do not participate in certain group life, health, disability insurance, and medical reimbursement plans not disclosed in the Summary Compensation Table that are generally available to salaried employees and do not discriminate in scope, terms, and operation.

(4) Mr. Goodmanson was appointed as a member of the Board of Directors in through an action by written consent of shareholders on May 23, 2019.

(5) Mr. O'Connor resigned as a member of the Board of Directors on November 10, 2019.

(6) Mr. Jagemann resigned as a member of the Board of Directors on September 19, 2019.

(7) Ms. Hanrahan was removed as a member of the Board of Directors in through an action by written consent of shareholders on May 23, 2019.

Outstanding Equity Awards at Fiscal Year-end

As of March 31, 2020 and March 31, 2019, there were no outstanding stock options or restricted stock units. During the years ended March 31, 2020 and March 31, 2019, we did not grant any restricted stock units or stock options but granted restricted stock to directors, officers, and others who provided services to our company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of August 14, 2020, the number of shares of common stock owned of record and beneficially by our executive officers, directors and persons who hold 5% or more of the outstanding shares of common stock of the Company.

The amounts and percentages of our common stock beneficially owned are reported on the basis of SEC rules governing the determination of beneficial ownership of securities. Under the SEC rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days through the exercise of any stock option, warrant or other right. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest. Unless otherwise indicated, each of the shareholders named in the table below, or his or her family members, has sole voting and investment power with respect to such shares of our common stock. Except as otherwise indicated, the address of each of the shareholders listed below is: c/o AMMO, Inc., 7681 East Gray Road, Scottsdale, Arizona 85260.

Applicable percentage ownership is based on 47,622,920 shares of Common Stock outstanding as of August 14, 2020. In computing the number of shares of Common Stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of Common Stock as held by that person or entity that are currently exercisable or that will become exercisable within 60 days of August 14, 2020.

Name and Address of Beneficial Owner	Common Stock Owned Beneficially	Percent of Class (1)
<i>Named Executive Officers and Directors</i>		
Fred W. Wagenhals (2)	7,459,200	15.66%
Robert D. Wiley	—	—
Steve Hilko	250,000	*
Randy Luth (3)	425,000	*
Harry S. Markley	90,000	*
Russell William Wallace, Jr.	310,000	*
Robert J. Goodmanson	50,000	*
All directors and officers as a group (9 persons)		
5% or greater shareholders	8,584,200	18.03%
Jagemann Stamping Company 5757 W. Custer St., Manitowoc, WI 54220	4,750,000	9.97%
Total	13,334,200	28.00%

* Less than 1%

(1) Based on 47,622,920 shares of Common Stock outstanding as of August 14, 2020.

(2) Mr. Wagenhals owns a total of 7,459,200 shares of common stock, 7,009,200 shares are held directly and 450,000 indirectly as follows: 150,000 by the Fred W. Wagenhals Trust and 300,000 by spouse

(3) Mr. Luth owns 250,000 shares directly and 175,000 indirectly through the Randy E Luth Revocable Trust

Changes in Control

Our principal stockholder owns 7,459,200 shares, or 15.66% of our outstanding Common Stock. The principal stockholder serves as an officer and director. They exercise significance influence over the control of our Company and may be able to cause or prevent a change in control.

Equity Incentive Plan

In November 2017, the Board of Directors approved the 2017 Equity Incentive Plan, or the Plan. Under the Plan, 485,000 shares of our company's Common Stock was reserved and authorized to be issued. At December 31, 2017, 200,000 shares of Common Stock were approved and issued under the Plan, and we recognized approximately \$250,000 of related compensation expenses. On January 10, 2018, 200,000 shares were awarded, and we recognized \$330,000 of compensation expense. There are 85,000 shares remaining to be issued under the plan at March 31, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Director Independence

For purposes of determining director independence, we have applied the definitions set out in NASDAQ Rule 5605(a)(2). The OTCBB on which shares of common stock are quoted does not have any director independence requirements. The NASDAQ definition of "Independent Director" means a person other than an Executive Officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

According to the NASDAQ definition, Fred Wagenhals is not an independent director because he is also an executive officer of the Company. According to the NASDAQ definition, Randy Luth, Harry Markley, Robert Goodmanson, and Russell William Wallace Jr. are each independent directors. All current directors are or may become in the future shareholders of the Company.

Related Party Transactions

From October 2016 through December 2018, our executive offices were located in Scottsdale, Arizona where we leased approximately 5,000 square feet under a month-to-month triple net lease for \$3,800 per month. This space housed our principal executive, administration, and marketing functions. Our Chairman, President, and Chief Executive Officer owned the building in which these offices are currently leased. For the year ended March 31, 2020 and 2019, the Company paid \$21,800 and \$53,013, respectively in rent for these offices.

During the year ended March 31, 2020, we paid \$184,575 in service fees to an independent contractor, \$6,500 in consulting fees to our Previous Chief Financial Officer, and 60,000 shares in the aggregate to its Advisory Committee members for service for a total value of \$113,000. Additionally, at March 31, 2020, the Company had a receivable of approximately, \$14,700 from its previous Chief Financial Officer. During the year ended March 31, 2019, we paid approximately \$168,000 in consulting fees.

In connection with the acquisition of the casing division of Jagemann Stamping Company, a promissory note was executed. The promissory note, under which \$500,000 was paid on March 25, 2019 using funds raised for the acquisition, had a remaining balance at March 31, 2019 of \$9,900,000. On April 30, 2019, the original due date of the note was subsequently extended to April 1, 2020. The note bears interest per annum at approximately 4.6% payable in arrears monthly until October 1, 2019 when the interest rate increases to 9% per annum payable monthly until principal and accrued interest are paid in full. In May of 2019, the Company paid \$1,500,000 on the balance of the note. As of March 31, 2020 and March 31, 2019, we accrued interest of \$352,157 and \$22,196, respectively, related to the note.

In October of 2019, it was made apparent that certain equipment that was agreed to be delivered free and clear by the Seller was not achievable as Seller was not able to purchase equipment that Seller had leased. Accordingly, the remaining value of the promissory note was reduced by \$2,596,200. As a result of the change to the purchase price of the transaction, the Company reduced Equipment for a net value of \$1,871,306, decreased Other Intangible Assets by \$766,068, increased Accounts Receivable by \$31,924, and recorded an increase to Deposits for \$9,250 worth of equipment that the Company agreed to transfer back to Seller. Consequently, accumulated amortization has decreased by \$159,530. Additionally, the Company entered into a lease to gain possession of the assets that were originally to be transferred. Subsequent to March 31, 2020, the Company, Enlight and JSC entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020. Pursuant to the Settlement Agreement, the Company shall pay JSC \$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, both with a maturity date of August 15, 2021, (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering. Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company's common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the Settlement Agreement.

Through the Administrative and Management Services Agreement the Company with Jagemann Stamping Company, the Company purchased approximately \$1.9M in Inventory, incurred \$394,128 of rent expenses, and incurred \$153,604 of expenses related to support costs such as engineering and maintenance, among others, for the year ended March 31, 2020.

On May 3, 2019, the Company entered into a promissory note of \$375,000 with a shareholder of the Company. The original interest rate was the applicable LIBOR Rate. The promissory note has since been amended and the balance at March 31, 2020 was \$278,195. The note's original a maturity date of August 3, 2019 was extended to September 18, 2020. The amended note bears interest at 1.25% per month. The Company made \$315,000 in principal payments in the year ended March 31, 2020. We have accrued interest on the note of \$9,080. Subsequent to March 31, 2020, the related party note and accrued interest was paid in full.

In December of 2019, the Company entered into a Promissory Note of \$90,000 with Fred Wagenhals, the Company's Chief Executive Officer and Chairman of the Board of Directors. The Note originally matured on June 12, 2020 and had an interest rate at the applicable LIBOR Rate. The promissory note has since been amended and the balance at March 31, 2020 was \$156,536 and the amended maturity date is September 18, 2020. The Company made

\$70,000 in principal payments in the year ended March 31, 2020. The amended note bears interest at 1.25% per month. We have accrued interest on the note of \$1,287. Subsequent to March 31, 2020, the related party note and accrued interest was paid in full.

Other than the foregoing, none of the directors or executive officers of the Company, nor any person who owned of record or was known to own beneficially more than 5% of the Company's outstanding shares of its Common Stock, nor any associate or affiliate of such persons or companies, has any material interest, direct or indirect, in any transaction that has occurred during the past fiscal year, or in any proposed transaction, which has materially affected or will affect the Company.

With regard to any future related party transaction, we plan to fully disclose any and all related party transactions in the following manner:

- Disclosing such transactions in reports where required;
- Disclosing in any and all filings with the SEC, where required;
- Obtaining disinterested directors consent; and
- Obtaining shareholder consent where required.

Review, Approval or Ratification of Transactions with Related Persons

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 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

On April 22, 2020, the Audit Committee engaged Marcum LLP to complete an annual audit of the Company's financial statements for the fiscal year ended March 31, 2020. Marcum did not perform any services prior to April 22, 2020. The Company's previous auditor KWCO, PC who perform an annual audit of the Company's financial statements for the fiscal year ended March 31, 2019, three months ended March 31, 2018 and the years ended December 31, 2017, was dismissed on April 22, 2020. The following is the breakdown of aggregate fees for the last two fiscal years. The following is the breakdown of aggregate fees paid for the last two fiscal years:

The following table sets forth fees billed by our principal accounting firm Marcum LLP for year ended March 31, 2020, and by former auditor KWCO, PC in the year ended March 31, 2019:

	<u>2020</u>	<u>2019</u>
Audit Fees	\$ 216,422	\$ 133,292
Audit Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
	<u>\$ 216,422</u>	<u>\$ 133,292</u>

It is our policy to engage the principal accounting firm to conduct the financial audit for our company and to confirm prior to such engagement, that such principal accounting firm is independent of our company when required by SEC rules and regulations. All services of the principal accounting firm reflected above were approved by the Board of Directors.

- "Audit Fees" are fees paid for professional services for the audit of our financial statements.

- "Audit-Related fees" are fees paid for professional services not included in the first two categories, specifically, SAS 100 reviews, SEC filings and consents, and accounting consultations on matters addressed during the audit or interim reviews, and review work related to quarterly filings.

- "Tax Fees" are fees primarily for tax compliance in connection with filing US income tax returns.

- "All other fees" related to the reviews of Registration Statements on Form S-1

Audit Committee Pre-Approval Policies

The charter of our Audit Committee provides that the duties and responsibilities of our Audit Committee include the pre-approval of all audit, audit-related, tax, and other services permitted by law or applicable SEC regulations (including fee and cost ranges) to be performed by our independent registered public accountant. Any pre-approved services that will involve fees or costs exceeding pre-approved levels will also require specific pre-approval by the Audit Committee. Unless otherwise specified by the Audit Committee in pre-approving a service, the pre-approval will be effective for the 12-month period following pre-approval. The Audit Committee will not approve any non-audit services prohibited by applicable SEC regulations or any services in connection with a transaction initially recommended by the independent registered public accountant, the purpose of which may be tax avoidance and the tax treatment of which may not be supported by the Code and related regulations.

To the extent deemed appropriate, the Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee or any one or more other members of the Audit Committee provided that any member of the Audit Committee who has exercised any such delegation must report any such pre-approval decision to the Audit Committee at its next scheduled meeting. The Audit Committee will not delegate the pre-approval of services to be performed by the independent registered public accountant to management.

Our Audit Committee requires that the independent registered public accountant, in conjunction with our Chief Financial Officer, be responsible for seeking pre-approval for providing services to us and that any request for pre-approval must inform the Audit Committee about each service to be provided and must provide detail as to the particular service to be provided.

All of the services provided above under the caption “Audit-Related Fees” were approved by our Board of Directors or by our Audit Committee pursuant to our Audit Committee’s pre-approval policies.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules are set forth under Part II, Item 8 of this report.

(b) Exhibits

Other Schedules are committed because they are not applicable, not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

Exhibit Number	Exhibit Description	Reference		Filed or Furnished	
		Form	Exhibit	Filing Date	Herewith
2.1	Agreement and Plan of Merger to Redomicile dated December 30, 2016 (Corrected Version) changing our status to Delaware	S-1/A	2.1	12/14/2018	
2.2	Articles of Merger dated December 30, 2016 filed with the California Secretary of State	8-K	3.01	02/09/2017	
2.3	Certificate of Merger dated December 21, 2016 filed with the California Secretary of State	8-K	3.02	02/09/2017	
2.4	Share Exchange Agreement dated March 17, 2017	8-K	10.1	03/23/2017	
2.5	Agreement and Plan of Merger with SW KENETICS INC.	8-K	2.1	10/04/2018	
2.6	Amended and Restated Asset Purchase Agreement dated March 14, 2019	8-K	2.1	03/18/2019	
3.1	Certificate of Incorporation (Amended and Restated) filed with the Delaware Secretary of State on October 24, 2018	8-K	3.1	10/26/2018	
3.2	Bylaws	8-K	3.03	02/09/2017	
4.1	Form of Warrant dated January 25, 2017	S-1	4.1	07/06/2018	
4.2	Form of Warrant dated January 3, 2018	S-1	4.2	07/06/2018	
4.3	Form of Purchase Warrant with Paulson Investment Company, LLC dated April 20, 2018	S-1	4.3	07/06/2018	
4.4	Form of Warrant dated December 28, 2018	10-K	4.4	07/01/2019	
4.5	Form of Certificate of Common Stock	S-1/A	4.4	10/16/2018	
4.6	Form of Gunnar Convertible Promissory Note, issued January 2020	10-Q	10.2	02/13/2020	
4.7	Form of Gunnar Investor Warrant, issued January 2020	10-Q	10.3	02/13/2020	
10.1	License Agreement with Jesse James	S-1	10.1	07/06/2018	
10.2	License Agreement with Jeff Rann	S-1	10.2	07/06/2018	
10.3	License Agreement with University of Louisiana at Lafayette	S-1/A	10.3	10/16/2018	
10.4	Note Purchase and Sale Agreement with Western Alliance Bank	S-1/A	10.4	10/16/2018	
10.5	Note Purchase and Sale Agreement with Mansfield, LLC	S-1/A	10.5	10/16/2018	
10.6	Form of Subscription Agreement for Gunnar Offering	10-Q	10.1	02/13/2020	

10.7	Compilation of Settlement Agreement and Promissory Notes with Jagemann Stamping Company dated June 26, 2020					X
14.1	Code of Business Ethics	S-1/A	14.0	10/16/2018		
14.2	Code of Conduct	S-1/A	14.1	10/16/2018		
23.1	Consent of Marcum, LLP Independent Registered Account Firm Relating to Consolidated Financial Statements of the Company for the year ended March 31, 2020					X
23.2	Consent of KWCO, PC Independent Registered Account Firm Relating to Consolidated Financial Statements of the Company for the year ended March 31, 2019					X
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Fred W. Wagenhals.					
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Robert D. Wiley					
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Fred W. Wagenhals.					
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Robert D. Wiley					
101.INS*	XBRL Instance Document					
101.SCH*	XBRL Taxonomy Extension Schema Document					
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document					
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					

*Filed Herewith. Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

- (1) Incorporated by reference to Form S-1A filed with the Commission on December 14, 2018
- (2) Filed as an exhibit to Form 8-K filed with the Commission on February 9, 2017
- (3) Filed as an exhibit to Form 8-K filed with the Commission on March 23, 2017
- (4) Filed as an exhibit to Form 8-K filed with the Commission on October 4, 2018
- (5) Filed as an exhibit to Form 8-K filed with the Commission on March 18, 2019
- (6) Filed as an exhibit to Form 8-K filed with the Commission on October 26, 2018
- (7) Incorporated by reference to Form 10-KT filed with the commission on May 24, 2018
- (8) Incorporated by reference to Form S-1 filed with the commission on July 6, 2018

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: August 19, 2020

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

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

AMMO, INC.

Dated: August 19, 2020

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

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this report below.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Fred W. Wagenhals</u> Fred W. Wagenhals	Chief Executive Officer, Director	August 19, 2020
<u>/s/ Robert J. Goodmanson</u> Robert J. Goodmanson	Director	August 19, 2020
<u>/s/ Rusty Wallace Jr.</u> Rusty Wallace	Director	August 19, 2020
<u>/s/ Randy Luth</u> Randy Luth	Director	August 19, 2020
<u>/s/ Harry Markley</u> Harry Markley	Director	August 19, 2020

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
AMMO, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AMMO, Inc. and Subsidiaries (the "Company") as of March 31, 2020, the related consolidated statements of operations, stockholders' equity and cash flows for the year ended March 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2020, and the results of its operations and its cash flows for the year ended March 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included

examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Adoption of New Accounting Standards

ASU No. 2016-02

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective January 1, 2019, using the modified retrospective approach.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2020.

