

AD ASTRA ROCKET COMPANY and SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
With Report of Independent Accountants
As of and for the Years Ended
December 31, 2015 and 2014**

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Accountants	1
Consolidated Financial Statements:	
Consolidated Balance Sheets as of December 31, 2015 and 2014	2
Consolidated Statements of Operations for the years ended December 31, 2015 and 2014	3
Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2015 and 2014	4
Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014	5
Notes to Consolidated Financial Statements	6



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, 2015 and 2014, 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, 2015 and 2014, and the results of its operations and its 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 2 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 2. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Houston, Texas
March 15, 2016

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
for the years ended December 31, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 346,609	\$ 119,940
Accounts receivable	34,989	4,431
Prepaid expenses	<u>19,752</u>	<u>13,802</u>
Total current assets	<u>401,350</u>	<u>138,173</u>
Property and equipment, net	185,282	49,908
Other assets	<u>62,434</u>	<u>64,934</u>
Total assets	<u>\$ 649,066</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	500,000	250,000
Accounts payable	107,072	298,533
Accounts payable, related party	279,656	199,893
Accrued liabilities	881,471	913,689
Interest payable to related party	<u>140,458</u>	<u>97,825</u>
Total current liabilities	2,324,720	2,186,157
Long-term liabilities:		
Long-term debt, bank, net of current portion	<u>231,478</u>	<u>238,649</u>
Total liabilities	<u>2,556,198</u>	<u>2,424,806</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock:		
Series A, \$0.01 par value, 2,200 shares authorized; 369 shares issued and outstanding	4	4
Series C, \$0.01 par value, 1,000 shares authorized; 26 shares issued and outstanding	-	-
Common stock, \$0.01 par value, 75,000,000 shares authorized; 20,997,713 and 20,835,685 shares issued and outstanding	209,978	208,357
Additional paid-in capital	33,746,700	32,866,063
Accumulated deficit	<u>(35,863,814)</u>	<u>(35,246,215)</u>
Total stockholders' deficit	<u>(1,907,132)</u>	<u>(2,171,791)</u>
Total liabilities and stockholders' deficit	<u>\$ 649,066</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 years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
General and administrative expenses:		
Payroll expense	\$ 1,186,505	\$ 1,245,045
Professional fees	86,518	111,173
Other general and administrative expenses	<u>1,052,181</u>	<u>1,086,233</u>
Total general and administrative expenses	2,325,204	2,442,451
Other income (expense):		
Interest income	9	46
Interest expense	(65,580)	(47,064)
Other income, net	<u>1,773,176</u>	<u>1,206,939</u>
Total other income (expense), net	<u>1,707,605</u>	<u>1,159,921</u>
Net loss before provision for income taxes	(617,599)	(1,282,530)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (617,599)</u>	<u>\$ (1,282,530)</u>
Basic and diluted loss per share	<u>\$ (.03)</u>	<u>\$ (.06)</u>
Basic weighted-average shares outstanding	<u>20,917,875</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 years ended December 31, 2015 and 2014

	<u>Preferred Stock</u>				<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders Equity(Deficit)</u>
	<u>Series A Shares</u>	<u>Amount</u>	<u>Series C 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 stock options granted	-	-	-	-	-	-	138,171	-	138,171
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,282,530)</u>	<u>(1,282,530)</u>
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 \$1,443	-	-	-	-	162,028	1,621	819,105	-	820,726
Compensatory stock options granted	-	-	-	-	-	-	61,532	-	61,532
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(617,599)</u>	<u>(617,599)</u>
Balance as of December 31, 2015	<u>369</u>	<u>\$ 4</u>	<u>26</u>	<u>\$ -</u>	<u>20,997,713</u>	<u>\$ 209,978</u>	<u>\$33,746,700</u>	<u>\$(35,863,814)</u>	<u>\$ (1,907,132)</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 years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net loss	\$ (617,599)	\$ (1,282,530)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	46,726	49,373
Compensatory element of stock option grants	61,532	138,171
Changes in operating assets and liabilities:		
Accounts receivable	(30,558)	(4,431)
Prepaid expenses	(5,950)	(6,192)
Other assets	-	1,120
Accounts payable and accrued liabilities	(223,679)	48,193
Accounts payable, related party	79,763	-
Interest payable, related party	<u>42,633</u>	<u>12,759</u>
Net cash used in operating activities	<u>(647,132)</u>	<u>(1,043,537)</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(179,600)</u>	<u>(1,204)</u>
Net cash used in investing activities	<u>(179,600)</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	(17,325)	(280,385)
Payments on notes payable, related party	-	(17,051)
Proceeds from notes payable, related party	250,000	250,000
Proceeds from notes payable, bank	-	287,251
Net proceeds from Issuance of common stock	<u>820,726</u>	<u>999,166</u>
Net cash provided by financing activities	<u>1,053,401</u>	<u>986,025</u>
Net Increase (decrease) in cash and cash equivalents	226,669	(58,716)
Cash and cash equivalents, beginning of period	<u>119,940</u>	<u>178,656</u>
Cash and cash equivalents, end of period	<u>\$ 346,609</u>	<u>\$ 119,940</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 20,882</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 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 ("U.S. GAAP") 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 consolidated 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.

