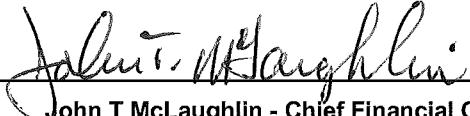


AD ASTRA ROCKET COMPANY and SUBSIDIARIES

(UNAUDITED)

**CONSOLIDATED FINANCIAL STATEMENTS
as of and for the periods ended
March 31, 2015 and December 31, 2014**

Prepared by :


John T McLaughlin - Chief Financial Officer

Date: May 28, 2015

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
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AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
for the periods ended March 31, 2015 and December 31, 2014
(UNAUDITED)

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 138,327	\$ 119,940
Accounts receivable	12,022	4,431
Prepaid expenses	<u>5,449</u>	<u>13,802</u>
Total current assets	<u>155,798</u>	<u>138,173</u>
Property and equipment, net	39,933	49,908
Other assets	<u>64,310</u>	<u>64,934</u>
Total assets	<u>\$ 260,041</u>	<u>\$ 253,015</u>
 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Line of credit, related party	\$ 408,000	\$ 408,000
Current portion of notes payable, bank	8,063	18,217
Note payable, related party	250,000	250,000
Accounts payable	363,260	298,533
Accounts payable, related party	199,893	199,893
Accrued liabilities	931,190	918,965
Interest payable to related party	<u>95,740</u>	<u>92,549</u>
Total current liabilities	<u>2,256,146</u>	<u>2,186,157</u>
Long-term liabilities:		
Long-term debt, bank, net of current portion	<u>238,061</u>	<u>238,649</u>
Total liabilities	<u>2,494,207</u>	<u>2,424,806</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock:		
Series A, par value \$0.01, 2,200 shares authorized;		
369 shares issued and outstanding	4	4
Series C, par value \$0.01, 1,000 shares authorized; 26		
issued and outstanding	-	-
Common stock, par value \$0.01, 75,000,000 shares authorized;		
20,837,713 and 20,835,685 shares issued and outstanding	208,381	208,357
Additional paid-in capital	32,896,023	32,866,063
Accumulated deficit	<u>(35,338,574)</u>	<u>(35,246,215)</u>
Total stockholders' deficit	<u>(2,234,166)</u>	<u>(2,171,791)</u>
Total liabilities and stockholders' deficit	<u>\$ 260,041</u>	<u>\$ 253,015</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the periods ended March 31, 2015 and December 31, 2014
(UNAUDITED)

	2015	2014
General and administrative expenses:		
Payroll expense	\$ 259,858	\$ 1,245,045
Professional fees	33,909	111,173
Other general and administrative expenses	<u>220,931</u>	<u>1,086,233</u>
Total general and administrative expenses	514,698	2,442,451
Other income (expense):		
Interest income	1	46
Interest expense	(7,432)	(47,064)
Other income, net	<u>429,771</u>	<u>1,206,939</u>
Total other income (expense), net	<u>422,340</u>	<u>1,159,921</u>
Net loss before provision for income taxes	(92,358)	(1,282,530)
Provision for income taxes	—	—
Net loss	<u>\$ (92,358)</u>	<u>\$ (1,282,530)</u>
Basic and diluted loss per share	<u>\$ (0.00)</u>	<u>\$ (0.05)</u>
Basic weighted-average shares outstanding	<u>20,836,592</u>	<u>20,775,828</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT
for the periods ended March 31, 2015 and December 31, 2014
(UNAUDITED)

	Preferred Stock			Common Stock			Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity/(Deficit)
	<u>Series A Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance as of December 31, 2013	369	\$ 4	26	\$ -	20,674,731	\$ 206,748	\$31,730,335	\$(33,963,685)	\$ (2,026,598)
Common stock issued for cash, net of issuance costs of \$26,126	-	-	-	-	160,954	1,609	997,557	-	999,166
Compensatory element of stock option grant	-	-	-	-	-	-	-	138,171	-
Net loss	-	-	-	-	-	-	-	-	(1,282,530) (1,282,530)
Balance as of December 31, 2014	369	4	26	-	20,835,685	208,357	32,866,063	(35,246,215)	(2,171,791)
Common stock issued for cash, net of issuance costs of \$243	-	-	-	-	2,028	20	11,905	-	11,925
Compensatory element of stock option grant	-	-	-	-	-	-	18,059	-	18,059
Net loss	-	-	-	-	-	-	-	(92,358)	(92,358)
Balance as of March 31, 2015	<u>369</u>	<u>\$ 4</u>	<u>26</u>	<u>\$ -</u>	<u>20,837,713</u>	<u>\$ 208,377</u>	<u>\$32,896,027</u>	<u>\$(35,338,573)</u>	<u>\$ (2,234,165)</u>