New York, NY
August 19, 2020

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Ammo, Inc. Scottsdale, Arizona 85260

Opinion on the consolidated financial statements

We have audited the accompanying consolidated balance sheet of Ammo, Inc. (the Company) as of March 31, 2019, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended March 31, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2019, and the consolidated results of its operations and its cash flows for the year ended March 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities law and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures

included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KWCO, PC

KWCO, PC

We have served as the Company's auditor since 2016.

Odessa, Texas

June 28, 2019

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Ammo, Inc.
CONSOLIDATED BALANCE SHEETS

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
ASSETS		
Current Assets:		
Cash	\$ 884,274	\$ 2,181,246
Accounts receivable, net of allowance for doubtful account of \$62,248 at March 31, 2020 and \$129,365 at March 31, 2019	3,004,839	1,225,911
Due from related parties	15,807	19,565
Inventories, at lower of cost or net realizable value, principally average cost method	4,408,073	4,772,597
Prepaid expenses	844,117	427,551
Total Current Assets	<u>9,157,110</u>	<u>8,626,870</u>
Equipment , net of accumulated depreciation of \$3,060,681 at March 31, 2020 and \$516,144 at March 31, 2019	18,046,329	21,999,787
Other Assets:		
Deposits	216,571	29,034
Licensing agreements, net of accumulated amortization of \$158,333 at March 31, 2020 and \$108,833 at March 31, 2019	91,667	141,667
Patents, net of accumulated amortization of \$561,096 at March 31, 2020 and \$134,701 at March 31, 2019	6,512,909	6,939,304
Other Intangible Assets, net of accumulated amortization of \$1,496,833 at March 31, 2020 and \$61,803 at March 31, 2019	3,649,404	5,850,502
Right of Use Assets - Operating Leases	3,431,746	-
TOTAL ASSETS	<u>\$ 41,105,736</u>	<u>\$ 43,587,164</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,197,354	\$ 1,920,344
Factoring liability	2,005,979	-
Accrued liabilities	1,619,619	531,434
Note payable related party	434,731	-
Insurance premium note payable	329,724	230,597

Current portion of operating lease liability	375,813	-
Convertible promissory notes, net of \$237,611 of note issuance cost at March 31, 2020	2,262,389	
Current portion of note payable related party	-	1,500,000
Current portion of contingent consideration payable	-	300,000
Total Current Liabilities	12,225,609	4,482,375
Long-term Liabilities:		
Convertible promissory notes, net of \$24,144 of note issuance costs at March 31, 2019	-	275,856
Contingent consideration payable, net of current portion	709,623	900,000
Note payable related party	5,803,800	8,400,000
Operating Lease Liability, net of current portion	3,107,911	-
Total Liabilities	21,846,943	14,058,231
Shareholders' Equity:		
Common stock, \$0.001 par value, 200,000,000 shares authorized 46,204,139 at March 31, 2020 and 44,013,075 shares issued and outstanding at March 31, 2019, respectively	46,204	44,013
Additional paid-in capital	53,219,834	48,935,485
Accumulated Deficit	(34,007,245)	(19,450,565)
Total Shareholders' Equity	19,258,793	29,528,933
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 41,105,736	\$ 43,587,164

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

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Ammo, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended March 31,	
	2020	2019
Net Sales		
Ammunition Sales	\$ 6,591,196	\$ 3,985,574
Casing Sales	8,189,169	580,078
	<u>14,780,365</u>	<u>4,565,652</u>
Cost of Goods Sold, for the years ended March 31, 2020 and 2019 includes depreciation and amortization of \$2,856,471, and \$506,159, respectively, and federal excise taxes of \$643,735, and \$406,255, respectively	18,455,904	4,795,346
Gross Margin	<u>(3,675,539)</u>	<u>(229,694)</u>
Operating Expenses		
Selling and marketing	1,192,010	1,414,399
Corporate general and administrative	3,731,913	3,385,096
Employee salaries and related expenses	3,638,540	3,855,167
Depreciation and amortization expense	1,599,491	96,302
Total operating expenses	<u>10,161,954</u>	<u>8,750,964</u>
Loss from Operations	<u>(13,837,493)</u>	<u>(8,980,658)</u>

Other Expenses		
Purchase of Jagemann Munition Components	-	(2,118,154)
Interest income/(expense)	(719,187)	(610,600)
Total other expenses	<u>(719,187)</u>	<u>(2,728,754)</u>
Loss before Income Taxes	(14,556,680)	(11,709,412)
Provision for Income Taxes	-	-
Net Loss	<u>\$ (14,556,680)</u>	<u>\$ (11,709,412)</u>
Loss per share		
Basic and fully diluted:		
Weighted average number of shares outstanding	<u>45,607,937</u>	<u>33,601,569</u>
Loss per share	<u>\$ (0.32)</u>	<u>\$ (0.35)</u>

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

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Ammo, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	<u>Common Shares</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Number</u>	<u>Par Value</u>	<u>Capital</u>	<u>(Deficit)</u>	
Balance as of March 31, 2018	28,394,503	\$ 28,394	\$ 17,264,888	\$ (7,741,153)	\$ 9,552,129
Common stock issued for cash	5,796,336	5,797	10,898,133	-	10,903,930
Common stock issued for exercised warrants	1,972,800	1,973	4,765,652	-	4,767,625
Common stock issued for cashless warrant exercise	10,495	11	(11)	-	-
Common stock issuance costs	-	-	(1,704,563)	-	(1,704,563)
Common stock issued for services	5,000	5	22,345	-	22,350
Employee stock awards	702,500	702	1,172,272	-	1,172,974
Stock grants	-	-	703,030	-	703,030
Acquisition stock issuances	6,450,002	6,450	14,117,555	-	14,124,005
Legal, advisory and consulting fees	(49,600)	(50)	(123,950)	-	(124,000)
Common stock issued for convertible notes	731,039	731	1,820,134	-	1,820,865
Net loss	-	-	-	(11,709,412)	(11,709,412)
Balance as of March 31, 2019	<u>44,013,075</u>	<u>\$ 44,013</u>	<u>\$ 48,935,485</u>	<u>\$ (19,450,565)</u>	<u>\$ 29,528,933</u>
Common stock issued for cash	1,232,770	1,233	2,464,307	-	2,465,540
Common stock issued for convertible notes	127,291	127	318,099	-	318,226
Common stock issuance costs	-	-	(285,981)	-	(285,981)
Common stock issued for services	170,504	170	352,130	-	352,300

Employee stock awards	660,499	661	900,865	-	901,526
Stock grants	-	-	534,929	-	534,929
Net loss	-	-	-	(14,556,680)	(14,556,680)
Balance as of March 31, 2020	<u>46,204,139</u>	<u>\$ 46,204</u>	<u>\$ 53,219,834</u>	<u>\$ (34,007,245)</u>	<u>\$ 19,258,793</u>

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

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Ammo, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOW

	For the Year Ended	
	March 31,	
	2020	2019
Cash flows from operating activities:		
Net Loss	\$ (14,556,680)	\$ (11,709,412)
Adjustments to reconcile Net Loss to Net Cash used in operations:		
Depreciation and amortization	4,455,962	599,863
Debt discount amortization	115,533	151,856
Stock grants	534,929	703,030
Stock for services	352,300	22,350
Contingent consideration fair value	(190,377)	-
Employee stock awards	901,526	1,172,974
Reduction to right of use asset	381,140	-
Allowance for doubtful accounts	(67,117)	106,320
Stock and warrants for promissory note conversion	-	358,000
Loss on purchase	-	2,118,154
Changes in Current Assets and Liabilities		
Accounts receivable	(1,679,887)	(131,113)
Due to (from) related parties	3,758	(5,361)
Inventories	364,524	(2,367,591)
Prepaid expenses	148,982	215,489
Deposits	(178,287)	(12,734)
Accounts payable	3,277,010	1,440,879
Accrued liabilities	1,106,411	42,289
Operating lease liability	(329,162)	-
Net cash used in operating activities	<u>(5,359,435)</u>	<u>(7,295,007)</u>
Cash flows from investing activities		
Purchase of equipment	(462,385)	(2,291,907)
Jagemann acquisition	-	(7,000,000)
Acquisition deposit	-	(250,000)
Net cash used in investing activities	<u>(462,385)</u>	<u>(9,541,907)</u>
Cash flow from financing activities		
Proceeds from note payable related party issued	819,731	-
Payments on note payable related party	(1,885,000)	(500,000)
Payments on insurance premium note payment	(466,421)	(191,275)
Contingent consideration payment	(300,000)	(50,000)
Proceeds from convertible promissory note	2,171,000	1,534,000
Sale of common stock	2,465,540	10,903,930

(Continued)

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Ammo, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOW

	For the Year Ended March 31,	
	2020	2019
Purchase of common stock	-	(124,000)
Proceeds from factoring liability	9,747,281	-
Payments on factoring liability	(7,741,302)	-
Common stock issued for exercised warrants	-	4,767,625
Common stock issuance costs	(285,981)	(1,704,563)
Net cash provided by financing activities	<u>4,524,848</u>	<u>14,635,717</u>
Net decrease in cash	(1,296,972)	(2,200,397)
Cash, beginning of period	2,181,246	4,381,643
Cash, end of period	<u>\$ 884,274</u>	<u>\$ 2,181,246</u>
Supplemental cash flow disclosures		
Cash paid during the period for -		
Interest	<u>\$ 531,274</u>	<u>\$ 240,523</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities:		
Convertible promissory note	(318,226)	-
Convertible promissory note conversion	318,226	-
Insurance premium note payment	565,548	321,966
Prepaid expenses	(565,548)	(321,966)
Right of use assets - operating leases	(3,771,873)	-
Rent expense	(41,013)	-
Operating lease liability	3,812,886	-
Notes payable related party	(2,596,200)	-
Accounts receivable	(31,924)	-
Deposits	(9,250)	-
Equipment	1,871,306	-
Other Intangible Assets	766,068	-
Additional paid-in-capital	-	(11)
Common stock	-	11
Issuance of common stock	-	4,624,005
Contingent consideration payable	-	1,250,000
Patent acquisition	-	(5,874,005)
Issuance of common stock	-	7,381,846
Note payable - related party	-	10,400,000
Acquired Intangible Assets	-	(5,912,305)
Acquired Equipment	-	(11,869,541)
Convertible promissory note	-	(1,410,000)
Accrued Liabilities	-	(52,065)
Convertible promissory note conversion	-	1,462,065

\$ _____ - \$ _____ -

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

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AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

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 475,681 (11,891,976 pre-split) of their outstanding shares 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 (“Reverse Split”) of the issued and outstanding shares of the common stock of the Company. As a result of the reverse split, the previous issued and outstanding shares of common stock became 580,052 shares; no shareholder was reversed below 100 shares, and all fractional shares resulting from the reverse split were rounded up to the next whole share. All references to the outstanding stock have been retrospectively adjusted to reflect this split. 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). Under the terms of the Agreement, the Company issued 17,285,800 newly issued shares of common stock of the Company. In connection with this transaction the Company retired 475,681 shares of common stock and issued 500,000 shares of common stock to satisfy an issuance commitment. The acquisition was considered to be a capital transaction. The transaction was the equivalent to the issuance by PRIVCO of 604,371 shares to the Company’s shareholders accompanied by a recapitalization. The weighted average number of outstanding shares has been adjusted for this transaction. (PRIVCO) subsequently changes its name to AMMO Munitions, Inc.

NOTE 2 – GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$14,556,680 and \$11,709,412 for the years ended March 31, 2020 and 2019, respectively. Net cash used in operating activities was \$5,359,435 and \$7,295,007 for the years ended March 31, 2020 and 2019, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of March 31, 2020, the Company’s accumulated deficit was \$34,007,245. The Company has limited capital resources, and operations to date have been funded with the proceeds from equity and debt financings. These conditions raise substantial doubt about our ability to continue as a going concern for the period ended a year from the date the financial statements are issued.

The Company needs additional financing to implement our business plan and to service our ongoing operations and pay our current debts. There can be no assurance that we will be able to secure any needed funding, or that if such

funding is available, the terms or conditions would be acceptable to us. If we are unable to obtain additional financing when it is needed, we will need to restructure our operations, and divest all or a portion of our business. We may seek additional capital through a combination of equity offerings, and debt financings. Debt financing, if obtained, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, and could increase our expenses and require that our assets secure such debt. Equity financing, if obtained, could result in dilution to the Company's then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, the Company may be required to delay, scale back, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected. See Note 16 for additional equity and debt proceeds received subsequent to March 31, 2020.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of AMMO, Inc. and its wholly owned subsidiaries, Enlight Group II, LLC (d/b/a Jagemann Munition Components), SNI, LLC, AMMO Munitions, Inc. and AMMO Technologies, Inc. (inactive). All significant intercompany accounts and transactions are eliminated in consolidation

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, we consider highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

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AMMO, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 2020 and March 31, 2019

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 March 31, 2020 and March 31, 2019, we reserved \$62,248 and \$129,365, 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, LLC, a Texas limited liability company, or JJF. 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. In addition, Mr. James agreed to make himself available for certain promotional activities and to promote Jesse James Branded Products through his own social media outlets. 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 also issued 100,000 shares of our common stock upon the execution of the license agreement with the potential issuance of up to 75,000 additional shares of common stock upon achieving certain gross sales with \$15 million in gross sales required to earn the entire 75,000 shares.

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. Mr. Rann agreed to make himself available for certain promotional activities and to promote the Branded Products through his own social media outlets. 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. We also issued 100,000 shares of our common stock upon the execution of the license agreement with the potential issuance of 75,000 additional shares of common stock upon achieving certain gross sales with \$15 million in gross sales required to earn the entire 75,000 shares.

Amortization expense for the license agreements for the years ended March 31, 2020 and 2019 was \$50,000.

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. Under the terms of the Merger, we issued to Hallam, Inc.'s two shareholders, 600,000 shares of our common stock, subject to restrictions, and payment of \$200,000. The first payment of \$100,000 to the Hallam, Inc. shareholders was paid on September 13, 2017, and the second payment of \$100,000 was paid on February 6, 2018.

The shares were valued at \$1.25 and the aggregate value of \$950,000 was recorded as a patent asset. This asset will be amortized from September 2017, the first full month of the acquired rights, through October 29, 2028. Patent amortization expense for the years ended March 31, 2020 and 2019 were \$85,075 and \$85,074, respectively.

Under the terms of the Merger, ATI succeeded to all of the assets of Hallam, Inc. and assumed the liabilities of Hallam, Inc., which were none. 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 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. Under the terms of the Exclusive License Agreement, the Company is obligated to pay a 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 years ended March 31, 2020 and 2019, the Company accrued \$43,222 and \$33,920 respectively under this agreement.

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

In August 2018, we applied for additional patent coverage for the manufacturing methods or application of the Hybrid Luminescence Ammunition Technology on a variety of projectile and ammunition types. The costs of filing this patent were expensed.

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. Under the terms of the agreement, we issued to SW Kenetics Inc.'s three shareholders, 1,700,002 restricted shares of our common stock, payment of \$250,000, and a payment

obligation of \$1,250,000 subject to completion of specific milestones that we have recorded as Contingent Consideration Payable. Additionally, the 1,700,002 shares of common stock were issued with claw back provisions to ensure agreed upon objectives are met. The Company has made four payments totaling \$350,000 for the completion of specific milestones to the shareholders of SW Kenetics, Inc.

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. Patent amortization expense for the years ended March 31, 2020 was \$341,320. There was no amortization expense for the patent in the year ended March 31, 2019 as the patent had not been placed in service.

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 (See Note 11). The intangible assets acquired include a tradename, customer relationships, and intellectual property. For the years ended March 31, 2020 and 2019, amortization of the other intangibles assets was \$1,435,030 and \$61,803, respectively recognized in depreciation and amortization expense.

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 years ended March 31, 2020 and March 31, 2019.

Revenue Recognition

We generate revenue from the production and sale of ammunition. We recognize revenue according to 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. The Company applies the following five-step model to determine revenue recognition:

- Identification of a contract with a customer
- Identification of the performance obligations in the contact
- determination of the transaction price
- allocation of the transaction price to the separate performance allocation
- recognition of revenue when performance obligations are satisfied

The Company only applies the five-step model when it is probable that the Company will collect the consideration it is 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 determines those that are performance obligations, and assesses 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 the Company’s product, which typically occurs upon shipment of the product. In the current period, the Company began accepting contract liabilities or deferred revenue. We included Deferred Revenue in our Accrued Liabilities. The Company will recognize revenue when the performance obligation is met.

