AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)

(UNAUDITED)

CONSOLIDATED FINANCIAL STATEMENTS
as of and for the period ending September 30, 2013, the year ended December 31, 2012 and the period from Inception, July 15, 2005, to September 30, 2013

Prepared by : John T. McLaughlin **Date: November 25, 2013**
John T McLaughlin Chief Financial Officer

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

(A DEVELOPMENTAL STAGE ENTERPRISE)

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

Sep 30, 2013, and December 31, 2012

ASSETS	Sep 30, 2013	Dec 31, 2012
Current Assets:		
Cash	59,116	220,957
Accounts receivable , Net	19,386	257,498
Prepaid expenses	10,304	12,409
Total current assets	88,806	490,864
Property and equipment, net	99,747	165,227
Capital lease assets, net	5,930	11,273
Other assets	372,242	68,605
Total assets	566,725	735,969
LIABILITIES AND STOCKHOLDERS' (DEFICIT)/EQUITY		
Current liabilities		
Line of credit, related party	408,000	408,000
Line of credit, bank	250,000	250,000
Notes payable, bank	250,000	134,399
Notes payable, related party	24,051	69,051
Bond payable	-	-
Accounts payable	351,350	260,893
Accounts payable, related party	199,893	199,893
Accrued liabilities	745,150	427,652
Short-term portion deferred lease expense	-	-
Short-term portion capital lease obligation	4,910	7,677
Interest payable to related party	76,600	67,025
	2,309,954	1,824,590
Total current liabilities		
Long-term liabilities:		
Long-term portion deferred lease expense	-	-
Long-term portion capital lease obligation	-	2,955
Total long-term liabilities	-	2,955
Total liabilities	2,309,954	1,827,545
Commitments and contingencies		
Stockholders' (deficit)/equity:		
Preferred Stock:		
Series A, par value $0.01, 2,200 shares authorized; 369 shares issued and outstanding	4	4
Series B, par value $0.01, 1,000 shares authorized; none issued or outstanding	-	-
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;		
20,607,265 and 20,251,645 shares issued and outstanding	206,077	205,062
Additional paid in Capital	31,199,829	30,270,641
Losses accumulated during developmental stage	(33,149,139)	(31,567,283)
Total stockholders' (deficit)/equity	(1,743,229)	(1,091,576)
Total liabilities and stockholders' (deficit)/equity	566,725	735,969

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
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for the periods ended September 30, 2013, December 31, 2012 and for the period from inception, July 15, 2005, to Sep 30, 2013

	September 30, 2013	December 31, 2012	Period from Inception, July 15, 2005, to Sep 30, 2013
General and administrative expenses:			
Payroll expense	$ 1,379,878	$ 1,997,766	$ 17,886,340
Professional fees	65,309	70,737	1,649,101
Other general and administrative expenses	818,036	1,863,946	15,967,555
Total general and administrative expenses	2,263,223	3,932,449	35,502,996
Other income (expense)			
Interest income	411	49	324,525
Interest expense	(35,425)	(40,798)	(1,206,582)
Other income	716,381	1,257,866	3,235,914
Total other income (expense), net	681,367	1,217,117	2,353,857
Net loss before provision for income taxes	(1,581,856)	(2,715,332)	(33,149,139)
Provision for income taxes	-	-	-
Net loss	$ (1,581,856)	$ (2,715,332)	$ (33,149,139)
Basic and dilute loss per share	$ (0.08)	$ (0.13)	$ (1.91)
Basic and diluted weighted-average shares outstanding	20,553,915	20,385,276	17,327,159

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT)
for the Period ending Sep 30, 2013