The accompanying notes are an integral part of consolidated financial statements

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the periods ended March 31, 2015 and December 31, 2014
(UNAUDITED)

	<u>Year Ended March 31, 2015</u>	<u>Year Ended December 31, 2014</u>
Cash flows used in operating activities:		
Net loss	\$ (92,358)	\$ (1,282,530)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	9,975	46,873
Compensatory element of stock option grants	18,059	138,171
Changes in operating assets and liabilities:		
Accounts receivable	(7,591)	(4,431)
Prepaid expenses	8,353	(6,192)
Other assets	624	3,620
Accounts payable and accrued liabilities	76,951	48,193
Interest payable, related party	<u>3,191</u>	<u>12,759</u>
Net cash used in operating activities	<u>17,204</u>	<u>(1,043,537)</u>
Cash flows used in investing activities:		
Purchases of equipment	-	(1,204)
Net cash used in investing activities	<u>-</u>	<u>(1,204)</u>
Cash flows from financing activities:		
Payments on line of credit, bank	-	(250,000)
Payments on capital lease obligations	-	(2,956)
Payments on notes payable, bank	<u>(10,742)</u>	<u>(280,385)</u>
Payments on notes payable, related party	-	(17,051)
Proceeds from:		
Note payable, related party	-	250,000
Notes payable, bank	-	287,251
Issuance of common stock, net issuance costs of \$243 and \$69,285	<u>11,925</u>	<u>999,166</u>
Net cash provided by financing activities	<u>1,183</u>	<u>986,025</u>
Net increase in cash and cash equivalents	<u>18,387</u>	<u>(58,716)</u>
Cash and cash equivalents, beginning of period	<u>119,940</u>	<u>178,656</u>
Cash and cash equivalents, end of period	<u>\$ 138,327</u>	<u>\$ 119,940</u>
Supplemental Cash Flow Information:		
Cash paid for interest	<u>\$ 1,914</u>	<u>\$ 29,020</u>

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Ad Astra Rocket Company and Subsidiaries (the "Company" or "AARC") was incorporated on January 14, 2005 and officially organized on July 15, 2005 in Houston, Texas. The Company is dedicated to the research and development of advanced plasma rocket propulsion technology and is continuing with development of the Variable Specific Impulse Magnetoplasma Rocket ("VASIMR") and its associated technologies.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company's direct, wholly-owned subsidiaries: Ad Astra Rocket Company (Costa Rica) S.R.L. incorporated in Costa Rica, and Ad Astra Servicios Energeticos Y Ambientales, Inc. a Delaware corporation. The consolidated financial statements also include the accounts of the Company's indirect, wholly owned subsidiary Ad Astra Servicios Energeticos y Ambientales AASEA, S.R.L., a Costa Rican corporation which is a direct, wholly-owned subsidiary of Ad Astra Servicios Energéticos Y Ambientales, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial position, results of operations and cash flows of the Company's foreign subsidiary are determined using the United States of America dollar as the functional currency.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities. These estimates also impact disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that its estimates are reasonable.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Computers and software	3
Laboratory equipment	5
Machine shop equipment	5
Capital lease equipment	5

Leasehold improvements are amortized on a straight-line basis based on the shorter of the corresponding lease term or useful life. Expenditures for major renewals and improvements that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in operations.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that the carrying value of a long-lived asset, including intangible assets, may be impaired, an evaluation of recoverability is performed by comparing the estimated future undiscounted cash flows associated with the asset or the asset's estimated fair value to the asset's carrying amount to determine if a write-down to market value or discounted cash flow is required. During the period ending March 31, 2015 and the year ended December 31, 2014, the Company did not record any impairment expenses related to its long-lived assets.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at the end of the reporting period. The Company provides a valuation allowance to reduce deferred tax assets to their net realizable value.

The Company uses Accounting Standards Codification ("ASC") 740-10, *"Accounting for Uncertainty in Income Taxes,"* which creates a single model to address uncertainty in income tax positions and prescribes the minimum recognition threshold a taxation is required to meet before recognized in the financial statements. The Company did not recognize any interest or penalties related to any unrecognized tax position during the years ended December 31, 2014 and 2013.