For the years ended March 31, 2020 and 2019, the Company’s customers that comprised more than ten percent (10%) of total revenues and accounts receivable were as follows :

PERCENTAGES	For the Year Ended March 31, 2020		For the Year Ended March 31, 2019	
	Revenues	Accounts Receivable	Revenues	Accounts Receivable
Customers:				
A	19.1%	26.5%	10.0%	-
B	13.3%	-	-	19.0%
C	-	-	24.6%	29.4%
D	-	-	19.1%	-
	<u>32.4%</u>	<u>26.5%</u>	<u>53.7%</u>	<u>48.4%</u>

Disaggregated Revenue Information

The following table represent a disaggregation of revenue from customers by segment. We attribute net sales to segments by product types; ammunition and ammunition casings. The Company notes that revenue recognition processes are consistent between product 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 type.

	For the Year Ended	
	March 31, 2020	March 31, 2019
Ammunition Sales	\$ 6,591,196	\$ 3,985,574
Ammunition Casings Sales	8,189,169	580,078
Total Sales	<u>\$ 14,780,365</u>	<u>\$ 4,565,652</u>

Ammunition products are sold through “Big Box” retailers, manufacturers, local ammunition stores, and shooting range operators. We also sell direct to customers online. In contrast, our ammunition casings products are sold to manufacturers.

In May 2014, FASB issued ASU 2014-09, “Revenue from Contracts with Customers”. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The revised effective date for this ASU is for annual and interim periods beginning on or after December 15, 2017, and early adoption will be permitted, but not earlier than the original effective date of annual and interim periods beginning on or after December 15, 2016, for public entities. We adopted ASU 2014-09 as of April 1, 2018, and it did not have a material impact on the Company’s consolidated results of operations, financial position or cash flows for the period ended March 31, 2020.

Sales are initiated in three ways –

- third party sales representative obtains signed purchase order from a customer
- direct contact by in-house sales representatives who obtains signed purchase order
- electronic purchase order from a customer (usually the very large customers)

Once a customer's order is received a sales order is generated by authorized sales or management personnel. Once approved for shipping, the sales order is entered, the inventory control department will pull the purchased items from the inventory or if needed will request the manufacture of a specific product. When the items that were ordered are available for shipment, the merchandise is prepared for shipping and shipped by FedEx or common carrier.

All sales are recorded upon shipment and, depending on credit worthiness of customer, the payment terms will vary from thirty (30) to sixty (60) days. No refunds are allowed on any product shipped.

Each product manufactured by the Company has standard specifications and performance objectives. The Company has an extensive product testing program and, if the Company were given notice of a product defect by a customer, the Company would request the return of the product so that the manufacturing defect could be identified. From inception to March 31, 2020, the Company has had no returned products related to product warranty.

The revenue recognition procedures set forth above have been used by the Company since its inception and are consistent with requirements of ASC 606 "Revenue from Contracts with Customers".

Advertising Costs

We expense advertising costs as they are incurred. We incurred advertising of \$563,968 and \$554,266 for the years ended March 31, 2020 and 2019, respectively.

Fair Value of Financial Instruments

We measure options and warrants at fair value in accordance with Accounting Standards Codification 820 – Fair Value Measurement ("ASC 820"). The objective of ASC 820 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets;

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AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires us to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value.

We value all common stock issued for services on the date of the agreements, using the price at which shares were being sold to private investors or at the value of the services performed.

We valued warrants issued for the reduction in conversion price for the conversion of Convertible Promissory Notes at the grant date of March 31, 2019 using valuation methods and assumptions that consider, among other factors, the fair value of the underlying stock, risk free interest rate, volatility, and expected life.

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Risk free interest rate	-	2.39%
Expected volatility	-	45%
Expected term	-	2.5 years
Expected dividend yield	0%	0%

Equipment acquired in the March 15, 2019 acquisition of the Jagemann Casings was valued at fair value on the acquisition date by using the cost and market valuation approaches.

	Quoted Active Markets for Identified Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
March 31, 2019				
Warrants issued for convertible promissory notes	\$ -	\$ 358,800	\$ -	\$ 358,800

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.

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AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

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*.

Stock-Based Compensation

We account for stock-based compensation at fair value in accordance with ASC 718. There were 660,499 shares of common stock issued to employees, members of the Board of Directors, and members of the Advisory Committee for services during the year ended March 31, 2020.

On May 1, 2018, we entered into an employment agreement with Robert D. Wiley, Chief Financial Officer, that included, among other provisions, an equity grant of 100,000 shares of restricted common stock that vests at the rate of 33,333 shares annually for three years. The \$250,000 compensation value is being recognized on a straight-line basis over the three-year period covered by the agreement.

From September 2018 through March 2019, we entered into four separate employment agreements that included in total, among other provisions, equity grants of 325,000 shares of restricted common stock that vests annually over the next four years. The total compensation value of \$752,000 is being recognized on a straight-line basis over the periods covered by each agreement, up to four years.

Concentrations of Credit Risk

Accounts at banks are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of March 31, 2020, 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. We currently have substantial net operating loss carryforwards. We have recorded a valuation allowance equal to the net deferred tax assets due to the uncertainty of the ultimate realization of the deferred tax assets.

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. The Company is implementing applicable benefits of the CARES Act, such as deferring employer payroll taxes and evaluating potential employee retention credits.

Contingencies

Certain conditions may exist as of the date the 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 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 controls 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 of up 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 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 Company plans to aggressively pursue its offensive claims in order to recover economic damages as a result of its claims while seeking dismissal of the counterclaim. There were no other known contingencies at March 31, 2020. There were no known contingencies at March 31, 2019.

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AMMO, INC.
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Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02 – “Leases (Topic 842)” Under ASU 2016-02, entities will be required to recognize lease asset and lease liabilities by lessees for those leases classified as operating leases. Among other changes in accounting for leases, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. The amendments in ASU 2016-02 will become effective for fiscal years beginning after December 15, 2018, including interim periods with those fiscal years for public business entities. We adopted Topic 842 as of April 1, 2019 and this resulted in an increase in assets and liabilities on our consolidated balance sheets related to recording a Right of Use Asset of \$3,771,873 and corresponding Operating Lease Liability of \$3,812,886. As a result of the adoption there was no material impact to our Consolidated Statement of Operations. See Note 7 for more information.

On June 20, 2018, the FASB expanded the scope of Accounting Standards Codification (ASC) 718, Compensation – Stock Compensation, to include share-based payments to nonemployees for goods and services. The accounting board said the amendments in Accounting Standards Update (ASU) No. 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, align the guidance for stock compensation to employees and nonemployees. The amended guidance replaces ASC 505-50, Equity – Equity-Based Payments to Non-Employees. We anticipate that this ASC will not have a material effect on the Company’s financial statements.

The amendments in ASU No. 2018-07 apply “to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards,” the FASB said. But the amended guidance does not cover stock compensation that is used to provide financing to the company that issued the shares or stock awards tied to a sale of goods or services as part of a contract accounted for according to ASC 606, Revenue From Contracts With Customers.

The amendments are effective for public companies for fiscal years that begin after December 15, 2018, and the quarterly and other interim periods in those years, the FASB said the amended guidance can be applied before it becomes effective, but businesses are not permitted to use the guidance in ASU No. 2018-07 before they have implemented ASC 606. We have evaluated the effect of the adoption of ASU 2018-07 will have on our consolidated results of operations, financial position or cash flows and determine the effects will not be material to the Company’s financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments–Credit Losses (Topic 326),” which replaces the current incurred loss impairment methodology for most financial assets with the current expected credit loss (“CECL”) methodology. The series of new guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. The guidance should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The new guidance is intended to enhance and simplify various aspects of the accounting for income taxes. The new guidance eliminates certain exceptions to the general approach to the income tax accounting model, and adds new guidance to reduce the complexity in accounting for income taxes. The guidance will be effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. The Company is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

Loss Per Common Share

We calculate basic 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, using various methods, such as the treasury stock or modified treasury stock method, in the determination of dilutive shares outstanding during each reporting period. We have issued warrants to purchase 8,504,372 shares of common stock. All weighted average numbers were adjusted for the reverse stock split and merger transaction. Due to the loss from operations in the years ended March 31, 2020 and 2019, there are no common shares added to calculate the dilutive EPS for those periods as the effect would be antidilutive. The Company excluded warrants of 8,504,372 and 8,143,115 for the years ended March 31, 2020 and 2019, respectively, from the weighted average diluted common shares outstanding because their inclusion would have been antidilutive.

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NOTE 4 – INVENTORIES

At March 31, 2020 and March 31, 2019, the inventory balances are composed of:

	March 31, 2020	March 31, 2019
Finished product	\$ 1,916,417	\$ 2,628,241
Raw materials	1,771,006	1,635,130
Work in process	720,650	509,226
	<u>\$ 4,408,073</u>	<u>\$ 4,772,597</u>

NOTE 5 – PROPERTY AND EQUIPMENT

We state property and 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 selling, general, and administrative expenses. 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.

Property and equipment consisted of the following at March 31, 2020 and March 31, 2019:

	March 31, 2020	March 31, 2019
Leasehold Improvements	\$ 118,222	\$ 98,444
Furniture and Fixtures	87,790	154,777
Vehicles	103,511	103,511
Equipment	19,578,035	18,689,140
Tooling	126,190	117,390
Construction in Progress	1,903,262	3,352,669
Total property and equipment	<u>\$ 21,107,010</u>	<u>\$ 22,515,931</u>
Less accumulated depreciation	<u>(3,060,681)</u>	<u>(516,144)</u>
Net property and equipment	<u>18,046,329</u>	<u>21,999,787</u>

Depreciation Expense for the years ended March 31, 2020 and 2019 totaled \$2,544,537 and \$402,986, respectively. Of these totals \$2,380,076 and \$386,589 were included in cost of goods sold for the years ending March 31, 2020 and 2019. Additionally, \$164,461 and \$96,302 were included in depreciation and amortization expenses in operating expenses.

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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 March 31, 2020, the outstanding balance of the Factoring Liability was \$2,005,979. Interest expense recognized on the Factoring Liability was \$153,663, including \$75,000 of amortization of the commitment fee. Subsequent to March 31, 2020, this agreement was amended and restated extending the term of this facility to June 17, 2022.

NOTE 7 – LEASES

We lease office, manufacturing, and warehouse space in Scottsdale and Payson, AZ and Manitowoc, WI under contracts we classify as operating leases. None of our leases are financing leases. The Payson lease has an option to renew for five years, and the Manitowoc lease has an option to renew for the three years. As of March 31, 2020, we are fairly certain that we will exercise the renewal options on both leases, and we have included such renewal options in the lease liabilities and the disclosures herein. The Scottsdale lease does not include a renewal option.

As of March 31, 2020, total Right of Use Assets and Operating Lease Liabilities on the Balance Sheet were \$3,431,746 and \$3,483,724, respectively. The current portion of our Operating Lease Liability is \$375,813 and is reported as a current liability. The remaining \$3,107,911 of the total \$3,483,724 Operating Lease Liability is presented as a long-term liability net of the current portion.

Consolidated lease expense for the year ended March 31, 2020 was \$836,665 including \$706,692 of operating lease expense and \$129,973 of other lease associated expenses such as association dues, taxes, utilities, and other month to month rentals. Total lease and rent expense for the year ended March 31, 2019 was \$272,700.

The weighted average remaining lease term and weighted average discount rate for operating leases were 7.8 years and 10.0%, respectively.

Future minimum lease payments under non-cancellable leases as of March 31, 2020 are as follows:

Years Ended March 31,	
2021	707,391
2022	717,387
2023	727,384
2024	670,112
Thereafter	2,168,932
	4,991,206
Less: Amount Representing Interest	(1,507,482)
	\$ 3,483,724

We are obligated under a triple-net operating lease for our 20,000 square foot manufacturing facility located in Payson, Arizona. The terms of the lease require a payment of approximately \$10,000 per month, which includes an estimate for utilities, taxes, and repairs. This lease expires in November of 2021.

We believe this facility will be adequate to meet our needs in the near future. However, we are making plans to expand our building footprint to accommodate additional automation equipment. We intend to pay for these improvements using working capital and will amortize the costs over the remaining lease period.

The following table outlines our future contractual financial obligations associated with this lease by fiscal year in which payment is expected, as of March 31, 2020:

	<u>2021</u>	<u>2022</u>	<u>Total</u>
Payson Lease	\$ 120,000	\$ 80,000	\$ 200,000

Our executive offices are located in Scottsdale, Arizona where we lease 21,000 square feet of office and warehouse space for \$17,702, which will increase by approximately 4.4% each year. This space houses our principal executive, administration, marketing, and research and development functions. The lease expires in December of 2023.

The following table outlines our future contractual financial obligations associated with this lease by fiscal period in which payment is expected, as of March 31, 2020:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Total</u>
Scottsdale Lease	\$226,587	\$236,583	\$246,580	\$147,240	\$856,990

Our ammunition casing operations are located in Manitowoc, Wisconsin where we lease approximately 50,000 square feet. The terms of the lease provide for a monthly payment of approximately \$32,844. The lease expires in March of 2026 and can be renewed every three years thereafter.

The following table outlines our future contractual financial obligations associated with this lease by fiscal period in which payment is expected, as of March 31, 2020:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Total</u>
Manitowoc Lease	\$394,128	\$394,128	\$394,128	\$394,128	\$394,128	\$394,128	\$2,364,768

Additional offices were located in Scottsdale, Arizona where we leased approximately 5,000 square feet under a month-to-month triple net lease for \$3,800 per month. This office building was owned by a related party.

NOTE 8 – CONVERTIBLE PROMISSORY NOTES

On January 9, 2019, we completed the issuance of 10% Convertible Promissory Notes in the principal amount of \$1,710,000 to accredited investors through a private placement in exchange for cash in an equal amount. The principal amounts were raised from the period of October 23, 2018 to December 28, 2018. As a result of the issuance of the Convertible Promissory Notes, the placement agent received an aggregate commission of \$171,000, and \$5,000 in escrow fees were paid, totaling \$176,000 of Note Issuance Costs.

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The Maturity Date of the notes is the two year anniversary from the date of issuance. The holders have the option to convert the entire principal of the Convertible Promissory Note into Common Stock at a conversion price equal to \$2.50 per share at any time until the Maturity Date, subject to “Qualified Financing.” Qualified Financing means the next equity round of financing of the Company that raises not less than \$10,000,000 gross proceeds from

institutional(s) or commercial lender(s) in the aggregate with any combination of Common Stock (valued at the close of the Trading Day on the date of the closing for the financing) or debt. In the event of Qualified Financing, the Convertible Promissory Notes will automatically convert 100% of the principal amount into Common Stock at a conversion price equal to \$2.50 per share. As of March 31, 2019, we accrued \$65,291 of interest expense related to the Convertible Promissory Notes.

On February 28, 2019, the company notified the holders of an offer to convert Convertible Promissory Notes and Accrued Interest into Common Stock at a conversion price of \$2.00 per share and receive one-half warrant exercisable at \$2.40 per share for five years in conjunction with each converted share. On March 29, 2019, the Company converted \$1,410,000 of Convertible Promissory Notes and \$52,065 of Accrued Interest into 731,039 shares of Common Stock and issued Warrants to purchase 365,523 shares of Common Stock. The offer ended on March 29, 2019 at 11:59 PM. As a result of the conversion of the Convertible Promissory Notes, the Company accrued \$42,300 for a 3% cash conversion fee on the principal converted payable to the placement agent, Paulson Investment Company. Additionally, \$118,351 of Unamortized Note Issuance Costs were amortized and \$358,800 of Interest Expenses related to the reduction in conversion price were recognized as result of the conversions.

The holders that did not elect to convert their notes during this period have the option to convert their entire principal of the Convertible Promissory Note into Common Stock per the terms of the original agreement.

As of March 31, 2019, there was \$300,000 in principal remaining and \$24,144 of Unamortized Note Issuance Costs.

On June 5, 2019, the remaining \$300,000 of Convertible Promissory Notes were mandatorily converted into shares of our common stock pursuant to the terms of the Note. The Company converted \$300,000 of Convertible Promissory Notes and \$18,226 of Accrued Interest were converted into 127,291 shares of Common Stock at a conversion price of \$2.50. The Company accrued \$9,000 for a 3% cash conversion fee on the principal converted payable to the placement agent, Paulson Investment Company.

On January 15, 2020, the Company consummated the initial closing of a private placement offering whereby pursuant to the Subscription Agreements entered into by the Company with five (5) accredited investors, the Company issued certain Convertible Promissory Notes for an aggregate purchase price of \$1,650,000 and five (5) year warrants to purchase shares of the Company's common stock, par value \$0.001 per share ("Common Stock").