	Preferred Stock				Common Stock				Stock	Additional	Accumulated Deficit	Total
	Series A		Series B		Class A		Class B		Subscription	Paid-in	During	Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	Capital	Development	Equity(Deficit)
Balance as of July 15, 2005												
Common Stock Issued for Cash							3,500	4		49,996		50,000
Additional Capital Contributed by Stockholder										2,000		2,000
Common Stock Issued for Services							762			10,885		10,885
Net Loss											(881,852)	(881,852)
Balance as of December 31, 2005							4,262	4		62,881	(881,852)	(818,967)
Common Stock Issued for Cash							100	1		499,999		500,000
Preferred Stock Issued for Cash	809	1								4,044,999		4,045,000
Preferred Stock Subscribed For	111								(1,387,500)	1,387,500		0
Compensatory Element of Stock Option Grant										312,764		312,764
Net Loss											(3,489,603)	(3,489,603)
Balance as of December 31, 2006	920	1					4,362	5	(1,387,500)	6,308,143	(4,371,455)	549,194
Common Stock Issued for Cash												0
Preferred Stock Issued for Cash	198									2,741,302		2,741,302
Preferred Stock Subscribed For									1,387,500			1,387,500
Compensatory Element of Stock Option Grant										30,987		30,987
Net Loss											(4,713,110)	(4,713,110)
Balance as of December 31, 2007	1,118	1					4,362	5	0	9,080,432	(9,084,565)	(4,127)
Common Stock Issued for Cash					71		3,000	3		1,419,997		1,420,000
Preferred Stock Issued for Cash	68									1,216,000		1,216,000
Preferred Stock Converfted to Common Stock	(857)	0	0	0	857	0	0	0	0	0	0	0
Stock Dividends					2,780,072	2,781	13,081,638	13,081		(15,862)		0
Compensatory Element of Stock Option Grant										140,388	0	140,388
Net Loss											(5,704,402)	(5,704,402)
Balance as of December 31, 2008	329	1			2,781,000	2,781	13,089,000	13,089	0	11,840,955	(14,788,967)	(2,932,141)
Common Stock Issued for Cash					160,548	160	3,000	3		1,114,984		1,115,147
Preferred Stock Issued for Cash	23		36							1,195,020		1,195,020
Preferred Stock Converted to Common Stock												0
Stock Dividends												0
Compensatory Element of Stock Option Grant										86,219		86,219
Net Loss											(4,961,871)	(4,961,871)
Balance as of December 31, 2009	352	1	36		2,941,548	2,941	13,092,000	13,092	0	14,237,178	(19,750,838)	(5,497,626)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Preferred Stock					Common Stock			Stock	Additional	Accumulated Deficit	Total
	Series A		Series B						Subscription	Paid-in	During	Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	Capital	Development	Equity(Deficit)
Consolidate Common Stock Class A & Class B					(2,941,548)	(2,941)	2,941,548	2,941				0
Common Stock Issued for Cash/Net of issuance costs of $319,396						0	180,504	1,805		1,446,071		1,447,876
Common Stock/Debenture Conversion*		0				0	3,546,000	3,546		7,013,281		7,016,827
Change in Par Value of Stock Common Stock				0		0		176,217		(176,217)		0
Preferred Stock Issued for Cash 2010 net of issuance costs of $176,586	0		70	0						1,749,113	0	1,749,113
Preferred Stock Converted to Common Stock			(106)				318,000	3,180		(3,180)		0
Preferred Stock Subscribed For	17	0							0	510,000		510,000
Change in Par Value of Preferred Stock		3								(3)		0
Stock Dividends												0
Compensatory Element of Stock Option Grant										163,144		163,144
Net Loss											(4,823,688)	(4,823,688)
Balance as of December 31, 2010	369	4	0	0	0	0	20,078,052	200,781	0	24,939,386	(24,574,526)	565,644
Common Stock Issued for Cash/Net of issuance costs of $234,163							172,093	1,721		1,756,318		1,758,039
Common stock issued for conversion of convertible debenture, related party							1,500	15		17,985		18,000
Preferred Stock Issued for conversion of vendor payable, related party			3							108,000		108,000
Preferred Stock Issued for conversion of line of credit, related party			22							792,000		792,000
Stock Dividends												
Compensatory Element of Stock Option Grant										249,713		249,713
Net Loss											(4,277,425)	(4,277,425)
Balance as of December 31, 2011	369	4	25	0	0	0	20,251,645	202,517	0	27,863,402	(28,851,951)	(786,029)
Common Stock Issued for Cash/Net of issuance costs of $233,895							254,495	2,545		2,102,525		2,105,070
Common stock issued for conversion of convertible debenture, related party												
Preferred Stock Issued for cash			1							36,000		36,000
Preferred Stock Issued for conversion of line of credit, related party												
Stock Dividends												
Compensatory Element of Stock Option Grant										268,714		268,714
Net Loss											(2,715,332)	(2,715,332)
Balance as of Dec 31, 2012	369	4	26	0	0	0	20,506,140	205,062	0	30,270,641	(31,567,283)	(1,091,576)

