

AD ASTRA FUND II, L.P.  
(a limited partnership)

Financial Statements and Auditors' Report

December 31, 1998 and 1997

**MIZE, HOUSER & COMPANY**  
PROFESSIONAL ASSOCIATION  
CERTIFIED PUBLIC ACCOUNTANTS  
534 S. KANSAS AVE., SUITE 600  
TOPEKA, KANSAS 66603

MIZE, HOUSER & COMPANY

PROFESSIONAL ASSOCIATION

NATIONSBANK TOWER, SUITE 600

534 S. KANSAS AVE.

TOPEKA, KANSAS 66603-3465

Independent Auditors' Report

To the Partners  
Ad Astra Fund II, L.P.  
(a limited partnership)  
Lawrence, Kansas

We have audited the accompanying statements of assets and partners' equity - income tax basis of the Ad Astra Fund II, L.P. (a limited partnership) as of December 31, 1998 and 1997, and the related statements of revenues, expenses and changes in partners' equity - income tax basis, and cash flows - income tax basis. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in the summary of significant accounting policies, these financial statements were prepared on the basis of accounting the Partnership uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and partners' equity of the Ad Astra Fund II, L.P. as of December 31, 1998 and 1997, and its revenues and expenses, changes in partners' equity, and cash flows for the years then ended, on the basis of accounting described in the summary of significant accounting policies.

*Mize, Houser & Company*

Professional Association  
Certified Public Accountants

January 7, 1999  
Topeka, Kansas

AD ASTRA FUND II, L.P.  
(a limited partnership)

Statements of Assets and Partners' Equity  
(Income Tax Basis)  
December 31,

	<u>1998</u>	<u>1997</u>
<u>Assets</u>		
Investments (Note 1):		
Debt	\$ 985,880	\$1,057,763
Equity	<u>844,194</u>	<u>1,054,470</u>
Total investments	1,830,074	2,112,233
Cash and cash equivalents (Note 2)	95,264	127,995
Temporary investments (Note 2)	102,090	394,930
Interest receivable	3,947	53,027
Organization costs, net of accumulated amortization of \$6,865 and \$5,492		1,373
Other assets (Note 3)	<u>101,736</u>	<u>100,000</u>
Total assets	<u>\$2,133,111</u>	<u>\$2,789,558</u>

<u>Partners' Equity</u>		
Partners' equity (Note 5)	<u>\$2,133,111</u>	<u>\$2,789,558</u>
Total partners' equity	<u>\$2,133,111</u>	<u>\$2,789,558</u>

The accompanying summary of significant accounting policies  
and notes are an integral part of this statement

AD ASTRA FUND II, L.P.  
(a limited partnership)

Statements of Revenues, Expenses and Changes in Partners' Equity  
(Income Tax Basis)  
Years Ended December 31,

	<u>1998</u>	<u>1997</u>
Revenue:		
Interest and dividends	\$ <u>38,830</u>	\$ <u>89,372</u>
	<u>38,830</u>	<u>89,372</u>
Expenses:		
Management fee (Note 4)	194,445	194,445
Other administrative	<u>13,830</u>	<u>8,153</u>
	<u>208,275</u>	<u>202,598</u>
Expenses in excess of revenue	(169,445)	(113,226)
Net realized loss on investments	(515,320)	(556,248)
Share of net income (loss) of investment in limited partnership	<u>28,318</u>	<u>(3,241)</u>
Net decrease from operations	(656,447)	(672,715)
Beginning partners' equity	<u>2,789,558</u>	<u>3,462,273</u>
Ending partners' equity	<u>\$2,133,111</u>	<u>\$2,789,558</u>

The accompanying summary of significant accounting policies  
and notes are an integral part of this statement

AD ASTRA FUND II, L.P.  
(a limited partnership)