On January 30, 2020, the Company consummated the final closing of a private placement whereby pursuant to the Subscription Agreements entered into by the Company with five (5) accredited investors, the Company issued certain Convertible Promissory Notes for an aggregate purchase price of \$850,000 and five (5) year warrants to purchase shares of the Company's common stock, par value \$0.001 per share.

The Notes accrue interest at a rate of 8% per annum and mature on October 15, 2020 and October 30, 2020. Additionally, the Notes contain a mandatory conversion mechanism whereby any principal and accrued interest on the Notes, upon the closing of a Qualified Financing (as defined in the Notes), converts into shares of the Company's Common Stock at a conversion price of 66.7% of the per share purchase price of shares or other units in the Qualified Financing. If a Qualified Financing has not occurred on or before the Maturity Date, the Notes shall become convertible into shares of the Company's Common Stock at a conversion price that is equal to 50.0% of the arithmetic mean of the VWAP in the ten consecutive Trading Days immediately preceding the Maturity Date. The Notes contain customary events of default. If an Event of Default occurs, interest under the Notes will accrue at a rate of fifteen percent (15%) per annum and the outstanding principal amount of the Notes, plus accrued but unpaid interest, liquidated damages and other amounts owing with respect to the Notes will become, at the Note holder's election, immediately due and payable in cash.

The Company analyzed embedded conversion options of the convertible notes at issuance to determine whether the embedded conversion options should be bifurcated and accounted for as derivative liabilities or if the embedded conversion options contain a beneficial conversion feature. The Company notes that this determination must be performed at each balance sheet date and makes it possible for certain instruments to be reclassified between debt and equity at different points in their life. The Company determined that it will defer recognition of its accounting until such notes become convertible. Additionally, the Company determined that the embedded conversion options do

not require bifurcation and treatment as derivative liabilities, but they included contingent beneficial conversion features that are indeterminable on the commitment date. The Company notes the embedded conversion options will be accounted for and recognized, if necessary, when the contingencies are resolved (the date of a Qualified Financing or during the 10 days prior to the Maturity Date). Through March 31, 2020, a Qualified Financing had not occurred and the Note is not yet convertible under the Voluntary Conversion Option and, as a result, the contingencies have not been resolved, such that the Company concluded that no measurement or recognition of the beneficial conversion feature was required as of March 31, 2020.

Pursuant to the Subscription Agreements, each Investor will receive the number of Warrants to purchase shares of Common Stock equal to the quotient obtained by dividing 50% of the principal amount of the Note by the Conversion Price of the Note. The Warrants are exercisable at the per share purchase price of shares or other units in the Qualified Financing. If a Qualified Financing has not occurred on or before the Maturity Date, the warrants shall become exercisable at a price per share that is equal to the closing ten-day VWAP in the ten trading days immediately preceding the Maturity Date (the "Exercise Price"). The Warrants contain an anti-dilution protection feature, to adjust the Exercise Price if shares are sold or issued for a consideration per share less than the exercise price then in effect.

Joseph Gunnar & Co., LLC acted as placement agent for the Offering. The Placement Agent received cash compensation of \$200,000 and is scheduled to be issued five (5) year warrants to purchase such number of shares of Common Stock equal to five percent (5%) of the shares underlying the Notes and the Warrants, at an exercise price equal to 125% of the Conversion Price of the Notes, which price shall not be known until the earlier of the Maturity Date or the closing of the Qualified Financing.

As of March 31, 2020, the key terms of the investor and placement agent warrants are still unknown such that there is still no grant of the warrants for accounting purposes. The Company will determine the fair value of the warrants at the time the key terms of the Warrants become known and the Warrants are issued.

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NOTE 9 – NOTES PAYABLE – RELATED PARTY

In connection with the acquisition of the casing division of Jagemann Stamping Company, a \$10,400,000 promissory note was executed on March 14, 2020. The promissory note, under which \$500,000 was paid on March 25, 2019 using funds raised for the acquisition, had a remaining balance at March 31, 2019 of \$9,900,000. On April 30, 2019, the original due date of the note was subsequently extended to April 1, 2020. The note bears interest per annum at approximately 4.6% payable in arrears monthly. In May of 2019, the Company paid \$1,500,000 on the balance of the note. As of March 31, 2020, we recognized interest of \$352,157 related to the note. The note is secured by all the equipment purchased from Jagemann Stamping Company.

Post-closing of the transaction, it was made apparent that certain equipment that was agreed to be delivered free and clear by the Seller was not achievable as Seller was not able to purchase equipment that Seller had leased. Accordingly, the remaining value of the promissory note was reduced by \$2,596,200. As a result of the change to the purchase price of the transaction, the Company reduced Equipment for a net value of \$1,871,306, decreased Other Intangible Assets by \$766,068, increased Accounts Receivable by \$31,924, and recorded an increase to Deposits for \$9,250 worth of equipment that the Company agreed to transfer back to Seller. Consequently, accumulated amortization has decreased by \$159,530. Additionally, the Company entered into a lease to gain possession of the assets that were originally to be transferred.

Subsequent to March 31, 2020, the Company, Enlight and JSC entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020. Pursuant to the Settlement Agreement, the Company shall pay JSC

\$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, both with a maturity date of August 15, 2021, (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering. Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company's common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the Settlement Agreement.

On May 3, 2019, the Company entered into a promissory note of \$375,000 with a shareholder of the Company. The original interest rate was the applicable LIBOR Rate. The promissory note has since been amended and the balance at March 31, 2020 was \$278,195. The note's original maturity date of August 3, 2019 was extended to September 18, 2020. The amended note bears interest at 1.25% per month. The Company made \$315,000 in principal payments in the year ended March 31, 2020. We have accrued interest on the note of \$9,080. Subsequent to March 31, 2020, the related party note and accrued interest was paid in full.

In December of 2019, the Company entered into a Promissory Note of \$90,000 with Fred Wagenhals, the Company's Chief Executive Officer and Chairman of the Board of Directors. The Note originally matured on June 12, 2020 and had an interest rate at the applicable LIBOR Rate. The promissory note has since been amended and the balance at March 31, 2020 was \$156,536 and the amended maturity date is September 18, 2020. The Company made \$70,000 in principal payments in the year ended March 31, 2020. The amended note bears interest at 1.25% per month. We have accrued interest on the note of \$1,287. Subsequent to March 31, 2020, the related party note and accrued interest was paid in full.

NOTE 10 – CAPITAL STOCK

Our authorized capital consists of 200,000,000 shares of common stock with a par value of \$0.001 per share.

During the year ended March 31, 2019, we issued 15,618,572 shares of common stock as follows:

- 5,796,336 shares were sold to investors for \$10,903,930
- 1,972,800 shares were issued through exercised warrants of \$4,767,625
- 10,495 shares were issued through a cashless exercise of 14,719 warrants

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- 702,500 shares valued at \$1,172,974 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation
- 5,000 shares were issued for services valued at \$22,350
- 1,700,002 shares were issued to the shareholders of SW Kenetics, Inc. (subject to claw back provisions) valued \$4,624,005 in connection with the acquisition

- 4,750,000 shares were issued to Jagemann Stamping Company valued at \$9,500,000 in connection with the acquisition of Jagemann Casings
- 731,039 shares were issued for the conversion of Convertible Promissory Notes valued at \$1,820,865
- 49,600 shares were purchased by the Company for a price of \$124,000

During the year ended March 31, 2020, we issued 1,893,502 shares of common stock as follows:

- 1,232,770 shares were sold to investors for \$2,465,540
- 127,291 shares were issued for the conversion of Convertible Promissory Notes valued at \$318,226
- 170,504 shares were issued for services valued at \$352,300
- 660,499 shares valued at \$901,526 were issued to employees, members of the Board of Directors, and members of the Advisory Committee as compensation

In November of 2017, the Board of Directors approved the 2017 Equity Incentive Plan (“the Plan”). Under the Plan, 485,000 shares of the common stock were reserved and authorized to be issued. As of December 31, 2017, 200,000 shares of common stock were approved and issued under the Plan, and we recognized approximately \$250,000 of related consulting expense. On January 10, 2018, 200,000 shares were awarded, and we recognized \$330,000 of compensation expense for the transition period ended March 31, 2018. There are 85,000 shares remaining to be issued under the Plan.

In March 2018, we entered into a second placement agent agreement for up to an additional \$3,500,000. The offering consisted of Units priced at \$1.65, which included one share of common stock and one five-year warrant to purchase an additional half-share of common stock for an exercise price of \$2.00 per share. Effectively, every two units purchased provided the investor with a five-year warrant at an exercise price of \$2.00 per share. For services provided under the placement agreements, the placement agent collected a 12% cash fee on the sale of every Unit and a fee payable in warrants equaling 12% of the total Units sold. These warrants have a term of seven years and an exercise price of \$1.65 per share.

In April of 2018, our second placement agreement to secure equity capital from qualified investors to provide funds to our operations ended. Units sold under this agreement during the year ended March 31, 2019 totaled 1,967,886 shares of common stock and 983,943 warrants for \$3,247,030. The cash fee totaled \$389,644 for the year ended March 31, 2019, including reimbursed expenses. We authorized an additional 236,145 warrants to the placement agent under the terms of the agreement and issued a total of 981,213 warrants to the placement agent for the two placement agent agreements.

In December of 2019, we entered into a placement agreement to secure equity capital from qualified investors to provide funds to our operations. The offering consisted of Units priced at \$2.00, which included one share of common stock and one five-year warrant to purchase an additional half-share of common stock for an exercise price of \$2.40 per share. Effectively, every two units purchased provided the investor with a five-year warrant at an exercise price of \$2.40 per share. Units sold under this agreement totaled 1,232,770 shares of common stock and 616,385 warrants for \$2,465,540 for the year ended March 31, 2020.

For services provided under the placement agreements, the placement agent collected a 12% cash fee on the sale of every Unit and a fee payable in warrants equaling 12% of the total Units sold. The warrants totaling 553,346 have a term of five years and an exercise price of \$2.00 per share. The cash fee totaled \$285,981 for the year ended March 31, 2020, including reimbursed expenses.

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At March 31, 2020 and March 31, 2019, 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, 2018	8,872,160	\$ 2.23	2.97
Granted	4,233,274	2.23	4.62
Exercised	(1,987,519)	2.41	-
Forfeited or cancelled	(2,974,800)	2.47	-
Outstanding at March 31, 2019	8,143,115	\$ 2.09	4.35
Exercisable at March 31, 2019	8,143,115	\$ 2.09	4.35

	Number of Shares	Weighted Averaged Exercise Price	Weighted Average Life Remaining (Years)
Outstanding at March 31, 2019	8,143,115	\$ 2.09	4.35
Granted	710,317	2.35	4.18
Exercised	-	-	-
Forfeited or cancelled	(349,060)	2.50	-
Outstanding at March 31, 2020	8,504,372	\$ 2.10	3.60
Exercisable at March 31, 2020	8,504,372	\$ 2.10	3.60

As of March 31, 2020, we had 8,504,372 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 966,494 shares of Common Stock at an exercise price of \$1.65 per share until April 2025; (2) warrants to purchase 4,641,745 shares of our Common Stock at an exercise price of \$2.00 per share over the next three to five years; and (3) warrants to purchase 2,896,133 shares of Common Stock at an exercise price of \$2.40 over the next five years.

As documented in Note 8, the Company is to issue warrants to the holders of the convertible notes and placement agent. As of March 31, 2020, the key terms of the investor and placement agent warrants are still unknown such that there is still no grant of the warrants for accounting purposes. The Company will determine the fair value of the warrants at the time the key terms of the Warrants become known and the Warrants are issued.

On May 31, 2018, per the terms of the private offering dated January 25, 2017, we called for the exercise of warrants to purchase a total of 4,947,600 shares of our Common Stock. According to the terms of the Warrant Purchase Agreement, the warrants could be called when the average price of our common stock traded at \$5.00 per share or higher, for a consecutive 30 day period. This call provision was met on May 21, 2018. As a result, we issued formal notice to all warrant holders on May 31, 2018, advising them that they had until July 6, 2018, to exercise their warrants, or they would become null and void. The total number of warrants included in the January 25, 2017 offering were 4,947,600 and were priced as follows: 4,790,100 warrants at an exercise price of \$2.50, 67,500 warrants at an exercise price of \$1.25 and 90,000 warrants at an exercise price of \$0.50.

As of July 6, 2018, a total of 1,972,800 warrants were exercised to purchase an equivalent 1,972,800 shares of common stock at an average price of \$2.42 and 2,974,800 warrants to purchase shares of Common Stock were cancelled. On July 12, 2018, the company filed a Form 8-K to report the activity of this event.

Additionally, there was a cashless exercise of 14,719 warrants resulting in the issuance of 10,495 shares of Common Stock unrelated to the call for the exercise of warrants.

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NOTE 11 – ACQUISITIONS

SW Kenetics, Inc.

On September 27, 2018, AMMO Technologies, Inc. (“ATI”) entered into a definitive Agreement and Plan of Merger with SW Kenetics Inc. (“SWK”), an Arizona corporation and completed the merger on October 5, 2018. Pursuant to the agreement SWK merged with and into AMMO Technologies, Inc., with ATI being the survivor. Under the terms of the agreement, we issued to SW Kenetics Inc.’s three shareholders, 1,700,002 restricted shares of our common stock, payment of \$250,000, and a payment obligation of \$1,250,000 subject to completion of specific milestones that we have recorded as Contingent Consideration Payable. Additionally, the 1,700,002 shares of common stock were issued with claw back provisions to ensure agreed upon objectives are met. Included among the list of milestones or events that must be completed are significant revenue goals incorporating the product technology of SWK. The initial payment of \$250,000 was made on August 20, 2018. The shares were each valued at \$2.72, the weighted average share price of our Common Stock that was publicly traded and sold through private placement. We recorded the total purchase consideration to patents as follows:

Cash	\$ 250,000
Contingent Consideration Payable	1,250,000
Common Stock	1,700
Additional Paid-in Capital	4,622,305
Fair Value of Patent	<u>\$ 6,124,005</u>

The preliminary fair value of the patent at the date of acquisition was \$7,723,166 and resulted in the recognition of gain on bargain purchase of \$1,599,161. The estimated fair value was determined using the relief from royalty approach. The valuation firm relied on estimates of future sales and profitability provided by the Company. Subsequently, the Company determined the existing facts and circumstances did not support the original fair value due to delays in obtaining tooling and manufacturing equipment. As a result, at March 31, 2019, the Company adjusted the fair value of the patents from \$7,723,166 to \$6,124,005, with the difference reducing the previously recognized gain on bargain purchase of \$1,599,161.

SWK is a research and development firm located in Arizona that has designed a new portfolio of modular projectiles that the Company believes will advance the force capability of the United States military, as well as NATO member countries. SWK filed a patent for their technology, which is now pending with the United States Patent and Trademark Office.

As of March 31, 2020, the Company has made \$350,000 in payments to SW Kenetics, Inc. in connection with the completion of a milestone. The \$350,000 payment reduced the Contingent Consideration Payable.

At March 31, 2020, The Company reviewed the fair value of contingent consideration using a scenario based method with probability included and determined the fair value was \$709,623. An adjustment of \$190,377 was recognized in corporate general and administrative expenses.

Jagemann Stamping Company’s Ammunition Casing Division

On March 15, 2019, Enlight Group II, LLC (hereinafter referred to as the “Buyer”), a wholly owned subsidiary of AMMO, Inc., completed its acquisition of selected assets of Jagemann Stamping Company’s (“Seller”)

ammunition casing, projectile manufacturing, and sales operations (“Jagemann Casings”) pursuant to the terms of the Amended and Restated Asset Purchase Agreement (“Amended APA”) dated March 14, 2019.

In accordance with the terms of the Amended APA, Buyer paid Seller a combination of \$7,000,000 in cash, \$10,400,000 delivered in the form of a Promissory Note, and 4,750,000 shares of AMMO, Inc., common stock valued at \$2.00 per share.

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

Cash	\$ 7,000,000
Note Payable	10,400,000
Common Stock	4,750
Additional Paid-in Capital	9,495,250
Total Consideration	<u>\$ 26,900,000</u>

Total allocation for the consideration recorded for the acquisition is as follows:

Equipment	\$ 18,869,541
Intellectual property	1,773,436
Customer relationships	1,666,774
Tradenname	2,472,095
Loss on Purchase	2,118,154
Total Consideration	<u>\$ 26,900,000</u>

The fair value of the tangible was determined by cost and market approaches for tangible assets. The fair value of intangible assets were determined using the relief from royalty and residual income approaches. The acquired intangible assets, have remaining useful lives ranging from three to five years.