	Preferred Stock						Common Stock		Stock	Additional	Accumulated Deficit	Total
	Series A		Series B						Subscription	Paid-in	During	Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	Capital	Development	Equity(Deficit)
Common Stock Issued for Cash/Net of issuance costs of $52,900						0	101,125	1,011		755,089		756,100
Common stock issued for conversion of convertible debenture, related party												
Preferred Stock Issued for cash												
Preferred Stock Issued for conversion of line of credit, related party												
Stock Dividends												
Compensatory Element of Stock Option Grant										174,102		174,102
Net Loss											(1,581,857)	(1,581,857)
Balance as of Sep 30, 2013	369	4	26	0	0	0	20,607,265	206,073	0	31,199,832	(33,149,140)	(1,743,231)

AD ASTRA ROCKET COMPANY
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CONSOLIDATED STATEMENTS OF CASH FLOWS
As of Sep 30, 2013, the year ended December 31, 2012 and for the period from inception July 15, 2005 to Sep 30, 2013

	Period Ended September 30, 2013	Period Ended December 31, 2012	Period from Inception July 15, 2005 to Sep 30, 2013
Net Loss	(1,581,857)	(2,715,332)	(33,149,140)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization activities	70,823	797,903	6,210,731
Compensatory element of stock option grants	174,102	268,714	1,426,031
Common stock issued for services	-	-	10,885
Deferred salary forgiven	-	-	(143,878)
Deferred rent expense	-	(18,442)	-
Changes in operating assets and liabilities			
Accounts receivable	238,112	(239,359)	(19,386)
Prepaid expenses	2,105	292	(10,305)
Other assets	(303,637)	2,838	(300,899)
Accounts payable and accrued liabilities	296,984	(380,956)	762,653
Accounts payable, related party	-	(778)	199,893
Interest payable, related party	9,045	10,230	1,082,013
Deferred salary	111,500	191,408	635,135
Net cash used in operating activities	(982,823)	(2,083,482)	(23,296,267)
Cash flows used in investing activities:			
Purchase of equipment	-	-	(6,253,372)
Proceeds from disposal of fixed assets	-	-	25,344
Net cash used in investing activities	-	-	(6,228,028)
Cash flows from financing activities			
Payments on capital lease obligations	(5,722)	(29,852)	(154,809)
Payments on royalty note payable	-	-	(20,000)
Payments on notes payable,bank	(269,766)	(65,601)	(335,367)
Payments on notes payable, related party & bonds payable	(45,000)	(276,000)	(342,949)
Proceeds from:			
Line of Credit, related party	-	-	1,710,000
Line of Credit, bank	-	250,000	250,000
Notes payable, related party & bonds payable	-	70,000	367,000
Notes payable, bank	385,370	200,000	585,370
Issuance of convertible debentures	-	-	6,000,000
Capital contribution by stockholder	-	-	2,000
Stockholder subscription receivable	-	-	1,387,500
Issuance of common stock, net issuance costs of $52,900, $233,895, $850,854	756,100	2,105,070	9,152,232
Issuance of preferred stock, net issuance costs of $0	-	36,000	10,982,436
Net proceeds provided by financing activities	820,982	2,289,617	29,583,413
Net (decrease) increase in cash and cash equivalents	(161,841)	206,135	59,116
Cash and cash equivalents, beginning of period	220,957	14,822	-
Cash and cash equivalents, end of period	59,116	220,957	59,116

1. Summary of Significant Accounting Policies

Ad Astra Rocket Company and Subsidiary (the "Company" or "AARC") is a development stage enterprise incorporated on January 14, 2005 and officially organized on July 15, 2005 in Houston, Texas. The Company is considered a development stage enterprise because it has not yet generated significant revenue from sale of its products and has devoted substantially all of its efforts in raising capital to develop its products to bring to market. 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 ("VASIMR") and its associated technologies. The Company is also involved in furthering the technology for the usage of plasma in other areas such as medical waste.

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 affect 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:

	Years
Computers and software	3
Laboratory equipment	5
Machine shop equipment	5
Capital lease equipment	5

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.

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

1. **Summary of Significant Accounting Policies, continued**

of assets and liabilities and their financial amounts at year-end. 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, 2012 and 2011.

The Company files a separate federal income tax return in the United States and state tax returns where applicable. Because the Company has only been in existence for six years, all tax returns filed during its existence are subject to state and local income tax examinations.

Stock-Based Compensation

ASC 718-10, formerly known as Statement of Financial Accounting Standards No. 123(R) "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.