Statements of Cash Flows  
(Income Tax Basis)  
Years Ended December 31,

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Interest and dividends received	\$ 21,249	\$ 29,776
Cash paid for administrative costs	<u>(208,388)</u>	<u>(201,225)</u>
Net cash used in operating activities	<u>(187,139)</u>	<u>(171,449)</u>
Cash flows from investing activities:		
Purchase of debt securities	(305,085)	(55,000)
Proceeds from equity securities	121,262	
Proceeds from repayment of debt securities	45,641	
Purchase of equity investments		(90,004)
Proceeds from temporary investments	1,023,435	1,305,794
Purchase of temporary investments	(730,595)	(1,342,054)
Purchase of other assets	<u>(250)</u>	<u>          </u>
Net cash provided by (used in) investing activities	<u>154,408</u>	<u>(181,264)</u>
Net decrease in cash	(32,731)	(352,713)
Cash and cash equivalents, beginning of year	<u>127,995</u>	<u>480,708</u>
Cash and cash equivalents, end of year	\$ <u>95,264</u>	\$ <u>127,995</u>
Reconcilement of net decrease from operations to net cash used in operating activities:		
Net decrease from operations	\$ <u>(656,447)</u>	\$ <u>(672,715)</u>
Adjustments to reconcile net decrease from operations to net cash used in operating activities:		
Current year interest income capitalized	(43,574)	(20,408)
Amortization	1,373	1,373
Net realized loss on investments	515,320	556,248
Share of net (income) loss of investment in limited partnership	(28,318)	3,241
Increase in receivables	<u>24,507</u>	<u>(39,188)</u>
Total adjustments	<u>469,308</u>	<u>501,266</u>
Net cash used in operating activities	\$ <u>(187,139)</u>	\$ <u>(171,449)</u>

Noncash Investing Activities

During 1998, the Partnership received equity securities of an investee in exchange for cancellation of their investment in debt securities. The amount of debt exchanged for stock was \$75,000.

The accompanying summary of significant accounting policies  
and notes are an integral part of this statement

AD ASTRA FUND II, L.P.  
(a limited partnership)

Summary of Significant Accounting Policies  
(Income Tax Basis)  
December 31, 1998 and 1997

Organization

The Ad Astra Fund II, L.P. (a limited partnership) was formed July 1993 as a Kansas limited partnership to engage in the business of investing in securities of business enterprises, managing and supervising such investments, advising as to the development of such investments, and engaging in such other incidental and ancillary activities as the general partners deem necessary or advisable. The Partnership was established to continue until December 2003; however, the term may be extended up to five years.

Basis of Accounting

The accompanying financial statements have been prepared on the basis of accounting used for income tax reporting. That basis differs from generally accepted accounting principles primarily because investments are recorded at tax basis instead of estimated current value.

Investments

Investments are reflected in the statement of assets and partners' equity at tax basis (see Note 1). As investments are sold or otherwise disposed of, any gain or loss is reflected as a credit or charge to operations as realized gain or loss on investments.

Investment interest income on debt securities is accrued and recognized as income based on the principal amount outstanding. Recognition of interest income is discontinued when, in the opinion of management, full collection of principal or interest is in doubt. Investment dividend income on equity securities is recognized when received.

Amortization

Organization costs are being amortized on a straight-line basis over 60 months.

Income Tax Status

The Partnership has elected to be treated as a partnership under the Internal Revenue Code. Under this election, the taxable income or loss generated by the Partnership is allocated to the partners. Therefore, no provision or liability for income taxes has been included in the financial statements.

Statements of Cash Flows

For the purposes of the statements of cash flows, the Partnership considers cash and all interest-bearing deposits with original maturity dates of less than three months to be cash equivalents.

AD ASTRA FUND II, L.P.  
(a limited partnership)

Notes to Financial Statements  
(Income Tax Basis)  
December 31, 1998 and 1997

1. Investments

Investments are predominately in start-up companies in the midwest involved in development and implementation of new technology in electrical equipment and communications, medical and pharmaceutical, and industrial, environmental and transportation applications. Estimated market values on investee securities are not readily determinable as no public market exists to serve as a basis for valuation.

Investments held at December 31 are summarized as follows. Investments that represent 5% or more of Partnership equity are separately identified.