The Company files a consolidated federal income tax return in the United States and state tax returns where applicable. With few exceptions, the Company is no longer subject to United States federal income tax or state income tax examinations for years before 2010.

Stock-Based Compensation

ASC 718-10, *"Accounting for Stock-Based Compensation"*, requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations.

Stock-based compensation expense recognized under ASC 718-10 for the periods ended March 31, 2015 and December 31, 2014 was \$18,059, and \$138,171, which consists of stock-based compensation expense related to employee and director stock options issuances.

Loss Per Share

Basic loss per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted loss per share include shares issuable upon exercise of outstanding stock options that have exercise or conversion prices below the market value of the Company's common stock. At March 31, 2015 and December 31, 2014, stock options pertaining to 367,000 and 312,300 shares of common stock have been excluded from the computation of diluted earnings per share because the Company is in a net loss position and their effect would be anti-dilutive. For the periods ended March 31, 2015 and December 31, 2014, the Company's basic and diluted net loss per share was \$0.00 and \$0.05 based on 20,837,713 and 20,775,828 weighted average shares outstanding.

Concentrations of Credit Risk

The Company maintains its cash in financial institutions selected by management based upon their assessment of the financial stability of the institution. Balances periodically exceed the federal depository insurance limit; however, the Company has not experienced any losses on deposits.

Research and Development

Costs of research and development projects are expensed as incurred. These costs consist of direct costs associated with the design of new products. Research and development expenses for the periods ended March 31, 2015 and December 31, 2014, were \$70,081 and \$543,106.

Fair Value of Financial Instruments

Fair value estimates of financial instruments are based on relevant market information and may be subjective in nature and involve uncertainties and matters of significant judgment. The Company believes that the

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

carrying value of its assets and liabilities approximates the fair value of such items. The Company does not hold or issue financial instruments for trading purposes.

The Company adheres to ASC 820 and includes fair value information in the notes to its consolidated financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made.

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15 *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This new accounting guidance under Accounting Standards Codification Topic("ASC") 205, *Presentation of Financial Statements-Going Concern*, provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt an entity's ability to continue as a going concern and to provide related footnotes.. The guidance will become effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company does not anticipate the adoption of this guidance to have a significant impact on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-10 *Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*. This new accounting guidance under ASC 915, *Development Stage Entities*, provides guidance which removes the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and stockholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The guidance will become effective prospectively for non-public entities with annual periods beginning after December 15, 2014. Early adoption is permitted. The Company, during the year ended December 31, 2014 elected to adopt the provisions of ASU 2014-10 and has reflected the required disclosure changes within the Company's consolidated financial statements, including the removal of development stage disclosures.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 *Section A - Summary and Amendments that Create Revenue From Contracts With Customers*. This new accounting guidance under Accounting Standards Codification Topic("ASC") 606, *Revenue From Contracts with Customers*, provides an improvement to the understandability of revenue, and guidance for transactions that are not addressed comprehensively. The guidance will become effective prospectively for annual periods beginning after December 15, 2016. Early adoption is not permitted. The Company does not anticipate the adoption of this guidance to have a significant impact on its consolidated financial statements.

2. Accounts Receivable

The balance of Accounts Receivable resulting from various speaking and consulting engagements as of March 31, 2015 and December 31, 2014 was \$12,022 and \$4,431.

3. Other Assets

Other assets were comprised of the following at December 31,

	2015	2014
Deposits	\$ 37,434	\$ 37,434
License	26,876	27,500
Other	-	-
Total	\$ 64,310	\$ 64,934

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Other Assets, continued

The license included in other assets is an intangible asset obtained from a United States of America governmental agency allowing the Company to use certain technologies in the development of its advanced plasma rocket propulsion technology. The license was acquired during 2006 for \$50,000 and is being amortized over 20 years, its contractual life. The Company recorded amortization expense for the periods ended March 31, 2015 and December 31, 2014 of \$625 and \$2,500.