The Company's consolidated financial statements as of and for the years ended December 31, 2012 and 2011 and for the period from inception, July 15, 2005 to September 30, 2013 reflect the impact of ASC 718-10. In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of ASC 718-10 based on the adoption of the modified prospective method.. Stock-based compensation expense recognized under ASC 718-10 for the periods ended September 30, 2013, December 31, 2012 and for the period from inception, July 15, 2005, to September 30, 2013 was $174,102, $268,714, and $1,426,031, respectively, 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 September 30, 2013, and December 31, 2012, stock options pertaining to 507,000 and 507,000 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 period ended September 30, 2013 and the year ended December 31, 2012, the Company's basic and diluted net loss per share was $0.08 and $0.13.

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 period ended September 30, 2013, December 31, 2012, and for the period from inception, July 15, 2005, to September 30, 2013 was $601,264, $1,051,646, and $10,800,565.

1. Summary of Significant Accounting Policies, continued

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 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 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.

2. Accounts Receivable

The balance of Accounts Receivable, resulting from various speaking and consulting engagements provided by Company officials and Sponsorships in Costa Rica, as of September 30, 2013 and December 31, 2012 was $19,386 and $257,498 respectively. Due to the limited number and valuation of the receivables, a reserve has not been set up for uncollectable accounts.

3. Other Assets

Other assets were comprised of the following at September 30, 2013 and December 31, 2012:

	Sep 30, 2013	Dec. 31, 2012
Deposits	$ 38,501	$ 35,952
License	30,625	32,500
Other	303,116	153
Total	$ 372,242	$ 68,605

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. For the period ended September 30, 2013, December 31, 2012,and the period from inception, July 15, 2005, to September 30, 2013, the Company recorded amortization expense of $625, $2,500 and $18,750 respectively. Other items include goods and equipment purchased as part of a contract with an entity of the Costa Rican government that will be delivered to the agency upon completion of the contract in December 2013.

4. Inventory

The Company is still in the development stage; therefore there is no inventory held resulting in no reserves for obsolescence.

5. Property and Equipment

Property and equipment were comprised of the following at December 31, 2012 and Sep 30, 2013:

Description	2012	Additions/ Transfers in	Retirements/ Transfers out	2013
Computer and software	$ 569,164	$ 1,130	$ -	$ 570,294
Laboratory equipment	3,828,905	-	-	3,828,905
Machine shop equipment	38,287	-	-	38,287
Leasehold improvements	1,570,963	-	-	1,570,963
Other	138,587	478	-	139,065
	6,145,906	1,608	-	6,147,514
Less accumulated depreciation	(5,980,679)	(67,088)	-	(6,047,767)
Net property and equipment	$ 165,227	$ (65,480)	$ -	$ 99,747

Depreciation and amortization expense of $65,480, $768,016 and $6,047,767 was recognized during the periods ended September 30, 2013, December 31, 2012 and during the period from inception, July 15, 2005, to September 30, 2013, respectively.

6. Accrued Liabilities

Accrued liabilities were comprised of the following at September 30, 2013 and December 31, 2012:

	2013	2012
Deferred salaries	$ 449,590	$ 338,090
Other wages payable	154,903	10,003
Payroll taxes and benefits	140,168	79,033
Other	489	526
	$ 745,150	$ 427,652

7. Debt Obligations

Line of Credit, Related Party

During 2009, the Company entered into a line of credit with a vendor who is owned by a member of the board of directors in the amount of $1,200,000. During 2011, the Company entered into a note modification agreement which reduced the available line of credit to $408,000 and is payable on demand. During 2011, the vendor converted $792,000 of the line of credit into 22 shares of Series C Preferred stock. During 2010, the vendor converted $510,000 of the outstanding balance on this line of credit into 17 shares of Series A Preferred Stock. Following this conversion and for the period ended September 30, 2013 and December 31, 2012, the Company's outstanding balance on the line of credit was $408,000 plus accrued interest of $76,600 and $67,029. 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 September 30, 2013 and December 31, 2012.