<u>1998</u>	<u>Equity</u>	<u>Debt</u>	<u>Total</u>
<b>Electrical equipment and communications:</b>			
Aerocomm, Inc. (80,000 shares common)	\$ 183,000	\$ -	\$ 183,000
IEM, Inc.		85,910	85,910
QuVIS, Inc. (554,766 shares common)	166,271		166,271
Knowledge Communication, Inc. (127,169 shares common)	<u>140,004</u>		<u>140,004</u>
<b>Total electrical equipment and communications</b>	<b>\$ <u>489,275</u></b>	<b>\$ <u>85,910</u></b>	<b>\$ <u>575,185</u></b>
Percent of Partnership equity	<u>23%</u>	<u>4%</u>	<u>27%</u>
<b>Medical and pharmaceutical:</b>			
BioCore Medical Technologies, Inc.	\$ -	\$ 100,000	\$ 100,000
Janus Biomedical, Inc. (12,556 shares preferred)	25,112	181,970	207,082
Other	<u>165,054</u>	<u>10,000</u>	<u>175,064</u>
<b>Total medical and pharmaceutical</b>	<b>\$ <u>190,176</u></b>	<b>\$ <u>291,970</u></b>	<b>\$ <u>482,146</u></b>
Percent of Partnership equity	<u>9%</u>	<u>14%</u>	<u>23%</u>
<b>Industrial and environmental:</b>			
Certified Technologies Corporation (335,000 shares common)	\$ 75,000	\$ -	\$ 75,000
Rubbery Recovery Technologies, Inc.		151,410	151,410
Midwest Superconductivity, Inc.		250,000	250,000
Other	<u>14,743</u>		<u>14,743</u>
<b>Total industrial and environmental</b>	<b>\$ <u>89,743</u></b>	<b>\$ <u>401,410</u></b>	<b>\$ <u>491,153</u></b>
Percent of Partnership equity	<u>4%</u>	<u>19%</u>	<u>23%</u>

AD ASTRA FUND II, L.P.  
(a limited partnership)

Notes to Financial Statements  
(Income Tax Basis)  
December 31, 1998 and 1997

1. Investments (Continued)

<u>1998</u> (Continued)	<u>Equity</u>	<u>Debt</u>	<u>Total</u>
Transportation:			
Star Products International, Inc. (121,600 shares common)	\$ 40,000	\$ 178,552	\$ 218,552
Other	<u>35,000</u>	<u>28,038</u>	<u>63,038</u>
Total transportation	\$ <u>75,000</u>	\$ <u>206,590</u>	\$ <u>281,590</u>
Percent of Partnership equity	<u>3%</u>	<u>10%</u>	<u>13%</u>
Total investments	\$ <u>844,194</u>	\$ <u>985,880</u>	\$ <u>1,830,074</u>
Percent of Partnership equity	<u>39%</u>	<u>47%</u>	<u>86%</u>
<u>1997</u>	<u>Equity</u>	<u>Debt</u>	<u>Total</u>
Electrical equipment and communications:			
Aerocomm, Inc. (80,000 shares common)	\$ 183,000	\$ -	\$ 183,000
IEM, Inc.		171,820	171,820
QuVIS, Inc. (554,766 shares common)	166,271		166,271
Knowledge Communication, Inc. (127,169 shares common)	<u>140,004</u>		<u>140,004</u>
Total electrical equipment and communications	\$ <u>489,275</u>	\$ <u>171,820</u>	\$ <u>661,095</u>
Percent of Partnership equity	<u>18%</u>	<u>6%</u>	<u>24%</u>
Medical and pharmaceutical:			
BioCore Medical Technologies, Inc.	\$ -	\$ 270,330	\$ 270,330
Janus Biomedical, Inc. (12,556 shares preferred)	25,112	166,754	191,866
Other	<u>165,064</u>	<u>18,221</u>	<u>183,285</u>
Total medical and pharmaceutical	\$ <u>190,176</u>	\$ <u>455,305</u>	\$ <u>645,481</u>
Percent of Partnership equity	<u>7%</u>	<u>16%</u>	<u>23%</u>
Industrial and environmental:			
Impact Dynamics, Inc. (101,798 shares common)	\$ 257,178	\$ 91,452	\$ 348,630
Rubbery Recovery Technologies, Inc.		151,410	151,410
Other	<u>42,841</u>		<u>42,841</u>
Total industrial and environmental	\$ <u>300,019</u>	\$ <u>242,862</u>	\$ <u>542,881</u>
Percent of Partnership equity	<u>10%</u>	<u>9%</u>	<u>19%</u>

AD ASTRA FUND II, L.P.  
(a limited partnership)