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

Seller is engaged exclusively in the business of full-service stamping involving, among other things, the manufacture and sale of deep drawn stampings for use in the ammunition casing and projectile industries. Pursuant to the Amended APA, Buyer acquired the Seller’s munition and casing division assets (including equipment and intellectual property), and is transitioning the associated employees to its direct workforce to continue the operations at Seller’s Wisconsin facilities.

In October of 2019, it was made apparent that certain equipment that was agreed to be delivered free and clear by the Seller was not achievable as Seller was not able to purchase equipment that Seller had leased. Accordingly, the remaining value of the promissory note was reduced by \$2,596,200. As a result of the change to the purchase price of the transaction, the Company reduced Equipment for a net value of \$1,871,306, decreased Other Intangible Assets by \$766,068, increased Accounts Receivable by \$31,924, and recorded an increase to Deposits for \$9,250 worth of equipment that the Company agreed to transfer back to Seller. Consequently, accumulated amortization has decreased by \$159,530. Additionally, the Company entered into a lease to gain possession of the assets that were originally to be transferred.

In addition to the Amended APA, the Company entered into an Administrative and Management Services Agreement with Seller on March 15, 2019. The Seller agreed to provide the Company with services including, but not limited to, inventory, rent, maintenance, engineering, and information systems. Through this agreement the Company purchased approximately \$1.9M in Inventory, incurred \$394,128 of rent expenses, and incurred \$153,604 of expenses related to support costs such as engineering and maintenance, among others, for the year ended March 31, 2020.

Subsequent to March 31, 2020, the Company, Enlight and JSC entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020. Pursuant to the Settlement Agreement, the Company shall pay JSC \$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, both with a maturity date of August 15, 2021, (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering. Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company's common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the Settlement Agreement.

NOTE 12 – ACCRUED LIABILITIES

At March 31, 2020 and March 31, 2019, accrued liabilities were as follows:

	March 31, 2020	March 31, 2019
Deferred revenue	\$ 493,553	\$ -
Accrued FAET	353,061	145,460
Accrued interest	197,342	35,422
Accrued payroll	289,603	248,027
Accrued professional fees	131,300	74,300
Other accruals	154,760	28,225
	<u>\$ 1,619,619</u>	<u>\$ 531,434</u>

NOTE 13 – RELATED PARTY TRANSACTIONS

From October 2016 through December 2018, our executive offices were located in Scottsdale, Arizona where we leased approximately 5,000 square feet under a month-to-month triple net lease for \$3,800 per month. This space housed our principal executive, administration, and marketing functions. Our Chairman, President, and Chief Executive Officer owned the building in which these offices are currently leased. For the year ended March 31, 2020 and 2019, the Company paid \$21,800 and \$53,013, respectively in rent for these offices.

During the year ended March 31, 2020, we paid \$184,575 in service fees to an independent contractor, \$6,500 in consulting fees to our Previous Chief Financial Officer, and 60,000 shares in the aggregate to its Advisory Committee members for service for a total value of \$113,000. Additionally, at March 31, 2020, the Company had a receivable of approximately, \$14,700 from its previous Chief Financial Officer. During the year ended March 31, 2019, we paid approximately \$168,000 in consulting fees.

In connection with the acquisition of the casing division of Jagemann Stamping Company, a promissory note was executed. The promissory note, under which \$500,000 was paid on March 25, 2019 using funds raised for the acquisition, had a remaining balance at March 31, 2019 of \$9,900,000. On April 30, 2019, the original due date of the note was subsequently extended to April 1, 2020. The note bears interest per annum at approximately 4.6% payable in arrears monthly. In May of 2019, the Company paid \$1,500,000 on the balance of the note. As of March 31, 2020 and March 31, 2019, we accrued interest of \$352,157 and \$22,196, respectively, related to the note. Subsequent to March 31, 2020, the Company extended the promissory note until August 15, 2021.

In October of 2019, it was made apparent that certain equipment that was agreed to be delivered free and clear by the Seller was not achievable as Seller was not able to purchase equipment that Seller had leased. Accordingly, the remaining value of the promissory note was reduced by \$2,596,200. As a result of the change to the purchase price

of the transaction, the Company reduced Equipment for a net value of \$1,871,306, decreased Other Intangible Assets by \$766,068, increased Accounts Receivable by \$31,924, and recorded an increase to Deposits for \$9,250 worth of equipment that the Company agreed to transfer back to Seller. Consequently, accumulated amortization has decreased by \$159,530. Additionally, the Company entered into a lease to gain possession of the assets that were originally to be transferred.

Through the Administrative and Management Services Agreement the Company with Jagemann Stamping Company, the Company purchased approximately \$1.9M in Inventory, incurred \$394,128 of rent expenses, and incurred \$153,604 of expenses related to support costs such as engineering and maintenance, among others for the year ended March 31, 2020.

Subsequent to March 31, 2020, the Company, Enlight and JSC entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020. Pursuant to the Settlement Agreement, the Company shall pay JSC \$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, both with a maturity date of August 15, 2021, (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering. Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company's common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the Settlement Agreement.

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AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

On May 3, 2019, the Company entered into a promissory note of \$375,000 with a shareholder of the Company. The original interest rate was the applicable LIBOR Rate. The promissory note has since been amended and the balance at March 31, 2020 was \$278,195. The note's original a maturity date of August 3, 2019 was extended to September 18, 2020. The amended note bears interest at 1.25% per month. The Company made \$315,000 in principal payments in the year ended March 31, 2020. We have accrued interest on the note of \$9,080. Subsequent to March 31, 2020, the related party note and accrued interest was paid in full.

In December of 2019, the Company entered into a Promissory Note of \$90,000 with Fred Wagenhals, the Company's Chief Executive Officer and Chairman of the Board of Directors. The Note originally matured on June 12, 2020 and had an interest rate at the applicable LIBOR Rate. The promissory note has since been amended and the balance at March 31, 2020 was \$156,536 and the amended maturity date is September 18, 2020. The Company made \$70,000 in principal payments in the year ended March 31, 2020. The amended note bears interest at 1.25% per month. We have accrued interest on the note of \$1,287. Subsequent to March 31, 2020, the related party note and accrued interest was paid in full.

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AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

NOTE 14 – INCOME TAXES

The income tax (provision) benefit for the periods shown consist of the following:

	2020	2019
Current		
US Federal	\$ -	\$ -
US State	-	-
Total current provision	-	-
Deferred		
US Federal	2,678,176	1,965,258
US State	630,916	462,969
Total deferred benefit	3,309,092	2,428,227
Change in valuation allowance	(3,309,092)	(2,428,227)
Income tax (provision) benefit	\$ -	\$ -

The reconciliation of income tax expense computed at the U.S. federal statutory rate of 21% to the income tax provision for the years ended March 31, 2020 and 2019 is as follows:

	2020	2019
Computed tax expense	\$ (3,056,903)	\$ (2,458,977)
State taxes, net of Federal income tax benefit	(684,164)	(550,342)
Change in valuation allowance	3,309,092	2,428,227
Employee stock awards	231,692	301,454
Stock grants	137,477	180,679
Stock for services	90,541	5,744
Rent expense	13,358	-
Non-deductible meals & entertainment	7,833	1,003
Stock and warrants on note conversion	-	92,212
Contingent consideration fair value	(48,926)	-
Total provision for income taxes	\$ -	\$ -

The Company's effective tax rates were 0% and 0% for the years ended March 31, 2020 and 2019, respectively. During the year ended March 31, 2020, the effective tax rate differed from the U.S. federal statutory rate primarily due to the change in the valuation allowance.

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AMMO, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 2020 and March 31, 2019

Significant components of the Company's deferred tax liabilities and assets at March 31, 2020 and March 31, 2019 are as follows:

	2020	2019
Deferred tax assets		
Net operating loss carryforward	\$ 7,571,092	\$ 3,950,078
Loss on purchase	544,366	544,366
Other	211,158	2,629
Total deferred tax assets	\$ 8,326,616	\$ 4,497,073

Deferred tax liabilities		
Depreciation expense	\$ (1,059,771)	\$ (512,945)
Other	-	(26,376)
Total deferred tax liabilities	\$ (1,059,771)	\$ (539,321)
Net deferred tax assets	\$ 7,266,845	\$ 3,957,752
Valuation allowance	(7,266,845)	(3,957,752)
	\$ -	\$ -

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. The Company considers the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the information available and due to the last years significant losses there is substantial doubt related to the Company's ability to utilize its deferred tax assets, the Company recorded a full valuation allowance of the deferred tax asset. For the year ended March 31, 2020, the valuation allowance has increased by \$3,309,092.

At March 31, 2020, the Company had Federal net operating loss carry forwards ("NOLs") for income tax purposes of \$29,459,502. A valuation allowance has been provided for the deferred tax asset as it is uncertain whether the Company will have future taxable income. There were \$5,144,926 of NOLs generated prior to 2018 will begin to expire in 2036. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") signed in to law on March 27, 2020, provided that NOLs generated in a taxable year beginning in 2018, 2019, or 2020, may now be carried back five years and forward indefinitely. In addition, the 80% taxable income limitation is temporarily removed, allowing NOLs to fully offset net taxable income. In accordance with Section 382 of the Internal Revenue Code, the future utilization of the Company's net operating loss to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. The Company does not believe that such an ownership change has occurred to date.

The Company accounts for uncertain tax positions in accordance with ASC No. 740-10-25. ASC No. 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC No. 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amount recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. ASC No. 740-10-25 also requires management to evaluate tax positions taken by the Company and recognize a liability if the Company has taken uncertain tax positions that more likely than not would not be sustained upon examination by applicable taxing authorities. The Company has evaluated tax positions taken by the Company and has concluded that as of March 31, 2020 and 2019, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability that would require disclosure in the financial statements.

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, and 2020 are subject to audit.

AMMO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and March 31, 2019

NOTE 15 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	March 31, 2020			
	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	-	-	2,125,076
		<u>250,000</u>	<u>7,074,005</u>	<u>5,146,237</u>
Accumulated amortization – Licensing Agreements		(158,333)	-	-
Accumulated amortization – Patents		-	(561,096)	-
Accumulated amortization – Intangible Assets		-	-	(1,435,030)
		<u>\$ 91,667</u>	<u>\$ 6,512,909</u>	<u>\$ 3,649,404</u>

	March 31, 2019			
	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	-	-	1,666,774
Intellectual Property	3	-	-	1,773,436
Tradename	5	-	-	2,472,095
		<u>250,000</u>	<u>7,074,005</u>	<u>5,912,305</u>
Accumulated amortization – Licensing Agreements		(108,333)	-	-
Accumulated amortization – Patents		-	(134,701)	-
Accumulated amortization – Intangible Assets		-	-	(61,803)
		<u>\$ 141,667</u>	<u>\$ 6,939,304</u>	<u>\$ 5,850,502</u>

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

Years Ended March 31,	Estimates for Fiscal Year
2021	1,971,803
2022	1,915,690
2023	923,791
2024	903,190
2025	493,351
Thereafter	<u>4,046,155</u>

NOTE 16 - SUBSEQUENT EVENTS

In April of 2020, the Company determined it was necessary to obtain additional funds as a result of the foregoing uncertainty cause by COVID-19. The Company received approximately \$1.0 million in funds through itself and its wholly owned subsidiary Jagemann Munition Components, which was established under the federal Coronavirus Aid, Relief, and Economic Security Act and is administered by the U.S. Small Business Administration. The Company received approximately \$600,000 from Western State Bank and its wholly owned subsidiary, Jagemann Munition Components, received approximately \$400,000 from BMO Harris. The Payroll Protection Notes provide for an interest rate of 1.00% per year and matures two years after the issuance date. Accordingly, the Company has recorded these notes as long term liabilities subsequent to March 31, 2020. Principal and accrued interest are payable monthly in equal installments commencing on the date that is six months after the date funds are first disbursed on the loan and continuing through the maturity date, unless the Payroll Protection Notes are forgiven. To be available for loan forgiveness, the PPP Note may only be used for payroll costs, costs related to certain group health care benefits and insurance premiums, rent payments, utility payments, mortgage interest payments and interest payments on any other debt obligation that existed before February 15, 2020.

On June 17, 2020, the Company entered into a revolving inventory loan and security agreement with FSW Funding, LLC. The facility is for up to \$1,750,000 on the lesser of 50% of inventory cost or the maximum loan amount and has an annualized interest rate of to the greater of (i) the three-month LIBOR rate plus 3.09% or (ii) 8%. A loan fee of 2% will be assessed to the Company at each anniversary. Additionally, the Company extended its Factoring and Security Agreement with FSW Funding until June 17, 2022 (See Note 6).

Subsequent to March 31, 2020, the Company issued 180,916 shares of Common Stock to employees as compensation with values per share ranging from \$1.56 to \$2.50 for a total value of \$339,132. The Company sold 11,500 shares to employees for a total value of \$14,375 or \$1.25 per share. Additionally, the Company issued 8,336 shares for services provided to the Company totaling \$13,171 or \$1.58 per share. There were 279 shares of Common Stock were issued a result of a cashless exercise of 1,967 warrants. Holders of Warrants of our Common Stock exercised there warrants and received 60,607 shares of Common Stock for a value of \$121,214 or \$2.00 per share. Additionally, the Company issued 1,157,143 shares of its Common Stock to investors for Cash at \$1.75 per share totaling \$2,025,000.

As reported on the Form 8-K filed July 2, 2020, On June 26, 2020, the Company, its wholly owned subsidiary Enlight Group II LLC (d/b/a Jagemann Munition Components) and Jagemann Stamping Company (“JSC”) entered into a Settlement Agreement pursuant to which the parties mutually agreed to settle all disputes and mutually release each other from liabilities related to the Amended APA occurring prior to June 26, 2020 (the “Settlement Agreement”). Pursuant to the Settlement Agreement, the Company shall pay JSC \$1,269,977 and shall provide JSC with: (i) two new promissory notes, a note of \$5,803,800 related to the Seller Note and note of \$2,635,797 for inventory and services, both with a maturity date of August 15, 2021 (“Notes”), (ii) general business security agreements granting JSC a security interest in all personal property of the Company. Pursuant to the Notes, the Company is obligated to make monthly payments totaling \$204,295 to JSC. In addition, the Notes have a mandatory prepayment provision that comes into effect if the Company conducts a publicly registered offering (an “Offering”). Pursuant to such provision, the Company: (a) upon the closing of an Offering of less than \$10,000,000 would be obligated to pay the lesser of ninety percent (90%) of the Offering proceeds or seventy (70%) of the then aggregate outstanding balance of the Notes; and (b) upon the closing of an Offering of more than \$10,000,000 would be obligated to pay one hundred percent (100%) of the then aggregate outstanding balance of the Notes. The Company was granted an option to repurchase up to 1,000,000 of the shares of the Company’s common stock issued to JSC under the Amended APA at a price of \$1.50 per share through April 1, 2021 so long as there are no defaults under the Settlement Agreement. The Settlement Agreement and Notes are attached as exhibits to this filing.

We evaluated subsequent events through the date the financial statements were issued, and determined that there are not any other items to disclose.

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into on this 26th day of June, 2020 by and between Jagemann Stamping Company, a Wisconsin corporation (“Jagemann”), on the one hand and Enlight Group II, LLC, a Delaware limited liability company (“Enlight”), and AMMO, Inc., a Delaware corporation (“AI”) on the other hand. Enlight and AI are referred to herein collectively as “AMMO”. Jagemann and AMMO are referred to herein individually as a “Party” and collectively as the “Parties”.

Recitals

A. Enlight and AI (as guarantor) are parties to a Promissory Note, dated as of March 14, 2019, as amended to date (as so amended, the “Note”), in favor of Jagemann in the original principal amount of \$10,400,000.

B. Enlight is a party to a Security Agreement, dated as of March 14, 2019 (the “Security Agreement”) in favor of Jagemann. Pursuant to the Security Agreement, Jagemann has a security interest in the assets listed on Exhibit A to the Security Agreement, including but not limited to certain tooling and equipment located within Jagemann’s facility located at 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217 (the “Facility”).

C. Jagemann and Enlight are parties to an Administrative and Management Services Agreement, effective as of March 14, 2019 (the “Services Agreement”), whereby Jagemann has provided certain access to portions of the Facility and other administrative and management services to Enlight.

D. Jagemann, Enlight, and AI are parties to an Amended Asset Purchase Agreement dated as of March 14, 2019 (the “APA”).

E. Jagemann has alleged that Enlight and AI are in default and/or breach of the Note, the Security Agreement, the Services Agreement, and that Enlight has failed to pay for products and services sold to Jagemann. Enlight and AI have alleged that Jagemann breached the APA and other legal duties in connection with the sale of certain assets pursuant to the APA. These allegations by the Parties are referred to hereafter as the “Dispute.”