Notes Payable

The Company had the following short-term debt obligations at September 30, 2013 and December 31, 2012:

	2013	2012
Revolving line of credit with commercial bank with principal and interest payable no later than May 2014. The note is collateralized by a guarantee provided by a company owned by a director and shareholder and bears a floating annualized interest rate of the bank's Prime rate plus 2%, updated continuously as the Prime rate adjusts. At September 30, 2013, the interest rate was 5.25%.	250,000	250,000
Notes payable with a commercial bank with principal and interest payable in 6 equal monthly installments of $34,276 starting in October 2012. The note is secured by the proceeds from a contract with a Costa Rican national agency and bears a fixed annualized interest rate of 9.50%.	-	134,399
Notes payable with commercial bank with interest payable monthly and principle payable upon maturity in February 2014. The note is collateralized and bears an annualized interest rate of 9.50%.	250,000	-
Note payable to a related party, the Company's President and Chief Executive Officer, which is due on demand. The note is uncollateralized and bears no interest.	24,051	69,051
Total notes payable	$ 524,051	$ 453,450

For the periods ended September 30, 2013 and December 31, 2012, the Company's weighted average interest rate and weighted average effective rate on outstanding short-term debt obligations is 7.04% and 7.28% and 5.71% and 5.89%, respectively.

8. Stock Incentive Plan

Effective August 25, 2005 the Company's Board of Directors adopted 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:

8. Stock Incentive Plan, continued

	2005 Stock Incentive Plan	
	Shares	Weighted-Average Exercise Price
Outstanding, December 31, 2006	375,000	$ 1.67
Granted	66,000	4.22
Forfeited/cancelled	-	-
Outstanding, December 31, 2007	441,000	2.05
Granted	18,000	6.67
Forfeited/cancelled	-	-
Outstanding, December 31, 2008	459,000	2.20
Granted	123,000	6.67
Forfeited/cancelled	(60,000)	3.35
Outstanding, December 31, 2009	522,000	3.15
Granted	100,000	10.00
Forfeited/cancelled	(1,500)	6.67
Outstanding, December 31, 2010	620,500	4.22
Granted	-	-
Forfeited/cancelled	(28,875)	8.01
Outstanding, December 31, 2011	591,625	$ 4.06
Granted	5,000	12.00
Forfeited/cancelled	(89,625)	6.14
Outstanding, December 31, 2012	507,000	$ 4.00
Granted	-	-
Forfeited/cancelled	-	-
Outstanding, September 30, 2013	507,000	$ 3.91
Exercisable, September 30, 2013	471,250	$ 3.44

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at September 30, 2013 were 3.9 years and $3.91, respectively. The exercise prices for the options outstanding at September 30, 2013 ranged from $1.67 to $12.00, and information relating to these options is as follows:

8. **Stock Incentive Plan, continued**

Range of Exercise	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contract Life	Weighted Average: Weighted Average Exercise Price	Weighted Average: Exercise Price of Options Exercisable
$0 - $1.67	315,000	315,000	2.8 years	$ 1.67	$ 1.67
$1.68 - $4.17	27,000	27,000	3.7 years	$ 4.17	$ 4.17
$4.18 - $6.67	94,500	94,500	5.4 years	$ 6.67	$ 6.67
$10.00 - $12.00	70,500	34,750	6.8 years	$ 10.14	$ 10.12
	507,000	471,250			

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 years ended December 31:

	2013	2012	2011	2010	2009	2008	2007	2006
Expected volatility	N/A	128.0%	N/A	669.0%	681.0%	415.0%	425.0%	676.0%
Risk free interest rate	N/A	2.21%	N/A	1.15%	1.9%	2.4%	5.01%	5.0%
Expected life	N/A	10 yrs	N/A	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Weighted average fair value	N/A	$6.41	N/A	$8.90	$6.67	$6.67	$4.17	$1.67

During the period ended September 30, 2013, the Company did not cancel any options, for the year ended December 31, 2012 the Company cancelled 35,265 options. The total fair value of options expensed pursuant to the Plan during the period ended September 30, 2013, the 12 months ended December 31, 2012 and for the period from inception, July 15, 2005 through June 30, 2013 were $174,102, $268,714, and $1,426,031 respectively.

As of September 30, 2013, there was approximately $372,710 of total unrecognized option expense related to non-vested share-based compensation arrangements.

9. **Related Party Transactions**

On July 29, 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 notes payable to a bank which matured on July 27, 2013. Upon the payoff of the maturing note payable on July 29, 2013, the Company was able to secure a new note payable with a bank on July 30, 2013. On August 1, 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.

As of September 30, 2013 and December 31, 2012, 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.