Notes to Financial Statements  
(Income Tax Basis)  
December 31, 1998 and 1997

1. Investments (Continued)

<u>1997</u> (Continued)	<u>Equity</u>	<u>Debt</u>	<u>Total</u>
Transportation:			
Star Products International, Inc. (121,600 shares common)	\$ 40,000	\$ 131,700	\$ 171,700
Other	<u>35,000</u>	<u>56,076</u>	<u>91,076</u>
Total transportation	\$ <u>75,000</u>	\$ <u>187,776</u>	\$ <u>262,776</u>
Percent of Partnership equity	<u>3%</u>	<u>7%</u>	<u>10%</u>
Total investments	\$ <u>1,054,470</u>	\$ <u>1,057,763</u>	\$ <u>2,112,233</u>
Percent of Partnership equity	<u>38%</u>	<u>38%</u>	<u>76%</u>

2. Cash, Cash Equivalents and Temporary Investments

Cash, cash equivalents and temporary investments consist of the following at December 31:

<u>1998</u>	<u>Cash and Cash Equivalents</u>	<u>Temporary Investments</u>
Operating, savings and money market accounts	\$ 95,264	\$ -
Certificate of deposit, 3.8%	<u>                    </u>	<u>102,090</u>
	\$ <u>95,264</u>	\$ <u>102,090</u>
 <u>1997</u>		
Operating, savings and money market accounts	\$127,995	\$ -
Certificates of deposit, 3.99% to 5.21%	<u>                    </u>	<u>394,930</u>
	\$ <u>127,995</u>	\$ <u>394,930</u>

Cash and cash equivalents at December 31, 1998 include \$79,361 in a mutual money market fund, which is not insured by the Federal Deposit Insurance Corporation or any agency thereof. The fund, however, invests primarily in government guaranteed securities.

AD ASTRA FUND II, L.P.  
(a limited partnership)

Notes to Financial Statements  
(Income Tax Basis)  
December 31, 1998 and 1997

3. Other Assets

In 1995, the Partnership invested \$100,000 in support of attracting a business enterprise to the midwest and receiving the first right of refusal on intellectual property resulting from future research and development.

4. Related Party Transactions

The Partnership pays a management company a monthly management fee. A stockholder and officer of the management company is affiliated with the sole general partner of the Partnership. The Partnership incurred management fees of \$194,445 in 1998 and 1997.

5. Cash Distributions and Allocation of Gains and Losses

If there is a cumulative profit from the inception of the Partnership through the time of allocation, profits shall be allocated 80% to all partners in the ratio of their commitments and 20% to the general partner. Losses shall be allocated to the partners in the same ratio as profits until the cumulative profit is reduced to zero, and thereafter shall be allocated to all partners in the ratio of their commitments.

If there is a cumulative loss from the inception of the Partnership through the time of allocation, profits shall be allocated to all partners in proportion to their commitments until such time as the cumulative loss is reduced to zero, and thereafter, profits shall be allocated 80% to all partners in the ratio of their commitments and 20% to the general partner.

Distributions prior to liquidation and dissolution of the Partnership shall be made at the discretion of the general partner subject to the provisions set forth in the Partnership agreement.

ADDITIONAL INFORMATION

MIZE, HOUSER & COMPANY  
PROFESSIONAL ASSOCIATION  
NATIONSBANK TOWER, SUITE 400  
534 S. KANSAS AVE.  
TOPEKA, KANSAS 66603-3463

Independent Auditors' Report on Additional Information

To the Partners  
Ad Astra Fund II, L.P.  
(a limited partnership)

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole of the Ad Astra Fund II, L.P. (a limited partnership) for the years ended December 31, 1998 and 1997, which are presented in the preceding section of this report. The additional schedules of other administrative expenses - income tax basis presented hereinafter are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the audit procedures and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mize, Houser & Company*

Professional Association  
Certified Public Accountants

January 7, 1999  
Topeka, Kansas

AD ASTRA FUND II, L.P.  
(a limited partnership)

Schedules of Other Administrative Expenses  
(Income Tax Basis)  
Years Ended December 31.

	<u>1998</u>	<u>1997</u>
Legal and professional fees		
Amortization expense	\$ 10,585	\$ 6,391
Bank charges	1,373	1,373
Miscellaneous expense	234	284
	<u>1,638</u>	<u>105</u>
	<u>\$ 13,830</u>	<u>\$ 8,153</u>

See independent auditors' report on additional information