4. Property and Equipment

Property and equipment were comprised of the following at December 31:

<u>Description</u>	<u>2014</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2015</u>
Computer and software	\$ 574,068	\$ -	\$ -	\$ 574,068
Laboratory equipment	3,830,773	-	-	3,830,773
Machine shop equipment	38,287	-	-	38,287
Leasehold improvements	1,570,963	-	-	1,570,963
Other	138,956	-	-	138,956
	6,153,047	-	-	6,153,047
Less accumulated depreciation	(6,103,139)	(9,975)	-	(6,113,114)
Net property and equipment	<u>\$ 49,908</u>	<u>\$ (9,975)</u>	<u>\$ -</u>	<u>\$ 39,933</u>

Depreciation and amortization expense of \$9,975, and \$41,637 was recognized during the periods ended March 31, 2015 and December 31, 2014.

5. Accrued Liabilities

Accrued liabilities were comprised of the following at March 31, 2015 and December 31, 2014

	<u>2015</u>	<u>2014</u>
Deferred salaries	\$ 607,628	\$ 607,628
Other wages payable	37,059	42,270
Payroll taxes and benefits	129,224	113,647
Interest payable	7,279	5,276
Legal contingency	150,000	150,000
Other	-	144
	<u>\$ 931,190</u>	<u>\$ 918,965</u>

6. Long-term Debt

Line of Credit, Related Party

As of March 31, 2015 and December 31, 2014, the Company has an outstanding line of credit with a vendor who is owned by a member of the board of directors of \$408,000 plus accrued interest of \$95,740 and \$92,549. All principal and accrued unpaid interest was due and payable on demand. The interest rate on this line of credit is equal to the current "prime" interest rate, 3.25% at March 31, 2015 and December 31, 2014.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Long-term Debt, continued

Notes Payable

The Company had the following notes payable at March 31, 2015 and December 31, 2014:

	<u>2015</u>	<u>2014</u>
Note payable with a commercial bank with principal and interest of \$2,500, payable monthly for 35 months starting April 2014, and with remaining principal of \$229,000 due at maturity, March 2017. The note was originally collateralized by certain customer contracts which ended December 2014 and bears a fixed annualized interest rate of 9.00%.	\$ 246,125	\$ 246,713
Note payable to a commercial vendor with principal and interest of \$3,493, payable monthly for 9 months starting in July 2014. The note is uncollateralized and bears a fixed annual interest rate of 7.60%. This note was paid in full during March 2015	- 10,153	
Note payable to a related party, a member of the Company's Board of Directors, and is due on demand. The note is uncollateralized and bears a fixed annualized interest rate of 3.25%. The note holder has the right to convert any outstanding principal and or interest into the common stock of the Company at the market value share price at the time of conversion	<u>250,000</u>	<u>250,000</u>
Less current maturities	<u>496,125</u> <u>(258,064)</u>	<u>506,866</u> <u>(268,217)</u>
Total long-term debt, net of current maturities	<u><u>\$ 238,061</u></u>	<u><u>\$ 238,649</u></u>

Future minimum principal payments remaining under our notes payable are as follows:

<u>Year</u>	<u>Annual Expense</u>
2015	\$ 257,476
2016	8,493
2017	<u>230,156</u>
	<u><u>\$ 496,125</u></u>

For the periods ended March 31, 2015 and December 31, 2014, the Company's weighted average interest rate and weighted average effective rate on outstanding short-term debt obligations is 15.03% and 6.33% and 14.86% and 6.36%.

7. Stock Incentive Plan

The Company sponsors the Ad Astra Rocket Company 2005 Stock Incentive Plan (the "Plan"). A total of 1,500,000 shares of common stock are reserved for issuance under the Plan. The purpose of the Plan is to provide eligible persons who participate with an opportunity to acquire a proprietary interest in the Company as an incentive for them to remain in the service of the Company. Eligible persons include employees, non-employee members of the Board of Directors, consultants and other independent advisors who provide services to the Company.

The following table summarizes certain information relative to stock options issued pursuant to the Plan:

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Stock Incentive Plan, continued

	2005 Stock Incentive Plan	
	Shares	Weighted-Average Exercise Price
Outstanding, December 31, 2013	507,000	\$ 3.91
Granted	-	-
Forfeited/cancelled	(99,700)	6.39
Outstanding, December 31, 2014	407,300	3.31
Granted	55,000	6.00
Forfeited/cancelled	-	-
Outstanding, March 31, 2015	<u>462,300</u>	<u>3.63</u>
Exercisable, March 31, 2015	<u>405,300</u>	<u>\$ 3.26</u>

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at March 31, 2015 were 3.04 years and \$3.63. The exercise prices for the options outstanding at March 31, 2015 ranged from \$1.67 to \$12.00, and information relating to these options is as follows:

<u>Range of Exercise</u>	<u>Stock Options Outstanding</u>	<u>Stock Options Exercisable</u>	<u>Weighted Average Remaining Contract Life</u>	<u>Weighted Average Exercise Price</u>	<u>Average Exercise Price of Options Exercisable</u>
\$0 - \$1.67	285,000	285,000	1.3 years	\$ 1.67	\$ 1.67
\$1.68 - \$4.17	27,000	27,000	2.2 years	\$ 4.17	\$ 4.17
\$4.18 - \$6.67	116,500	61,500	6.7 years	\$ 6.35	\$ 6.67
\$6.68 - \$12.00	<u>33,800</u>	<u>31,800</u>	5.8 years	\$ 10.30	\$ 10.19
	<u>462,300</u>	<u>405,300</u>			

During the periods ended March 31, 2015 and December 31, 2014 the Company issued 55,000 and 0 new options. The Company utilized the following assumptions to calculate the following weighted-average estimated fair value of the stock options granted pursuant to the Plan during the year using the Black-Scholes-Merton option pricing model calculated for the periods ended March 31, 2015 and December 31, 2014:

	<u>2015</u>	<u>2014</u>
Expected volatility	48.0%	N/A
Risk free interest rate	2.0%	N/A
Expected life	10 yrs	N/A
Weighted average fair value	\$3.60	N/A

During the periods ended March 31, 2015 and December 31, 2014, the Company cancelled 0 and 99,700 options. The total fair value of options expensed pursuant to the Plan during the periods ended March 31, 2015 and December 31, 2014 was \$18,059, and \$138,171.

As of March 31, 2015, there was approximately \$251,489 of total unrecognized option expense related to non-vested share-based compensation arrangements.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Related Party Transactions

As of March 31, 2015 and December 31, 2014, the Company has an outstanding balance of \$199,893 recorded in accounts payable, related party, related to systems integration services provided by a company that is owned by a member of the Company's board of directors.

For the periods ended March 31, 2015 and December 31, 2014, the Company leased its Costa Rica laboratory and warehouse from an investment fund that is controlled by an affiliate of the Company's investment banker and shareholder ("Aldesa"), with lease expenses totaling \$20,700 and \$78,300. As of March 31, 2015 and December 31, 2014, the Company had an outstanding balance of \$20,734 and \$0 due to this affiliate pursuant to the lease agreement. For the periods ended March 31, 2015 and December 31, 2014, the Company paid Aldesa commissions of \$243 and \$26,126 earned in connection with the sale of 2,028 and 45,080 shares of the Company's common stock resulting in net proceeds of \$11,925 and \$ 255,167.

In July 2013 the Company obtained a loan from a member of its Board of Directors. These funds were used by the Company to meet its obligations under a note payable to a bank which matured in July 2013. Upon the payoff of the maturing note payable in July 2013, the Company was able to secure a new note payable. In August 2013, the funds from this new note payable were used to pay in full the note payable to the member of the Board of Directors. These transactions enabled the Company to reduce its note payable to banks by \$18,708. The board member charged the Company no interest on his note payable

9. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. For the years ended December 31, 2014 and 2013, there were no provisions for income taxes and deferred tax assets have been entirely offset by a valuation allowance, due to the Company's unlikely realization based on its recurring net losses.

Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Net operating loss carry-forwards	\$ 9,493,397	\$ 9,038,516
Non-deductible accruals	507,180	490,103
Basis difference in property and equipment	<u>231,204</u>	<u>348,818</u>
Total deferred tax assets	<u>10,231,781</u>	<u>9,877,437</u>
Valuation allowance	<u>(10,231,781)</u>	<u>(9,877,437)</u>
Net deferred tax asset	\$ _____ -	\$ _____ -

The difference between the income tax benefit in the accompanying statements of operations and the amount that would result if the U.S. Federal statutory rate of 34% were applied to pre-tax loss for the years ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>		
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Benefit for income tax at federal statutory rate	\$ (436,060)	(34.0)	\$ (814,777)	(34.0)
Increase in valuation allowance	354,344	27.6	733,402	30.6
Compensatory element of stock option grants	46,978	3.7	79,153	3.3
Other	<u>34,738</u>	<u>2.7</u>	<u>2,222</u>	<u>0.1</u>
	<u>\$ _____ -</u>	<u>_____ -</u>	<u>\$ _____ -</u>	<u>_____ -</u>