During the year ended December 31, 2012, the Company temporarily sub-let rental space in its Houston facility to the aforementioned company. This agreement ended in August 2012. The Company's rental expense for the year ended December 31, 2012 was reduced by $21,900, as a result of this agreement. There was no outstanding balance related to this sub-let rental agreement as of December 31, 2012.

For the periods ended September 30, 2013 and December 31, 2012, 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 $73,238 and $128,162 respectively. As of September 30, 2013 and December 31, 2012, the Company had an outstanding balance of $0 and $22,013 respectively with this affiliate. For the periods ended September 30, 2013 and December 31, 2012, the Company paid Aldesa commissions earned in connection with the sale of 63,625 and 254,495 shares of the Company's stock in the amount of $52,900 and $233,895 respectively.

10. 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, 2012 and 2011, 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, 2012 and 2011 were as follows:

	2012	2011
Deferred tax assets:		
Net operating loss carry-forwards	$ 8,456,228	$ 7,542,703
Non-deductible accruals	233,090	356,294
Basis difference in property and equipment	454,717	355,357
Total deferred tax assets	9,144,035	8,254,354
Valuation allowance	(9,144,035)	(8,254,354)
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, 2012 and 2011 is as follows:

	2012		2011	
	Amount	Percent	Amount	Percent
Benefit for income tax at federal statutory rate	$ (923,213)	(34.0)	$(1,454,324)	(34.0)
Increase in valuation allowance	889,681	32.8	1,213,457	28.4
Effect of foreign subsidiary losses	-	-	160,744	3.8
Conversion of vendor payable to common and preferred stock	-	-	42,840	1.0
Compensatory element of stock option grants	91,362	3.4	84,902	2.0
Other	(57,830)	(2.2)	(47,619)	(1.2)
	$ -	-	$ -	-

As of December 31, 2012, for United States of America ("U.S.") federal income tax reporting purposes, the Company has approximately $24,871,000 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 NOL for federal income tax 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.

11. 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 capital stock that are not available to all holders of such class of capital stock. In February 2010, the Company amended and restated its Certificate of Incorporation to reflect a change in preferred and common stock par value from $.001 to $0.01, and to eliminate its Class A and Class B Common Stock in favor of a single 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.

During the year ended December 31, 2008, the Company declared a stock split by way of stock dividend of (1) 3,000 shares of Class A Common Stock for each outstanding share of Class A Common Stock, such that each holder of one share of Class A Common Stock exchanged such share for 3,000 shares of Class A Common Stock and (2) 3,000 shares of Class B Common Stock for each outstanding share of Class B Common Stock, such that each holder of one share of Class B Common Stock exchanged such share for 3,000 shares of Class B Common Stock. The conversion price for each outstanding share of Series A Preferred Stock was adjusted to that each share of Series A Preferred Stock shall be convertible into 3,000 shares of Class A Common Stock. Appropriate adjustments were made for each outstanding option in order to prevent the dilution or enlargement of rights and benefits. As a result, 13,086,000 Class B Common Stock shares and 2,781,000 Class A Common Stock shares were issued in exchange for 4,362 Class B Common Stock shares and 928 Class A Common Stock shares, respectively, outstanding prior to the stock dividend.

On September 28, 2010, the Company received authorization by the Superintendincia General de Valores de Costa Rica (Sugeval) to affect a Restricted Public Offering ("RPO"). This offering was conducted under Costa Rican law outside of the United States. The Company approved the issuance of up to 1,000,000 shares of Common Stock pursuant to the Restricted Public Offering, at an offering price of $10.00 per share. The approval of the RPO by Sugeval resulted in all issued and outstanding shares of Series B Preferred Stock to be converted to Common Stock. This conversion resulted in 106 shares of Preferred Stock Class B being converted into 318,000 shares of Common Stock.

During the year ended December 31, 2011, the Company sold 36,450 and 135,643 shares of Common Stock pursuant to the RPO at a price of $10.00 and $12.00 per share resulting in cash proceeds of $328,050 and $1,429,989. The Company recorded issuance costs related to these issuances totaling $234,163 as an offset to additional paid in capital. The Company also issued 1,500 shares of common stock at a price of $12.00 per share, to a related party for services rendered to the Company.

During the year ended December 31, 2012, the Company sold 108,262 shares of Common Stock pursuant to the RPO at a price of $7.00, 59,069 shares of Common Stock at a price of $9.50, 13,000 shares of Common Stock at a price of $10.00 and 74,164 shares of Common Stock at a price of $12.00 per share resulting in cash proceeds of $682,051, $505,040, $117,000 and $800,979. The Company recorded issuance costs related to these issuances totaling $233,895 as an offset to additional paid in capital.