F. Jagemann and AMMO have agreed to settle and compromise the Dispute in order to avoid litigation and expenses, without admission of liability by any Party;

G. Jagemann and AMMO, in consideration of these Recitals and the Mutual Covenants set forth below, agree as follows:

Mutual Covenants

1. Effectiveness. This Settlement Agreement is effective upon and the Parties execution of the Agreement, payment of the amount set forth in Section 2 below and execution and delivery of the promissory notes and related documents referenced in Sections 3 and 4 below.

2. Payment. Upon execution of this Settlement Agreement, AMMO shall pay Jagemann \$1,269,977 by wire transfer based on wire transfer instructions provided by Jagemann.

3. New Promissory Notes and Collateral. Upon execution of this Settlement Agreement, AMMO shall provide Jagemann (a) new promissory notes in the form of those attached as Exhibits A-1 and A-2 to this Settlement Agreement in the aggregate principal amount of \$8,439,597 (collectively, the “New Notes”), (b) general business security agreements in the forms agreed to by the Parties granting Jagemann liens on all personal property of AMMO, (c) a landlord waiver in the form agreed to by the Parties from AI’s Payson, Arizona landlord and (d) an intercreditor agreement in the form agreed to by the Parties among Jagemann, AMMO and AMMO’s other lenders. The Note in the form of Exhibit A-1 shall reflect a refinancing of the principal balance of the Note and a reduction of the outstanding principal balance of the Note. The Note in the form of Exhibit A-2 shall reflect a refinancing of the aggregate outstanding balance of amounts owing by Enlight to Jagemann for accrued interest and for products and services sold by Jagemann to Enlight, after payment of the amount referenced in Section 2 above.

4. Use Agreement. Upon execution of this Settlement Agreement, the Parties shall enter into a new use agreement governing the use of that portion of the Facility currently used by AMMO, in the form of that attached as Exhibit B (the “New Use Agreement”).

5. Termination of Services Agreement. Upon the effectiveness of this Settlement Agreement, including effectiveness of the New Use Agreement, the Services Agreement shall automatically and without further action by the Parties terminate, and all obligations of the Parties set forth therein shall be deemed to be null and void. For the avoidance of doubt, upon the effectiveness of this Settlement Agreement, except as expressly stated in the New Use Agreement, Jagemann is not obligated to provide any services to AMMO in the future, absent a mutual agreement to provide such services at rates/charges and terms for such services that are mutually agreeable to the Parties.

6. AI Option to Repurchase Stock. Upon the effectiveness of this Settlement Agreement and continuing through and including April 1, 2021, provided that no default or event of default then exists under the New Notes, AI shall have the option (the “Option”) to repurchase from Jagemann up to 1,000,000 shares (“Shares”) of AI restricted stock remitted to Jagemann by AMMO as part of the original consideration paid under the APA. The price for any the Shares purchased by AI shall be paid in cash in an amount equal to \$1.50 per Share. In the event AMMO desires to exercise the Option, it shall provide written notice of such election to Jagemann on or prior to April 1, 2021, and Jagemann will transfer such shares to AMMO, contemporaneous with payment therefor, within 10 days of such notice. The Parties agree to execute, at their own respective expense, such documentation as is required to reflect the transfer of such Shares. Such documentation will include a replacement certificate of shares without any restrictive legend issued by AI and evidence that the replacement shares are duly authorized and validly issued.

In the event of any stock dividend, stock split, combination or exchange of AMMO shares, merger, consolidation, spin-off or other distribution (other than normal cash dividends) of AMMO assets to shareholders, or any other change affecting Shares, such that an adjustment is required in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Option, then Jagemann and AMMO will adjust the aggregate number of Shares and price per Share accordingly. For example, in the case of a 2-for-1 stock split affecting the Shares, the number of Shares subject to the Option will increase to 2,000,000 and the price per share decreases to \$0.75 per share.

7. Inventory. Jagemann is currently holding certain brass casing inventory related to Enlight's business at the Facility (the "Subject Inventory"). Attached as Exhibit C is a listing of the Subject Inventory. AMMO agrees to use best efforts to purchase the Subject Inventory from Jagemann within 120 days after the date of this Settlement Agreement. Jagemann shall have the right to sell the Subject Inventory as it sees fit if AMMO does not purchase the Subject Inventory during such period, and AMMO hereby agrees that any such sale of the Subject Inventory shall not constitute a violation of any agreement by and among the Parties, including but not limited to the Intellectual Property Sale, Assignment & License Agreement between Jagemann and Enlight entered into as of March 14, 2019. Notwithstanding the foregoing and for the avoidance of doubt, upon the effectiveness of this Settlement Agreement, Jagemann is not obligated to sell inventory to AMMO in the future, absent a mutual agreement to provide such inventory on terms that are mutually agreeable to the Parties.

8. Jagemann Releases AMMO. Jagemann, for itself and its parent company, subsidiaries, affiliated entities, insurers, predecessors, successors, assigns, officers, directors, shareholders, employees, attorneys and agents, (hereinafter collectively the "Jagemann Releasing Parties") releases and discharges AMMO, its parent company, subsidiaries, affiliated entities, insurers, predecessors, successors, assigns, officers, directors, shareholders, employees, attorneys and agents, (hereinafter collectively the "AMMO Released Parties"), from any and all claims, known or unknown, which the Jagemann Releasing Parties now has or in the future may have arising from anything that has occurred prior to the date of this release.

9. AMMO Releases Jagemann. AMMO, for itself and its parent company, subsidiaries (including but not limited to Enlight), affiliated entities, insurers, predecessors, successors, assigns, officers, directors, shareholders, employees, attorneys and agents, (hereinafter collectively the "AMMO Releasing Parties") releases and discharges Jagemann, its parent company, subsidiaries, affiliated entities, insurers, predecessors, successors, assigns, officers, directors, shareholders, employees, attorneys and agents, (hereinafter collectively the "Jagemann Released Parties"), from any and all claims, known or unknown, which the AMMO Releasing Parties now has or in the future may have arising from anything that has occurred prior to the date of this release.

10. Unknown Personal Injury or Property Damage Claims. Notwithstanding the releases contained in Sections 8 and 9 above, Jagemann and AMMO agree that, in the event of a future claim arising out of personal injury or property damage first asserted and first known after the effectiveness of this Settlement Agreement brought against any of the Jagemann Releasing Parties or AMMO Releasing Parties by a third-party (i.e. not any of the Jagemann Releasing Parties or AMMO Releasing Parties) each of Jagemann and AMMO reserve their rights to assert claims for contribution or indemnification, under any basis at law or in equity, against the other Party or any other person being released in Sections 8 and 9 above.

11. Opportunity to Consult with Counsel/Consider Future Claims. The Parties acknowledge that they have had a reasonable opportunity to consult with counsel concerning this Settlement Agreement. The Parties also acknowledge that they are providing mutual, general releases and have had a reasonable opportunity to consider whether there may be damages, injuries, claims, obligations and liabilities which presently are unknown, unforeseen or not yet in existence, and intend to release same as set forth in this Settlement Agreement.

12. No Acknowledgment of Fault. The Parties agree that this settlement is the compromise of disputed claims and agree that nothing in this Settlement Agreement shall be construed as an admission of any fault or liability by any Party.

13. Exchange of Signatures. Signature pages may be transmitted by facsimile or electronically. Upon delivery via facsimile or electronically, a signature shall be deemed an original and shall be admissible in evidence.

14. Entire Agreement. This Settlement Agreement represents the entire agreement between the Parties and supersedes all prior negotiations, representations or agreements between the Parties, either written or oral. The Parties are not relying on any statements or promises other than what is said in this Settlement Agreement.

15. Amendment to Agreement. This Settlement Agreement may be amended only by written instrument designated as an amendment to this Settlement Agreement and executed by the Parties to this Settlement Agreement (or their successors).

16. Choice of law. All disputes arising under or relating to this Settlement Agreement shall be governed by, and the terms of this Settlement Agreement shall be construed and interpreted in accordance with, the laws of the State of Wisconsin without regard to conflict of law principles.

17. Governing Law; Submission to Jurisdiction.

(a) This Settlement Agreement shall be governed by and construed in accordance with the internal laws of the State of Wisconsin without giving effect to any choice or conflict of law provision or rule (whether of the State of Wisconsin or any other jurisdiction).

(b) Any action to enforce or interpret this Settlement Agreement, or to resolve disputes with respect to this Settlement Agreement shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (except as provided in subsection (b) below). Except as provided in subsection (b) below, arbitration shall be the exclusive dispute resolution process. Any Party may commence arbitration by sending a written demand for arbitration to the other Party. Such demand shall set forth the nature of the matter to be resolved by arbitration. Any arbitration proceeding instituted under this Settlement Agreement shall be conducted in the English language through an office of the American Arbitration Association located in or near Manitowoc County, Wisconsin unless a different location is selected by joint written consent of the Parties. The costs of the arbitration, including any American Arbitration Association administration fee, the arbitrator's fee, and costs for the use of facilities during the hearings, shall be borne equally by the Parties to the arbitration; provided, however, that the prevailing party shall be entitled to reimbursement of such fees, costs and attorneys' fees and expenses incurred in connection with the arbitration at the discretion of the arbitrator. All decisions of the arbitrator shall be final, binding, non-appealable and conclusive on all Parties. Judgment may be entered upon any such decision in accordance with applicable law in any court having jurisdiction thereof. The arbitrator (if permitted under applicable law) or such court may issue a writ of execution to enforce the arbitrator's decision.

(c) The provisions of Section 17 hereof shall not be construed as prohibiting any Party to this Settlement Agreement from applying to any court of competent jurisdiction for such injunctive or other provisional relief as may be necessary to protect that Party from irreparable harm or injury or to preserve the status quo pending resolution of a dispute.

18. Waiver of Jury Trial. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS SETTLEMENT AGREEMENT OR THE OTHER ANCILLARY AGREEMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS SETTLEMENT AGREEMENT, THE OTHER ANCILLARY AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY TO THIS SETTLEMENT AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS SETTLEMENT AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

19. Construction. This Settlement Agreement has been drafted with the assistance of counsel for each Party and shall not be construed in favor of, or against, any Party.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have executed this Settlement Agreement as of the date first written above.

Jagemann Stamping Company:

BY/s/ Tom Jagemann

Its CEO

Enlight Group II, LLC:

BY/s/ Fred Wagenhals

Its CEO, Ammo, Inc. - Managing Member

AMMO, Inc.:

BY/s/ Fred Wagenhals

Its CEO

EXHIBIT A-1

THE SECURITY REPRESENTED HEREBY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR ANY APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SUCH STATE SECURITIES LAWS, OR AN EXEMPTION FROM REGISTRATION THEREUNDER.

PROMISSORY NOTE A

\$5,803,800.00

Manitowoc, Wisconsin
June 26, 2020

FOR VALUE RECEIVED, the undersigned, ENLIGHT GROUP II, a Delaware limited liability company whose principal address is 7681 East Gray Road, Scottsdale, Arizona (“EGII”), and AMMO, INC., a Delaware corporation whose principal address is 7681 East Gray Road, Scottsdale, Arizona (“AMMO”) (EGII and AMMO are individually and together referred to herein as “Borrower”, as the context shall permit or allow), hereby promises to pay to the order of JAGEMANN STAMPING COMPANY, a Wisconsin corporation, whose principal address is 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217 (“Lender”), the principal sum of Five Million Eight Hundred Three Thousand Eight Hundred and 00/100 Dollars (\$5,803,800.00), plus interest thereon as set forth below, on or prior to the Maturity Date (as defined in Section 1) to the account of Lender, in accordance with the terms set forth below.

1. Definitions. As used in this Promissory Note A (“Note”), the following terms shall have the following meanings:

“Bankruptcy Default” means any Event of Default described in Sections 6.1(d), 6.1(e) or 6.1(f).

“Business Day” means any day other than a Saturday, Sunday or other day on which banks in Manitowoc, Wisconsin are required to close.

“Closing Date” shall mean June 26, 2020.

“Default” means any act, event, condition or omission which, with the giving of notice or lapse of time, would constitute an Event of Default if uncured or unremedied.

“Dollars” means the lawful currency of the United States.

“Event of Default” means the occurrence of any of the events described in Section 6.1 of this Note.

“Governmental Authority” means any foreign, federal, state, municipal or other government, or any department, commission, board, bureau, agency, public authority or instrumentality thereof or any court or arbitrator.

“Loan” means the extension of credit made by Lender to Borrower evidenced by this Note.

“Maturity Date” means August 15, 2021, or such earlier date on which the obligations under this Note become due and payable pursuant to the terms hereof.

“Payment Date” means the 10th day of each month of each fiscal year of Borrower; provided that if the 10th day of a month is not a Business Day, the payment due on such date shall be due on the immediately preceding Business Day.

“Person” means any natural person, corporation, limited liability company, joint venture, limited liability partnership, partnership, association, trust or other entity or any Governmental Authority.

“Related Documents” means this Note, the Settlement Agreement, the Use Agreement, the General Business Security Agreements dated as of the date hereof from Borrower to Lender and the Security Agreement dated March 14, 2019 from EGII to Lender, all as amended, restated, replaced, supplemented or otherwise modified from time to time.

“Settlement Agreement” means the Settlement Agreement dated as of the date hereof among Lender, EGII and AMMO.

“Use Agreement” means the Use Agreement dated as of the date hereof between Lender and EGII.

2. Interest Rate; Default Rate; Late Fee.

2.1 Interest Rate. The interest rate to be applied to the unpaid principal balance of the Loan will be a per annum rate equal to the 9.0%. Interest on this Note is computed on an Actual 360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

2.2 Default Rate. Notwithstanding the foregoing, upon the occurrence and during the continuance of an Event of Default, the unpaid principal balance of the Loan and any accrued and unpaid interest shall bear interest at an annual rate (the “Default Rate”) equal to the rate otherwise in effect under Section 2.1 plus 3.0 percentage points, payable upon demand. On and after the Maturity Date, the unpaid principal balance of the Loan and all accrued interest thereon shall bear interest at the Default Rate, payable upon demand.

2.3 Late Fee. If a payment is not made on or before the 15th day after its due date, Borrower will be charged 5.00% of the unpaid portion of the regularly scheduled payment.

2.4 Maximum Rate of Interest. Nothing herein contained shall be deemed to require Borrower to pay or be liable for the payment of interest upon the Loan in excess of the maximum legal rate of interest (if there be any maximum) allowable under the laws of the State of Wisconsin. If for any reason interest in excess of the amount as limited in the foregoing sentence shall have been paid hereunder, whether by reason of acceleration of this Note, payment of any penalty or premium, or otherwise, then and in that event, any such excess interest shall constitute and be treated as a payment of principal hereunder and shall operate to reduce the principal balance of the Loan by the amount of such excess, or if in excess of the then outstanding principal balance of the Loan, such excess shall be refunded.

3. Payments.

3.1 Principal and Interest. The unpaid principal balance of the Loan outstanding from time to time, together with accrued interest thereon, shall be repayable in equal monthly installments of principal and interest of \$120,477 each. Such payments shall be due on June 26, 2020 and also on each Payment Date, commencing on July 10, 2020, provided, that any remaining outstanding principal balance of the Loan, together with all unpaid accrued interest thereon, shall be repaid in full on the Maturity Date.

3.2 Application of Payments. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal then to any unpaid collection costs; and then to any late charges. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

3.3 Early Payment. Borrower may pay all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve the Borrower of its obligation to continue to make payments on this Note. Rather, early payments will reduce the principal balance due and may result in Borrower making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: JAGEMANN STAMPING COMPANY, 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217.

3.4 Mandatory Prepayment. Upon the closing of any executed and funded public offering for AMMO ("Offering"), Borrower agrees to remit the following amounts to Lender to be applied as a prepayment of that certain Promissory Note B dated as of the date hereof from Borrower to Lender ("Note B") and, upon payment in full of Note B, to this Note:

(a) In the case of an executed and funded Offering in an amount equal to or less than \$10,000,000, an amount equal to the lesser of (i) ninety percent (90%) of the proceeds of such Offering or (ii) seventy percent (70%) of then aggregate outstanding balance of this Note and Note B; and

(b) In the case of an executed and funded Offering in an amount greater than \$10,000,000, an amount equal to one hundred percent (100%) of then aggregate outstanding balance of this Note and Note B.

4. Prepayment. Borrower may prepay the Loan together with any accrued and unpaid interest thereon at any time in whole or in part without premium or penalty.

5. Representations and Warranties. To induce Lender to make the Loan, Borrower represents and warrants to Lender that:

5.1 Organization; Subsidiaries; Corporate Power. Borrower is a corporation or limited liability company, as applicable, duly organized and validly existing under the laws of the State of Delaware.