As of December 31, 2014, for United States of America ("U.S.") federal income tax reporting purposes, the Company has approximately \$27,921,000 of unused net operating losses ("NOLs") available for carry-forward to future years. The benefit from carry-forward of such NOLs will expire at various dates through December 31, 2032. Because tax laws limit the time during which NOL carry-forwards may be applied against future taxable income, the Company may be unable to take full advantage of its NOLs for federal income tax

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Income Taxes, continued

purposes should the Company generate taxable income. Further, the benefit from utilization of NOL carry-forwards could be subject to limitations due to material ownership changes that may or may not occur in the Company. Based on such limitations, the Company has significant NOL's for which realization of tax benefits is uncertain and thus has recorded a valuation allowance equal to 100% of its unused NOLs as of December 31, 2014.

10. Equity

Common Stock

The Company's Certificate of Incorporation authorizes the issuance of 75,000,000 shares of Common Stock, par value \$0.01 per share. The Board of Directors has the authority to issue any such shares that are not currently outstanding at such prices and other terms as are approved by the Board. The Company is not party to any agreements with any of its stockholders of any class that gives any such stockholders economic rights related to its shares of common stock that are not available to all holders of such class of common stock.

Holders of Common Stock are entitled to one vote for each share held and have no preemptive or similar right to subscribe for, or to purchase, any shares of common stock or other securities to be issued by the Company in the future. Holders of shares of Common Stock have no exchange or conversion rights and the shares are not subject to redemption.

The Company is authorized by the Superintendencia General de Valores de Costa Rica ("Sugeval") to affect Restricted Public Offerings ("RPO") of its Common Stock. These offerings are conducted under Costa Rican law outside of the United States of America. The Company has approved the issuance of up to 1,000,000 shares of Common Stock pursuant to the RPO.

During the period ended March 31, 2015, the Company sold 2,028 shares of Common Stock pursuant to the RPO at a price of \$6.00 per share resulting in cash proceeds of \$11,925. The Company recorded issuance costs related to these issuances totaling \$243.

During the year ended December 31, 2014, the Company sold 3,907 shares of Common Stock pursuant to the RPO at a price of \$6.40, 37,000 shares of Common Stock at a price of \$6.25, and 4,173 shares of Common Stock at \$6.00 per share resulting in cash proceeds of \$25,005, \$231,250, and \$25,038. The Company recorded issuance costs related to these issuances totaling \$26,126.

The Company also sold 25,999 shares of Common Stock pursuant to private placements at a price of \$7.00, 1,875 shares of Common Stock at a price of \$6.40, and 88,000 shares of Common Stock at \$6.25 per share resulting in cash proceeds of \$182,000, \$12,000 and \$550,000. The Company had no costs related to these issuances.

Preferred Stock

The Company has 10,000 authorized shares of Preferred Stock, par value \$0.01 per share. The Preferred Stock may be issued in series, from time to time, with such designations, rights, preferences, and limitations as the Board of Directors may determine by resolution.

Series A Preferred Stock

At March 31, 2015 and December 31, 2014, the Company had 2,200 shares authorized and 369 shares issued and outstanding of Series A preferred stock, par value \$0.01 per share ("Series A"). The Series A has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series A is convertible into Common Stock any time at the option of the holder at a price determined by dividing the Series A original issue price by the Series A conversion price in effect at the time of conversion. The Series A conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem the Series A for cash at any time after the five year anniversary date of the issuance at a redemption price calculated by multiplying the Series A original issue price by one plus the Prime Rate (as reported by Bloomberg, L.P.) on the date of redemption times the number of years from the applicable Series A original issue date until the date of such calculation with a partial year being expressed by dividing the number of days which have passed since the most recent anniversary by 365, plus all declared but unpaid dividends.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Equity, continued

During the periods ended March 31, 2015 and December 31, 2014 the Company did not issue any shares of Series A Preferred Stock.

At March 31, 2015 and December 31, 2014, there were no accumulated, undeclared dividends.

Series C Preferred Stock

At March 31, 2015 and December 31, 2014, the Company had 1,000 shares authorized and 26 issued and outstanding, of Series C Preferred, par value \$0.01 per share ("Series C"). The Series C has a liquidation preference equal to the original purchase price, the Series A preferred stock and does not pay a mandatory dividend. The Series C is convertible by the holder into Common Stock within 15 days of notice of redemption from the Company at a price determined by dividing the Series C original issue price by the Series C conversion price in effect at the time of conversion.