During the period September 30, 2013, the Company sold 56,355 shares of Common Stock pursuant to the RPO at a price of $8.00, 7,270 shares of Common Stock through the Aurora Fund at a price of $8.00, and 37,500 shares of Common Stock through a private placement offering at a price of $8.00 per share resulting in cash proceeds of $405,756, $52,344 and $298,000. The Company recorded issuance costs related to these issuances totaling $52,900 as an offset to additional paid in capital.

Common Stock, continued

At September 30, 2013 and December 31, 2012, the company had 20,607,265 and 20,251,645 shares of Common Stock outstanding, respectively.

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 September 30, 2013 and December 31, 2012, the Company had 2,200 and 2,200 shares authorized and 369 and 369 shares issued and outstanding of Series A preferred stock, par value $0.01 per share ("Series A"), respectively. 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.

At September 30, 2013 and December 31, 2012 there were no accumulated, undeclared dividends.

Series B Preferred Stock

In 2010, the Company converted all of its Series B Preferred Stock to Common Stock as part of its Restricted Public Offering ("RPO") at a conversion price equal to the original issue price per share divided by 3,000. After the completion of the conversion of these shares the Company is no longer able to issue any of the Series B Preferred Stock, hence at September 30, 2013 and December 31, 2012, the Company had no shares authorized and none issued or outstanding of Series B Preferred Stock.

Series C Preferred Stock

At September 30, 2013 and December 31, 2012, the Company had 100 shares authorized and 26 and 26 issued and outstanding, respectively, 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 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 or $12 per common share. The Company has the right to redeem the Series C for cash at any time after issuance within twenty days of a 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 stock 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 year ended December 31, 2012, the Company issued 1 share of Series C Preferred Stock to an outside investor for $36,000 in cash.

At September 30, 2013 and December 31, 2012, there were no accumulated or undeclared dividends.

12. 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 to 24 rent is $6,900 per month, for months 25 to 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 choses 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 period ended September 30, 2013 and year ended December 31, 2012 and the period from inception July 15, 2005, to September 30, 2013 totaled $195,702, $315,592, and $1,627,950 on a straight-line basis.

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

Year	Annual Expense
2013	51,540
2014	226,435
2015	257,745
2016	204,154
2017	47,610
Total	$ 787,484

Capital Leases

Assets under capital leases are capitalized using the contractual interest rate of 4.75%, for a period of 60 months ending in 2014. Following is an analysis of assets under capital leases at September 30, 2013 and December 31, 2012:

	2013	2012
Machine shop equipment	$159,719	$159,719
Less accumulated depreciation	(154,810)	(148,446)
	$ 4,909	$ 11,273

Future minimum lease payments for the above assets under capital leases at September 30, 2013 are as follows:

2013	2,004
2014	2,988

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
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Capital Leases, continued

Total minimum obligations	4,992
Interest	(83)
Present value of net minimum obligations	4,909
Current portion of obligation	(4,909)
Long-term obligation	$ -

The Company recorded amortization expense related to its capital leases of $5,343, $29,877 and $175,091 for the periods ended September 30, 2013, December 31, 2012, and for the period from inception, July 15, 2005 to September 30, 2013, respectively.

13. Going Concern

As a research and development firm, 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 September 30, 2013, December 31, 2012 and during the period from Inception, July 15, 2005 to September 30, 2013, the Company's net losses were $1,581,857, $2,715,332, and $33,149,140, respectively, and net cash used in operating activities was $982,823, $2,083,482, and $23,296,267, respectively. 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 cash from its financing activities for the periods ended September 30, 2013, December 31, 2012 and during the period from Inception, July 15, 2005 to September 30, 2013, of $820,982, $2,289,617 and $29,583,413, respectively.

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.

14. 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 September 30, 2013, there were no pending claims or legal actions in which the Company was involved.

15. Subsequent Events

Subsequent events have been evaluated through November 25, 2013 which is the date the consolidated financial statements were issued.

During October 2013, the Company sold 3,180 shares of common stock thru the RPO at $7.50 a share generating proceeds of $21,465, net of issuance costs of $2,385.

During October 2013, the Company sold 30,000 shares of common stock thru private placements at $7.50 a share generating proceeds of $225,000, net of issuance costs of $0.