5.2 Authorization and Binding Effect. The execution and delivery by Borrower of the Related Documents, and the performance by Borrower of its obligations thereunder: (a) are within its power as a limited liability company and/or corporation, as applicable, (b) have been duly authorized by proper action on the part of the governing body of Borrower, (c) are not in violation of any Requirement of Law, the organizational or charter documents of Borrower or the terms of any agreement, restriction or undertaking to which Borrower is a party or by which Borrower is bound, and (d) do not require the approval or consent of the holders of the equity interests of Borrower, any Governmental Authority or any other Person, other than those obtained and in full force and effect. The Related Documents, when executed and delivered, will constitute the valid and binding obligations of Borrower enforceable in accordance with their terms, except as limited by bankruptcy, insolvency or similar laws of general application affecting the enforcement of creditors' rights and except to the extent that general principles of equity might affect the specific enforcement of such Related Documents.

5.3 Accuracy of Information. All information, certificates or statements given to Lender pursuant to this Note shall be true and complete when given.

6. Events of Default, Acceleration and Remedies.

6.1 Events of Default. The occurrence of any of the following shall constitute an Event of Default under this Note:

(a) Borrower fails to pay all or any portion of any amount due hereunder when the same becomes due and payable, whether at a stated payment date or by acceleration, and such failure continues for ten days following Borrower's receipt of Lender's written notice of such failure; or

(b) any representation or warranty made herein is false in any material respect on the date as of which it is made or as of which the same is to be effective; or

(c) Borrower fails to comply with any term, covenant or agreement contained herein subject to any applicable grace period or cure period; or

(d) Borrower becomes insolvent or fails generally to pay debts as they become due; or

(e) the taking of action by Borrower to become the subject of proceedings under the United States Bankruptcy Code; or the execution by Borrower of a petition to become a debtor under the United States Bankruptcy Code; or the entry of an order for relief under the United States Bankruptcy Code against Borrower; or Borrower making an assignment for the benefit of creditors; or Borrower consenting to the appointment of a custodian, receiver, trustee or other officer with similar powers for it, or for any substantial part of its property; or adjudicating of Borrower as insolvent; or

(f) if any Governmental Authority of competent jurisdiction shall enter an order appointing, without consent of Borrower, as applicable, a custodian, receiver, trustee or other officer with similar powers with respect to Borrower, or with respect to any substantial part of Borrower's property, or if an order for relief relating to Borrower shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Borrower, or if any petition for any such relief shall be filed against Borrower and such petition shall not be dismissed or stayed within 60 days; or

(g) Any breach, violation, or default shall occur under any of the other Related Documents and shall continue beyond any applicable notice and cure period set forth therein.

6.2 Acceleration. Upon the occurrence of:

(a) any Bankruptcy Default, the unpaid principal balance of the Loan and all accrued and unpaid interest thereon at that time outstanding automatically shall mature and become due, and

(b) any other Event of Default, Lender, at any time, at its option, and without notice or demand, may declare the outstanding principal amount of the Loan and all accrued and unpaid interest thereon, due and payable, whereupon such amounts immediately shall mature and become due and payable, all without presentment, protest or notice, all of which hereby are waived.

6.3 Remedies. Upon the occurrence of any Event of Default, Lender, at its option, may enforce or cause to be enforced any of the rights or remedies accorded to Lender at equity or law, by virtue of this Note, the other Related Documents, by statute or otherwise.

7. Miscellaneous.

7.1 Waivers. Borrower expressly hereby waives presentment for payment, protest and demand and notice of protest, demand, dishonor, nonpayment, intent to accelerate and acceleration of this Note, and expressly agrees that this Note, or any payment hereunder, may be extended from time to time before, at or after maturity, without in any way affecting the liability of Borrower.

7.2 Modifications. This Note may only be amended by an instrument in writing signed by the party against whom enforcement of the change or amendment is sought.

7.3 Successors and Assigns. This Note shall be binding upon Borrower and upon Borrower's successors and assigns, and shall inure to the benefit of Lender and its successors and assigns; provided that Borrower's rights under this Note are not assignable without the prior written consent of Lender.

7.4 Severability. In the event that any provision of this Note is deemed to be invalid by reason of the operation of any law or by reason of the interpretation placed thereon by any Governmental Authority, the validity, legality and enforceability of the remaining terms and provisions of this Note shall not in any way be affected or impaired thereby, all of which shall remain in full force and effect, and the affected term or provision shall be modified to the minimum extent permitted by law so as to achieve most fully the intention of this Note.

7.5 Time of the Essence. Time for the performance of the obligations under this Note is of the essence.

7.6 Expenses. Borrower agrees to pay on demand (i) all out-of-pocket expenses incurred by Lender in connection with the administration, amendment or enforcement of this Note and the other Related Documents including the reasonable fees and expenses of Lender's counsel, (ii) any taxes (including any interest and penalties relating thereto) payable by Lender on or with respect to the transactions contemplated by this Note (Borrower hereby agreeing to indemnify Lender with respect thereto) and (iii) all out-of-pocket expenses, including the reasonable fees and expenses of Lender's counsel, incurred by Lender in connection with any litigation, proceeding or dispute in any way related to Lender's relationship with Borrower, whether arising hereunder or otherwise. The obligations of Borrower under this paragraph will survive payment of this Note.

7.7 Governing Law. This Note shall be construed in accordance with and governed by the laws and decisions of the State of Wisconsin.

7.8 Setoff. As security for payment of this Note, Borrower grants to Lender a security interest in and lien on any credit balance or other money now or hereafter owed Borrower by Lender. In addition, Borrower agrees that Lender may, at any time after the occurrence of an Event of Default, without prior notice, set off against any such credit balance or other money all or any part of this Note, irrespective of whether Lender shall have made demand under this Note and although such obligations may be contingent or unmatured.

7.9 Notices. All notices provided for herein shall be in writing and shall be (a) personally delivered or (b) sent by express or first class mail; and, if to Lender, addressed to it at 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217, attention: Ralph Hardt and, if to Borrower, addressed to it at 7681 East Gray Road, Scottsdale, Arizona 85260, attention: Fred Wagenhals and John Flynn, or to such other address with respect to any party as such party shall notify the others in writing; such notices shall be deemed given when delivered, mailed or so transmitted.

7.10 Joint and Several. If Borrower is comprised of more than one Person, the obligations of such Persons under this Note and the other Related Documents shall be joint and several.

7.11 No Novation. This Note, together with Note B, amends, restates and supersedes in its entirety, and is given as a replacement for, and not in satisfaction of or as a novation with respect to, that certain Promissory Note in the principal amount of \$10,400,000, executed by Borrower in favor of Lender and dated March 14, 2019, as amended to date.

7.12 Jury Waiver. BORROWER AND LENDER (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) BETWEEN BORROWER AND LENDER ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE, ANY OTHER RELATED DOCUMENT OR ANY RELATIONSHIP BETWEEN LENDER AND BORROWER. THIS PROVISION IS A MATERIAL INDUCEMENT TO LENDER TO PROVIDE THE FINANCING DESCRIBED HEREIN.

7.13 Submission to Jurisdiction; Service of Process. ALL JUDICIAL PROCEEDINGS IN ANY MANNER RELATING TO OR ARISING OUT OF THIS NOTE OR ANY OBLIGATIONS HEREUNDER MAY BE BROUGHT ONLY IN COURTS OF THE STATE OF WISCONSIN LOCATED IN MANITOWOC COUNTY OR THE FEDERAL COURT FOR THE EASTERN DISTRICT OF WISCONSIN. BY EXECUTING AND DELIVERING THIS NOTE, BORROWER IRREVOCABLY:

(a) ACCEPTS GENERALLY AND UNCONDITIONALLY THE NONEXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS;

(b) WAIVES ANY DEFENSE OF *FORUM NON CONVENIENS*;

(c) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO BORROWER AT ITS ADDRESS SET FORTH IN THE INTRODUCTORY PARAGRAPH OF THIS NOTE;

(d) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (c) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER BORROWER IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND

(e) AGREES THAT LENDER RETAINS THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING PROCEEDINGS AGAINST BORROWER IN THE COURTS OF ANY OTHER JURISDICTION.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, this Note has been executed and delivered by Borrower as of the date first set forth above.

BORROWER:

ENLIGHT GROUP II, LLC

BY /s/ Fred Wagenhals

Name: Fred Wagenhals

Title: CEO, Ammo, Inc. - Managing Member

AMMO, INC.

BY /s/ Fred Wagenhals

Name: Fred Wagenhals

Title: CEO

EXHIBIT A-2

THE SECURITY REPRESENTED HEREBY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR ANY APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SUCH STATE SECURITIES LAWS, OR AN EXEMPTION FROM REGISTRATION THEREUNDER.

PROMISSORY NOTE B

\$2,635,797.00

Manitowoc,
Wisconsin

June 26, 2020

FOR VALUE RECEIVED, the undersigned, ENLIGHT GROUP II, a Delaware limited liability company whose principal address is 7681 East Gray Road, Scottsdale, Arizona (“EGII”), and AMMO, INC., a Delaware corporation whose principal address is 7681 East Gray Road, Scottsdale, Arizona (“AMMO”) (EGII and AMMO are individually and together referred to herein as “Borrower”, as the context shall permit or allow), hereby promises to pay to the order of JAGEMANN STAMPING COMPANY, a Wisconsin corporation, whose principal address is 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217 (“Lender”), the principal sum of Two Million Six Hundred Thirty-Five Thousand Seven Hundred Ninety-Seven and 00/100 Dollars (\$2,635,797.00), plus interest thereon as set forth below, on or prior to the Maturity Date (as defined in Section 1) to the account of Lender, in accordance with the terms set forth below.

1. Definitions. As used in this Promissory Note B (“Note”), the following terms shall have the following meanings:

“Bankruptcy Default” means any Event of Default described in Sections 6.1(d), 6.1(e) or 6.1(f).

“Business Day” means any day other than a Saturday, Sunday or other day on which banks in Manitowoc, Wisconsin are required to close.

“Closing Date” shall mean June 26, 2020.

“Default” means any act, event, condition or omission which, with the giving of notice or lapse of time, would constitute an Event of Default if uncured or unremedied.

“Dollars” means the lawful currency of the United States.

“Event of Default” means the occurrence of any of the events described in Section 6.1 of this Note.

“Governmental Authority” means any foreign, federal, state, municipal or other government, or any department, commission, board, bureau, agency, public authority or instrumentality thereof or any court or arbitrator.

“Loan” means the extension of credit made by Lender to Borrower evidenced by this Note.

“Maturity Date” means August 15, 2021, or such earlier date on which the obligations under this Note become due and payable pursuant to the terms hereof.

“Payment Date” means the 10th day of each month of each fiscal year of Borrower; provided that if the 10th day of a month is not a Business Day, the payment due on such date shall be due on the immediately preceding Business Day.

“Person” means any natural person, corporation, limited liability company, joint venture, limited liability partnership, partnership, association, trust or other entity or any Governmental Authority.

“Related Documents” means this Note, the Settlement Agreement, the Use Agreement, the General Business Security Agreements dated as of the date hereof from Borrower to Lender and the Security Agreement dated March 14, 2019 from EGII to Lender, all as amended, restated, replaced, supplemented or otherwise modified from time to time.

“Settlement Agreement” means the Settlement Agreement dated as of the date hereof among Lender, EGII and AMMO.

“Use Agreement” means the Use Agreement dated as of the date hereof between Lender and EGII.

2. Interest Rate; Default Rate; Late Fee.

2.1 Interest Rate. The interest rate to be applied to the unpaid principal balance of the Loan will be a per annum rate equal to the 9.0%. Interest on this Note is computed on an Actual 360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

2.2 Default Rate. Notwithstanding the foregoing, upon the occurrence and during the continuance of an Event of Default, the unpaid principal balance of the Loan and any accrued and unpaid interest shall bear interest at an annual rate (the “Default Rate”) equal to the rate otherwise in effect under Section 2.1 plus 3.0 percentage points, payable upon demand. On and after the Maturity Date, the unpaid principal balance of the Loan and all accrued interest thereon shall bear interest at the Default Rate, payable upon demand.

2.3 Late Fee. If a payment is not made on or before the 15th day after its due date, Borrower will be charged 5.00% of the unpaid portion of the regularly scheduled payment.

2.4 Maximum Rate of Interest. Nothing herein contained shall be deemed to require Borrower to pay or be liable for the payment of interest upon the Loan in excess of the maximum legal rate of interest (if there be any maximum) allowable under the laws of the State of Wisconsin. If for any reason interest in excess of the amount as limited in the foregoing sentence shall have been paid hereunder, whether by reason of acceleration of this Note, payment of any penalty or premium, or otherwise, then and in that event, any such excess interest shall constitute and be treated as a payment of principal hereunder and shall operate to reduce the principal balance of the Loan by the amount of such excess, or if in excess of the then outstanding principal balance of the Loan, such excess shall be refunded.

3. Payments.

3.1 Principal and Interest. The unpaid principal balance of the Loan outstanding from time to time, together with accrued interest thereon, shall be repayable in equal monthly installments of principal and interest of \$83,818 each. Such payments shall be due on June 26, 2020 and also on each Payment Date, commencing on July 10, 2020, provided, that any remaining outstanding principal balance of the Loan, together with all unpaid accrued interest thereon, shall be repaid in full on the Maturity Date.

3.2 Application of Payments. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal then to any unpaid collection costs; and then to any late charges. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

3.3 Early Payment. Borrower may pay all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve the Borrower of its obligation to continue to make payments on this Note. Rather, early payments will reduce the principal balance due and may result in Borrower making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: JAGEMANN STAMPING COMPANY, 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217.

3.4 Mandatory Prepayment. Upon the closing of any executed and funded public offering for AMMO ("Offering"), Borrower agrees to remit the following amounts to Lender to be applied as a prepayment of this Note and, upon payment in full of the this Note, to that certain Promissory Note A dated as of the date hereof from Borrower to Lender ("Note A"):

(a) In the case of an executed and funded Offering in an amount equal to or less than \$10,000,000, an amount equal to the lesser of (i) ninety percent (90%) of the proceeds of such Offering or (ii) seventy percent (70%) of then aggregate outstanding balance of this Note and Note A; and

(b) In the case of an executed and funded Offering in an amount greater than \$10,000,000, an amount equal to one hundred percent (100%) of then aggregate outstanding balance of this Note and Note A.

4. Prepayment. Borrower may prepay the Loan together with any accrued and unpaid interest thereon at any time in whole or in part without premium or penalty.

5. Representations and Warranties. To induce Lender to make the Loan, Borrower represents and warrants to Lender that:

5.1 Organization; Subsidiaries; Corporate Power. Borrower is a corporation or limited liability company, as applicable, duly organized and validly existing under the laws of the State of Delaware.

5.2 Authorization and Binding Effect. The execution and delivery by Borrower of the Related Documents, and the performance by Borrower of its obligations thereunder: (a) are within its power as a limited liability company and/or corporation, as applicable, (b) have been duly authorized by proper action on the part of the governing body of Borrower, (c) are not in violation of any Requirement of Law, the organizational or charter documents of Borrower or the terms of any agreement, restriction or undertaking to which Borrower is a party or by which Borrower is bound, and (d) do not require the approval or consent of the holders of the equity interests of Borrower, any Governmental Authority or any other Person, other than those obtained and in full force and effect. The Related Documents, when executed and delivered, will constitute the valid and binding obligations of Borrower enforceable in accordance with their terms, except as limited by bankruptcy, insolvency or similar laws of general application affecting the enforcement of creditors' rights and except to the extent that general principles of equity might affect the specific enforcement of such Related Documents.

5.3 Accuracy of Information. All information, certificates or statements given to Lender pursuant to this Note shall be true and complete when given.

6. Events of Default, Acceleration and Remedies.

6.1 Events of Default. The occurrence of any of the following shall constitute an Event of Default under this Note:

(a) Borrower fails to pay all or any portion of any amount due hereunder when the same becomes due and payable, whether at a stated payment date or by acceleration, and such failure continues for ten days following Borrower's receipt of Lender's written notice of such failure; or

(b) any representation or warranty made herein is false in any material respect on the date as of which it is made or as of which the same is to be effective; or

(c) Borrower fails to comply with any term, covenant or agreement contained herein subject to any applicable grace period or cure period; or

(d) Borrower becomes insolvent or fails generally to pay debts as they become due; or

(e) the taking of action by Borrower to become the subject of proceedings under the United States Bankruptcy Code; or the execution by Borrower of a petition to become a debtor under the United States Bankruptcy Code; or the entry of an order for relief under the United States Bankruptcy Code against Borrower; or Borrower making an assignment for the benefit of creditors; or Borrower consenting to the appointment of a custodian, receiver, trustee or other officer with similar powers for it, or for any substantial part of its property; or adjudicating of Borrower as insolvent; or

(f) if any Governmental Authority of competent jurisdiction shall enter an order appointing, without consent of Borrower, as applicable, a custodian, receiver, trustee or other officer with similar powers with respect to Borrower, or with respect to any substantial part of Borrower's property, or if an order for relief relating to Borrower shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Borrower, or if any petition for any such relief shall be filed against Borrower and such petition shall not be dismissed or stayed within 60 days; or

(g) Any breach, violation, or default shall occur under any of the other Related Documents and shall continue beyond any applicable notice and cure period set forth therein.