The Series C conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem the Series C for cash at any time after issuance with a twenty day written notice at a redemption price equal to the original issue price, plus all declared but unpaid dividends. The Series C stock may become mandatorily convertible to common shares at a conversion rate of 3,000 common shares for each Series C share held in the event of the Company closing the sale of its common stock to the public in an underwritten offering pursuant to an effective registration statement under the Securities Act of 1933, as amended.

During the periods ended March 31, 2015 and December 31, 2014, the Company did not issue any shares of Series C Preferred Stock.

At March 31, 2015 and December 31, 2014, there were no accumulated, undeclared dividends.

11. Commitments

Operating Leases

In June of 2013, the Company negotiated a lease agreement for office and laboratory space in Liberia, Costa Rica. The term of the agreement was for forty-eight months with a one-time option to extend the lease an additional two years. The agreement for the first 12 months is for a rent of \$6,000 per month, for months 13-24 rent is \$6,900 per month, for months 25-36 rent is \$7,935 and for months 37 to 48 rent is \$9,522 per month.

In August 2012, the Company renewed its lease agreement for office and laboratory space in Webster, Texas. The term of the agreement is for thirty-six months with a one-time option to extend the lease an additional two years. The agreement for the first 12 months is for a base rent of \$8,385 per month plus a pro-rata share of operating expenses, for months 13 to 24 base rent is \$11,180 per month plus a pro-rata share of operating expenses, and for months 25 to 36 base rent is \$13,975 per month plus a pro-rata share of operating expenses. If the Company chooses to exercise the one-time option, the base rent for months 37 to 48 will be \$13,975 per month plus a pro-rata share of operating expenses and for months 49 to 60 base rent will be \$15,050 plus a pro-rata share of operating expenses.

Rent expense for the periods ended March 31, 2015 and December 31, 2014 totaled \$76,867, and \$287,780 on a straight-line basis.

Minimum annual rentals under non-cancelable operating leases of more than one year in duration are as follows:

<u>Year</u>	<u>Annual Expense</u>
2015	\$ 125,245
2016	106,329
2017	<u>47,610</u>
	<u><u>\$ 279,184</u></u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Going Concern

The Company has not generated significant revenue related to its intended operations since its inception and thereby has experienced recurring net losses and negative cash flows from operations as follows. During the periods ended March 31, 2015 and December 31, 2014 the Company's net losses were \$92,358, and \$1,282,530, and net cash used in operating activities was \$17,204, and \$1,043,537. During the periods ended March 31, 2015 and December 31, 2014, the Company had a working capital deficiency of \$2,100,348 and \$2,047,984. These factors raise a substantial doubt about the Company's ability to continue as a going concern.

Historically, the Company has financed its operations using sales of its common and preferred stock and the issuance of convertible debentures to a related party. The Company received net cash from its financing activities for the periods ended March 31, 2015 and December 31, 2014 of \$1,183 and \$ 986,025.

Management plans to continue to focus on raising the funds necessary to fully implement the Company's business plan. The Company's long-term viability depends on its ability to obtain adequate sources of equity or debt funding to meet current commitments and fund the continuation of its business operations and the ability of the Company to ultimately achieve adequate profitability and cash flows from operations to sustain its operations. There can be no assurance that management will be able to secure the sources to fund its commitments and continued operations.

13. Contingencies

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. Management, along with the assistance of counsel, will determine the ultimate disposition and potential impact of these matters on the Company's financial condition, liquidity or results from operations. As of March 31, 2015, the Company is involved in a regulatory tax matter with the taxing authorities in Costa Rica. The taxing authorities have claimed the Company owed taxes and penalties related to ancillary income earned. As a result of this claim, the Company recorded a current liability of \$150,000 to cover the expected back taxes, penalties and legal representation for the matter.

14. Subsequent Events

Subsequent events have been evaluated through May 26, 2015 which is the date the consolidated financial statements were available to be issued.

On March 30, 2015 the Company was notified that it had been selected by NASA as one of three contractors for the space agency's Next Space Technologies for Exploration Partnerships (NextSTEP) advanced propulsion projects.

Ad Astra's awarded proposal is valued at approximately \$10 million over three years. The Company is currently in negotiations with NASA regarding project scheduling, project milestones, and project payments related to the completion of the testing under the awarded proposal. The Company anticipates completion of the negotiations and authorization to proceed early in the third quarter of 2015.