AD ASTRA ROCKET COMPANY and SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS with Report of Independent Accountants as of and for the years ended December 31, 2014 and 2013

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
TABLE OF CONTENTS

Report of Independent Accountants

To the Board of Directors and Stockholders
Ad Astra Rocket Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ad Astra Rocket Company and Subsidiaries (the "Company") which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the consolidated statements of operations,, changes in stockholders' deficit and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Accountants' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the independent accountants' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the independent accountants consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 12 to the consolidated financial statements, the Company has suffered recurring net losses and negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to this matter are also discussed in Note 12. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Houston, Texas
March 12, 2015

Ham, Langston & Brezina LLP

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AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
for the years ended December 31, 2014 and 2013

ASSETS	**2014**	**2013**
Current assets:		
Cash	$ 119,940	$ 178,656
Accounts receivable	4,431	-
Prepaid expenses	13,802	7,610
Total current assets	138,173	186,266
Property and equipment, net	49,908	90,341
Capital lease assets, net	-	5,336
Other assets	64,934	68,554
Total assets	$ 253,015	$ 350,497
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Line of credit, related party	$ 408,000	$ 408,000
Line of credit, bank	-	250,000
Current portion of notes payable, bank	18,217	250,000
Note payable, related party	250,000	17,051
Accounts payable	298,533	432,679
Accounts payable, related party	199,893	199,893
Accrued liabilities	918,965	736,726
Short-term portion capital lease obligation	-	2,956
Interest payable to related party	92,549	79,790
Total current liabilities	2,186,157	2,377,095
Long-term liabilities:		
Long-term debt, bank, net of current portion	238,649	-
Total liabilities	2,424,806	2,377,095
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; 20,835,685 and 20,674,731 shares issued and outstanding	208,357	206,748
Additional paid-in capital	32,866,063	31,730,335
Accumulated deficit	(35,246,215)	(33,963,685)
Total stockholders' deficit	(2,171,791)	(2,026,598)
Total liabilities and stockholders' deficit	$ 253,015	$ 350,497

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

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2014 and 2013

	2014	2013
General and administrative expenses:		
Payroll expense	$ 1,245,045	$ 1,844,687
Professional fees	111,173	77,243
Other general and administrative expenses	1,086,233	1,126,992
Total general and administrative expenses	2,442,451	3,048,922
Other income (expense):		
Interest income	46	429
Interest expense	(47,064)	(47,868)
Other income, net	1,206,939	699,959
Total other income (expense), net	1,159,921	652,520
Net loss before provision for income taxes	(1,282,530)	(2,396,402)
Provision for income taxes	-	-
Net loss	$ (1,282,530)	$ (2,396,402)
Basic and diluted loss per share	$ (.05)	$ (.12)
Basic weighted-average shares outstanding	20,775,828	20,577,096

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 years ended December 31, 2014 and 2013

	Preferred Stock				Common Stock		Additional		Total
	Series A Shares	Amount	Series C Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated Deficit	Stockholders Equity(Deficit)
Balance as of December 31, 2012	369	$ 4	26	$ -	20,506,140	$ 205,062	$30,270,641	$(31,567,283)	$ (1,091,576)
Common stock issued for cash,net of issuance costs of $69,285	-	-	-	-	168,591	1,686	1,226,890	-	1,228,576
Compensatory element of stock option grant	-	-	-	-	-	-	232,804	-	232,804
Net loss	-	-	-	-	-	-	-	(2,396,402)	(2,396,402)
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	-	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)

The accompanying notes are an integral part of consolidated financial statements

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2014 and 2013

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash flows used in operating activities:		
Net loss	$ (1,282,530)	$ (2,396,402)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	46,873	80,823
Compensatory element of stock option grants	138,171	232,804
Changes in operating assets and liabilities:		
Accounts receivable	(4,431)	257,498
Prepaid expenses	(6,192)	4,799
Other assets	3,620	51
Accounts payable and accrued liabilities	48,193	480,860
Interest payable, related party	12,759	12,765
Net cash used in operating activities	(1,043,537)	(1,326,802)
Cash flows used in investing activities:		
Purchases of equipment	(1,204)	-
Net cash used in investing activities	(1,204)	-
Cash flows from financing activities:		
Payments on line of credit, bank	(250,000)	-
Payments on capital lease obligations	(2,956)	(7,676)
Payments on notes payable, bank	(280,385)	(269,769)
Payments on notes payable, related party	(17,051)	(52,000)
Proceeds from:		
Note payable, related party	250,000	-
Notes payable, bank	287,251	385,370
Issuance of common stock, net issuance costs of $26,126 and $69,285	999,166	1,228,576
Net cash provided by financing activities	986,025	1,284,501
Net decrease in cash and cash equivalents	(58,716)	(42,301)
Cash and cash equivalents, beginning of period	178,656	220,957
Cash and cash equivalents, end of period	$ 119,940	$ 178,656
Supplemental Cash Flow Information:		
Cash paid for interest	$ 29,020	$ 28,291

The accompanying notes are an integral part of these 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:

	Years
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 years ended December 31, 2014 and 2013, the Company did not record any impairment expenses related to its long-lived assets.