6.2 Acceleration. Upon the occurrence of:

(a) any Bankruptcy Default, the unpaid principal balance of the Loan and all accrued and unpaid interest thereon at that time outstanding automatically shall mature and become due, and

(b) any other Event of Default, Lender, at any time, at its option, and without notice or demand, may declare the outstanding principal amount of the Loan and all accrued and unpaid interest thereon, due and payable, whereupon such amounts immediately shall mature and become due and payable, all without presentment, protest or notice, all of which hereby are waived.

6.3 Remedies. Upon the occurrence of any Event of Default, Lender, at its option, may enforce or cause to be enforced any of the rights or remedies accorded to Lender at equity or law, by virtue of this Note, the other Related Documents, by statute or otherwise.

7. Miscellaneous.

7.1 Waivers. Borrower expressly hereby waives presentment for payment, protest and demand and notice of protest, demand, dishonor, nonpayment, intent to accelerate and acceleration of this Note, and expressly agrees that this Note, or any payment hereunder, may be extended from time to time before, at or after maturity, without in any way affecting the liability of Borrower.

7.2 Modifications. This Note may only be amended by an instrument in writing signed by the party against whom enforcement of the change or amendment is sought.

7.3 Successors and Assigns. This Note shall be binding upon Borrower and upon Borrower's successors and assigns, and shall inure to the benefit of Lender and its successors and assigns; provided that Borrower's rights under this Note are not assignable without the prior written consent of Lender.

7.4 Severability. In the event that any provision of this Note is deemed to be invalid by reason of the operation of any law or by reason of the interpretation placed thereon by any Governmental Authority, the validity, legality and enforceability of the remaining terms and provisions of this Note shall not in any way be affected or impaired thereby, all of which shall remain in full force and effect, and the affected term or provision shall be modified to the minimum extent permitted by law so as to achieve most fully the intention of this Note.

7.5 Time of the Essence. Time for the performance of the obligations under this Note is of the essence.

7.6 Expenses. Borrower agrees to pay on demand (i) all out-of-pocket expenses incurred by Lender in connection with the administration, amendment or enforcement of this Note and the other Related Documents including the reasonable fees and expenses of Lender's counsel, (ii) any taxes (including any interest and penalties relating thereto) payable by Lender on or with respect to the transactions contemplated by this Note (Borrower hereby agreeing to indemnify Lender with respect thereto) and (iii) all out-of-pocket expenses, including the reasonable fees and expenses of Lender's counsel, incurred by Lender in connection with any litigation, proceeding or dispute in any way related to Lender's relationship with Borrower, whether arising hereunder or otherwise. The obligations of Borrower under this paragraph will survive payment of this Note.

7.7 Governing Law. This Note shall be construed in accordance with and governed by the laws and decisions of the State of Wisconsin.

7.8 Setoff. As security for payment of this Note, Borrower grants to Lender a security interest in and lien on any credit balance or other money now or hereafter owed Borrower by Lender. In addition, Borrower agrees that Lender may, at any time after the occurrence of an Event of Default, without prior notice, set off against any such credit balance or other money all or any part of this Note, irrespective of whether Lender shall have made demand under this Note and although such obligations may be contingent or unmatured.

7.9 Notices. All notices provided for herein shall be in writing and shall be (a) personally delivered or (b) sent by express or first class mail; and, if to Lender, addressed to it at 5757 West Custer Street, Manitowoc, Wisconsin 54221-0217, attention: Ralph Hardt and, if to Borrower, addressed to it at 7681 East Gray Road, Scottsdale, Arizona 85260, attention: Fred Wagenhals and John Flynn, or to such other address with respect to any party as such party shall notify the others in writing; such notices shall be deemed given when delivered, mailed or so transmitted.

7.10 Joint and Several. If Borrower is comprised of more than one Person, the obligations of such Persons under this Note and the other Related Documents shall be joint and several.

7.11 No Novation. This Note, together with Note A, amends, restates and supersedes in its entirety, and is given as a replacement for, and not in satisfaction of or as a novation with respect to, that certain Promissory Note in the principal amount of \$10,400,000, executed by Borrower in favor of Lender and dated March 14, 2019, as amended to date.

7.12 Jury Waiver. BORROWER AND LENDER (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) BETWEEN BORROWER AND LENDER ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE, ANY OTHER RELATED DOCUMENT OR ANY RELATIONSHIP BETWEEN LENDER AND BORROWER. THIS PROVISION IS A MATERIAL INDUCEMENT TO LENDER TO PROVIDE THE FINANCING DESCRIBED HEREIN.

7.13 Submission to Jurisdiction; Service of Process. ALL JUDICIAL PROCEEDINGS IN ANY MANNER RELATING TO OR ARISING OUT OF THIS NOTE OR ANY OBLIGATIONS HEREUNDER MAY BE BROUGHT ONLY IN COURTS OF THE STATE OF WISCONSIN LOCATED IN MANITOWOC COUNTY OR THE FEDERAL COURT FOR THE EASTERN DISTRICT OF WISCONSIN. BY EXECUTING AND DELIVERING THIS NOTE, BORROWER IRREVOCABLY:

(a) ACCEPTS GENERALLY AND UNCONDITIONALLY THE NONEXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS;

(b) WAIVES ANY DEFENSE OF *FORUM NON CONVENIENS*;

(c) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO BORROWER AT ITS ADDRESS SET FORTH IN THE INTRODUCTORY PARAGRAPH OF THIS NOTE;

(d) AGREES THAT SERVICE AS PROVIDED IN CLAUSE (c) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER BORROWER IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND

(e) AGREES THAT LENDER RETAINS THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING PROCEEDINGS AGAINST BORROWER IN THE COURTS OF ANY OTHER JURISDICTION.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, this Note has been executed and delivered by Borrower as of the date first set forth above.

BORROWER:

ENLIGHT GROUP II, LLC

BY /s/ Fred Wagenhals
Name: Fred Wagenhals
Title: CEO, Ammo, Inc. - Managing Member

AMMO, INC.
BY /s/ Fred Wagenhals
Name: Fred Wagenhals
Title: CEO

EXHIBIT B

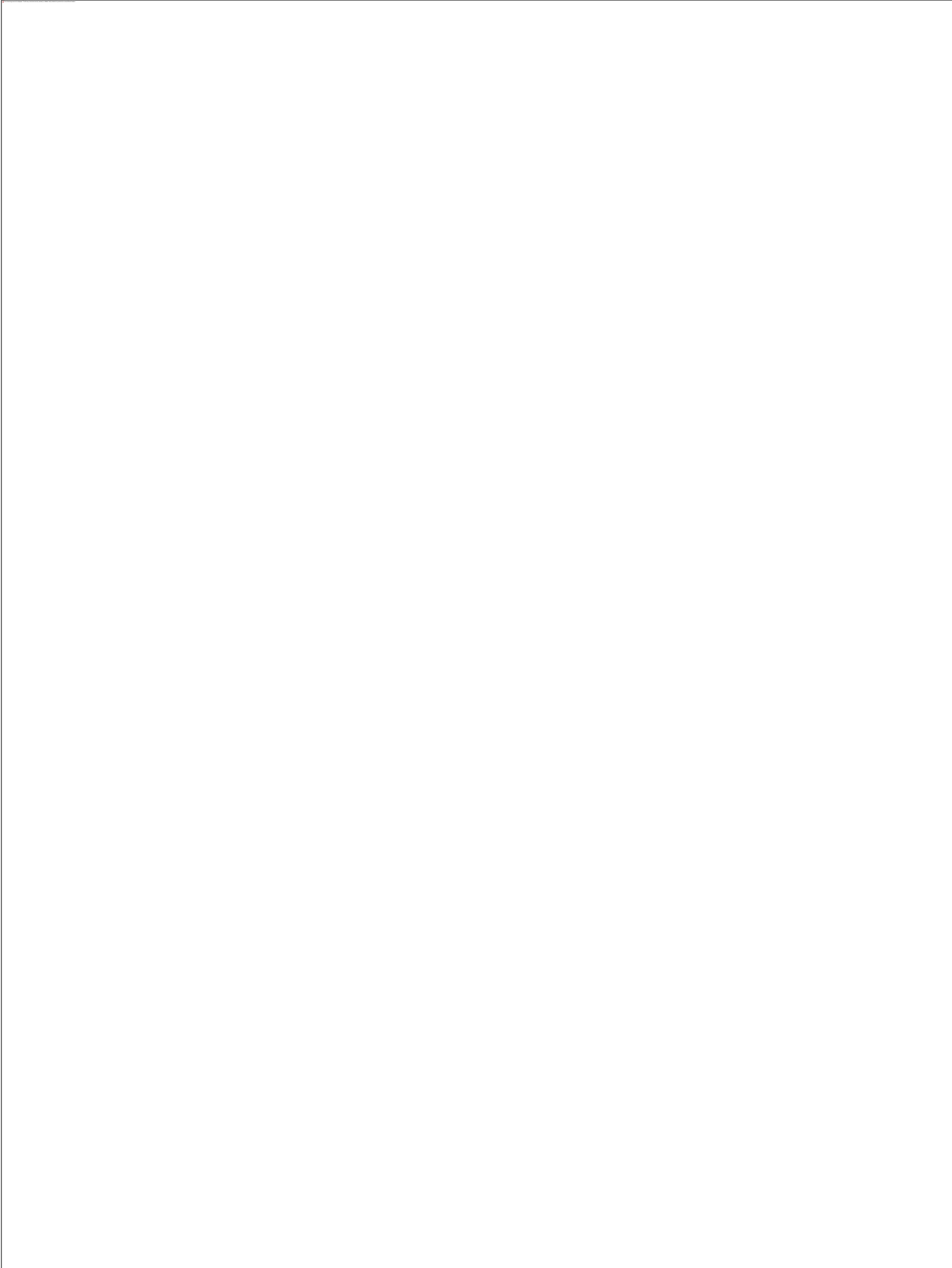
USE AGREEMENT

[Intentionally Withheld]

EXHIBIT C

SUBJECT INVENTORY

[Intentionally Withheld]





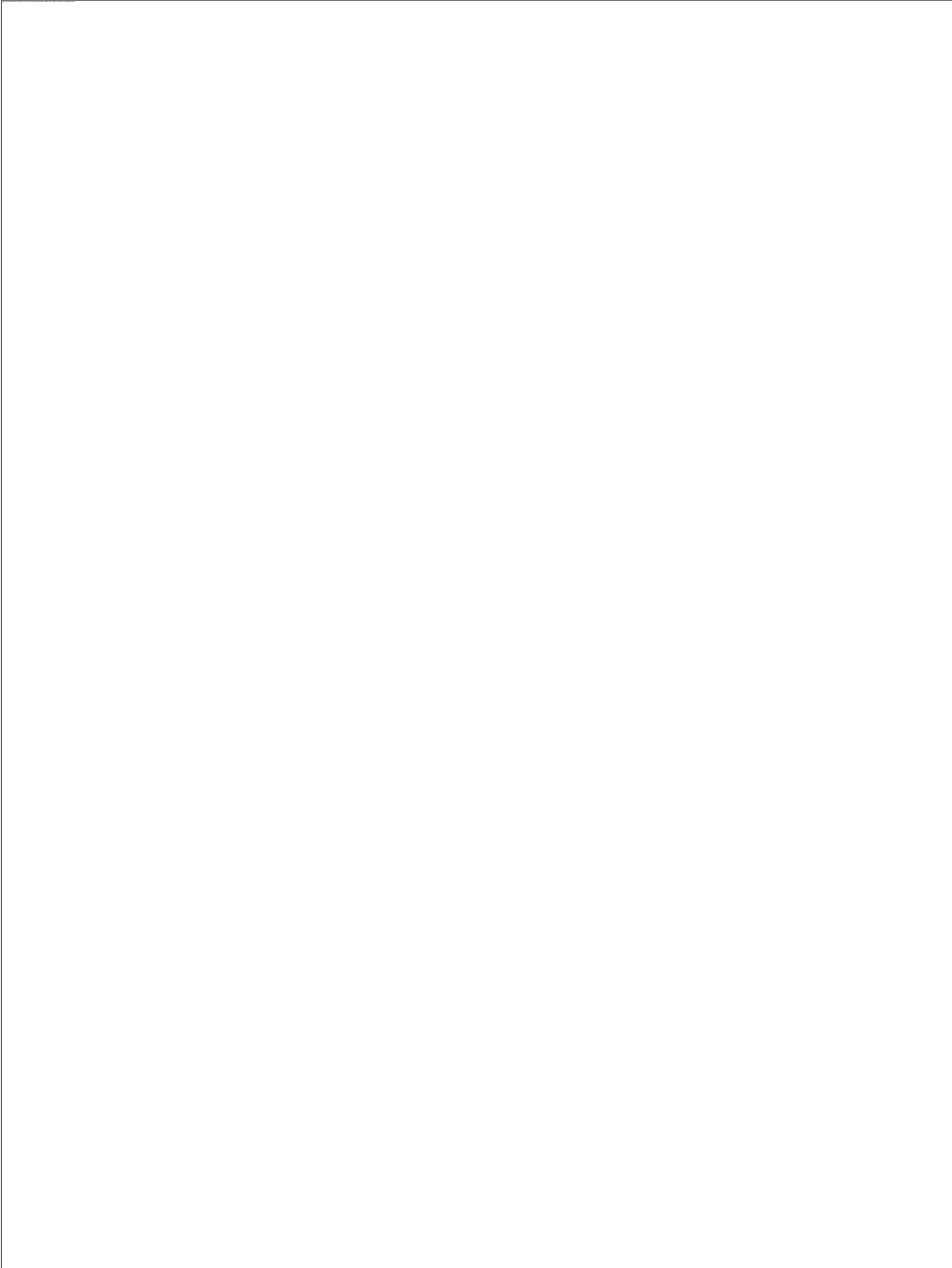












EXHIBIT 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of AMMO, Inc. on Form S-8 [File No. 333-221132] of our report dated August 13, 2020, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, with respect to our audit of the consolidated financial statements of AMMO, Inc. and Subsidiaries as of March 31, 2020 and for the year ended March 31, 2020, which report is included in this Annual Report on Form 10-K of AMMO, Inc. for the year ended March 31, 2020.

Our report on the consolidated financial statements refers to a change in the method of accounting for leases in 2020 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective April 1, 2019 using the modified retrospective approach.

/s/ Marcum LLP

Marcum LLP
New York, NY
August 19, 2020

EXHIBIT 23.2

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement AMMO, Inc. on Forms S-8 (No. 333-221132) of our report dated June 28, 2019, with respect to the consolidated financial statements included in the Annual Report of AMMO, Inc. on Form 10-K for the year ended March 31, 2019.

/s/ KWCO, PC

KWCO, PC

Odessa, TX

Exhibit 31.1

CERTIFICATION

I, Fred W. Wagenhals, certify that:

1. I have reviewed this Annual Report on Form 10-K 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; and

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: August 19, 2020

By: /s/ Fred W. Wagenhals

Name: Fred W. Wagenhals

Title: Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Rob Wiley, certify that:

1. I have reviewed this Annual Report on Form 10-K 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; and

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: August 19, 2020

By: /s/ Robert D. Wiley

Name: Robert D. Wiley

Title: Chief Financial Officer (Principal Financial Officer)

EXHIBIT 32.1

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

In connection with Annual Report of AMMO, Inc. (the "Company") on Form 10-K for the period ended March 31, 2020 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 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: August 19, 2020

By: /s/ Fred W. Wagenhals

Name: Fred W. Wagenhals

Title: Chief Executive Officer (Principal Executive Officer)

EXHIBIT 32.2

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

In connection with Annual Report of AMMO, Inc. (the “ Company”) on Form 10-K for the period ended March 31, 2020 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 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: August 19, 2020

By: /s/ Robert D. Wiley

Name: Robert D. Wiley

Title: Chief Financial Officer (Principal Financial Officer)