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 years ended December 31, 2014 and 2013 was $138,171, and $232,804, 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 December 31, 2014 and 2013, stock options pertaining to 312,300 and 436,500 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 years ended December 31, 2014 and 2013, the Company's basic and diluted net loss per share was $0.05 and $0.12 based on 20,775,828 and 20,577,096 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 years ended December 31, 2014 and 2013, were $543,106 and $803,933.

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

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 December 31, 2014 and 2013 was $4,431 and $0.

3. Other Assets

Other assets were comprised of the following at December 31,

	2014	2013
Deposits	$ 37,434	$ 38,501
License	27,500	30,000
Other	-	53
Total	$ 64,934	$ 68,554

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 of $ 2,500, for the years ended December 31, 2014 and 2013.

4. Property and Equipment

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

Description	2013	Additions/ Transfers in	Retirements/ Transfers out	2014
Computer and software	$ 572,923	$ 1,145	$ -	$ 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	138,897	59	-	138,956
	6,151,843	1,204	-	6,153,047
Less accumulated depreciation	(6,061,502)	(41,637)	-	(6,103,139)
Net property and equipment	$ 90,341	$ (40,433)	$ -	$ 49,908

Depreciation and amortization expense of $41,637, and $80,823 was recognized during the years ended December 31, 2014 and 2013.

5. Accrued Liabilities

Accrued liabilities were comprised of the following at December 31,

	2014	2013
Deferred salaries	$ 607,628	$ 497,567
Other wages payable	42,270	148,816
Payroll taxes and benefits	113,647	87,587
Interest payable	5,276	-
Legal contingency	150,000	-
Other	144	2,756
	$ 918,965	$ 736,726

6. Long-term Debt

Line of Credit, Related Party

As of December 31, 2014 and 2013, 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 $92,549 and $79,790. 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 December 31, 2014 and 2013.

6. Long-term Debt, continued

Notes Payable

The Company had the following notes payable at December 31, 2014 and 2013:

	2014	2013
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. The note was paid in full during May 2014.	$ -	$ 250,000
Notes payable with a commercial bank with interest payable monthly starting August 2013, and with principal of $250,000 due at maturity in January 2014. The note is secured by the proceeds from a contract with a Costa Rican national agency and bears a fixed annualized interest rate of 9.00%. The note was paid in full during January 2014.	-	250,000
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%.	246,713	-
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%.	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.	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. The note was paid in full during the year ended December 31, 2014	-	17,051
	506,866	517,051
Less current maturities	(268,217)	(517,051)
Total long-term debt, net of current maturities	$ 238,649	$ -

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

Year	Annual Expense
2015	$ 268,217
2016	8,493
2017	230,156
	$ 506,866

6. Long-term Debt, continued

For the years ended December 31, 2014 and December 31, 2013, the Company's weighted average interest rate and weighted average effective rate on outstanding short-term debt obligations is 14.86% and 6.36% and 7.13% and 7.38%.

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:

	2005 Stock Incentive Plan	
	Shares	Weighted-Average Exercise Price
Outstanding, December 31, 2012	507,000	$ 4.00
Granted	3,000	9.50
Forfeited/cancelled	(3,000)	9.50
Outstanding, December 31, 2013	507,000	3.91
Granted	-	-
Forfeited/cancelled	(99,700)	6.39
Outstanding, December 31, 2014	407,300	3.31
Exercisable, December 31, 2014	405,300	$ 3.26

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at December 31, 2014 were 2.35 years and $3.31. The exercise prices for the options outstanding at December 31, 2014 ranged from $1.67 to $12.00, and information relating to these options is as follows:

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	285,000	285,000	1.5 years	$ 1.67	$ 1.67
$1.68 - $4.17	27,000	27,000	2.4 years	$ 4.17	$ 4.17
$4.18 - $6.67	61,500	61,500	4.0 years	$ 6.67	$ 6.67
$6.68 - $12.00	33,800	31,800	6.1 years	$ 10.30	$ 10.19
	407,300	405,300			

During the years ended December 31, 2014 and 2013 the Company issued 0 and 3,000 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 years ended December 31:

7. Stock Incentive Plan, continued

	2014	2013
Expected volatility	N/A	39.0%
Risk free interest rate	N/A	1.9%
Expected life	N/A	10 yrs
Weighted average fair value	N/A	$4.89

During the years ended December 31, 2014 and 2013, the Company cancelled 99,700 and 3,000 options. The total fair value of options expensed pursuant to the Plan during the years ended December 31, 2014 and 2013 was $138,171, and $232,804.

As of December 31, 2014, there was approximately $71,548 of total unrecognized option expense related to non-vested share-based compensation arrangements.

8. Related Party Transactions

As of December 31, 2014 and 2013, 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 years ended December 31, 2014 and 2013, 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 $78,300 and $91,238. As of December 31, 2014 and 2013, the Company had an outstanding balance of $0 and $12,093 due to this affiliate pursuant to the lease agreement. For the years ended December 31, 2014 and 2013, the Company paid Aldesa commissions of $26,126 and $69,285 earned in connection with the sale of 45,080 and 86,805 shares of the Company's common stock resulting in net proceeds of $255,167 and $ 672,850.

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:

	2014	2013
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	231,204	348,818
Total deferred tax assets	10,231,781	9,877,437
Valuation allowance	(10,231,781)	(9,877,437)
Net deferred tax asset	$ -	$ -

9. Income Taxes, continued

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:

	2014		2013	
	Amount	**Percent**	**Amount**	**Percent**
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	34,738	2.7	2,222	0.1
	$ -	-	$ -	-

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 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 Superintendincia 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 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.

During the year ended December 31, 2013, the Company sold 63,625 shares of Common Stock pursuant to the RPO at a price of $7.00, 3,180 shares of Common Stock at a price of $7.50, and 20,000 shares of Common Stock at $8.00 per share resulting in cash proceeds of $126,000, $21,465, and $456,100. The Company recorded issuance costs related to these issuances totaling $69,285.

10. Equity, continued

The Company also sold 14,286 shares of Common Stock pursuant to private placements at a price of $7.00, 30,000 shares of Common Stock at a price of $7.50, and 37,500 shares of Common Stock at $8.00 per share resulting in cash proceeds of $100,002, $225,005 and $300,000. 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 December 31, 2014 and 2013, 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.

During the years ended December 31, 2014 and 2013 the Company did not issue any shares of Series A Preferred Stock.

At December 31, 2014 and 2013, there were no accumulated, undeclared dividends.

Series C Preferred Stock

At December 31, 2014 and 2013, 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 years ended December 31, 2014 and 2013, the Company did not issue any shares of Series C Preferred Stock.

At December 31, 2014 and 2013, 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

11. Commitments, continued

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 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 years ended December 31, 2014 and 2013 totaled $287,780, and $261,045 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
2015	$ 187,870
2016	106,329
2017	47,610
	$ 341,809

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 December 31, 2014 and 2013:

	2014	2013
Machine shop equipment	$ 159,719	$ 159,719
Less accumulated depreciation	(159,719)	(154,383)
	$ -	$ 5,336

The Company has no further minimum lease payments for the above assets under capital leases at December 31, 2014.

The Company recorded depreciation expense related to its capital lease assets of $5,336 and $5,937 for the years ended December 31, 2014 and 2013.

During 2014 the Company exercised its option to purchase the capital equipment associated with one of its capital leases at the conclusion of its lease period for the asset buyout purchase price of $1.

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 years ended December 31, 2014 and 2013 the Company's net losses were $1,132,530, and $2,396,402, and net cash used in operating activities was $1,046,915, and $1,326,802. During the years ended December 31, 2014, and 2013 the Company had a working capital deficiency of $1,974,117 and $2,190,829. These factors raise a substantial doubt about the Company's ability to continue as a going concern.

12. Going Concern, continued

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 years ended December 31, 2014 and 2013 of $989,403 and $ 1,284,500.

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 December 31, 2014, 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. As of December 31, 2013 the Company was not party to any lawsuits claims or regulatory disputes thus no accrual was recorded.

14. Subsequent Events

Subsequent events have been evaluated through March 12, 2015 which is the date the consolidated financial statements were available to be issued.

During January 2015, the Company sold 640 shares of common stock thru the RPO at $6.00 a share generating proceeds of $3,763. The Company paid $77 in fees for issuance costs for these shares.

During March 2015, the Company sold 1,388 shares of common stock thru the RPO at $6.00 a share generating proceeds of $8,161. The Company paid $167 in fees for issuance costs for these shares.