Account Receivable and Allowance for Doubtful Accounts

The Company provides services to entities located primarily in the United States and Costa Rica. The Company grants credit only after an evaluation of financial condition. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. At December 31, 2015 and 2014, there was no allowance as management believes all accounts are collectible.

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

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.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Impairment of Long-Lived Assets

If 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, 2015 and 2014, the Company did not record any impairment expense related to long-lived assets.

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 uncertain income tax positions and prescribes the minimum recognition threshold a tax position is required to meet for recognition 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, 2015 and 2014.

The Company files a consolidated federal income tax return in the United States and state tax returns in the jurisdictions in which it operates. With few exceptions, the Company is no longer subject to United States federal income tax or state income tax examinations for years before 2012.

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, 2015 and 2014 was \$61,532, 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 considers 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, 2015 and 2014, stock options pertaining to 367,000 and 312,000 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.

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.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Revenue and Cost Recognition

Revenues from services provided are recognized when all of the following criteria have been met: (1) evidence of an arrangement exists, (2) the service has been provided to the customer, (3) the price is fixed or determinable and (4) collectability is reasonably assured.

Cost of revenue includes direct labor, supplies, and freight and is recognized as revenue is earned.

Research and Development

Research and development projects and costs are expensed as incurred. These costs consist of direct costs associated with the design of new products. Research and development expenses incurred during the years ended December 31, 2015 and 2014, were \$695,053 and \$543,106, respectively.

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 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 guidance of ASU No. 2014-15 is included in ASC 205, *Presentation of Financial Statements-Going Concern*, and addresses management's responsibility to evaluate whether there is substantial doubt an entity's ability to continue as a going concern and to provide related disclosure. The provisions of ASU 2014-15 are effective for the annual periods ending after December 15, 2016, and for annual 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 May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company does not anticipate the adoption of this guidance will have a significant impact on its consolidated financial statements.

Reclassifications

Certain items in the 2014 consolidated financial statements have been reclassified to conform to the 2015 financial statement presentation. The reclassifications have no impact on stockholder's deficits, net loss or cash flows as previously reported.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Going Concern

Since its inception, the Company has not generated significant revenue from core operations and, accordingly, it has experienced recurring net losses and negative cash flows from operating activities. During the years ended December 31, 2015 and 2014 the Company had net losses of \$617,599, and \$1,282,530, respectively, and those losses are the primary reason the Company reported negative cash flows from operating activities of \$647,132, and \$1,043,537, respectively. The Company's challenges as a research and development company are further evidenced by its working capital deficiency that was \$1,923,370 and \$2,047,984, at December 31, 2015, and 2014, respectively. In addition to operational cash flow and financial challenges, investing activities required cash of \$179,600, and \$1,204, during the years ended December 31, 2015, and 2014. 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 stock and preferred stock and the issuance of convertible debentures to a related party. The Company generated net cash from financing activities of \$1,053,401 and \$986,025 during the years ended December 31, 2015 and 2014, respectively. While the Company has not generated significant income from core operations in the past, the Company has recently been a party to certain research projects from US government entities and others that resulted in additional sources of income of \$1,738,187 and \$1,202,508 for the years ended December 31, 2015 and 2014, respectively. The Company expects to continue to be able to source additional projects and income from these entities in the upcoming year.

Management's primary focus is 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 equity or debt funding to meet current commitments and fund the continuation of its business operations. Ultimately, the Company must 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 funding for its existing commitments and continued operations.

3. Accounts Receivable

Accounts Receivable, at December 31, 2015 and 2014, were \$34,989 and \$4,431, respectively, and relate to various contracts, speaking and consulting engagements.

4. Other Assets

Other assets, at December 31, 2015 and 2014, was comprised of the following:

	<u>2015</u>	<u>2014</u>
Deposits	\$ 37,434	\$ 37,434
License	<u>25,000</u>	<u>27,500</u>
Total	<u>\$ 62,434</u>	<u>\$ 64,934</u>

The license included in other assets is an intangible asset obtained from a United States governmental agency that allows 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 its 20 year contractual life. The Company recorded amortization expense of \$ 2,500 during each of the years ended December 31, 2015 and 2014.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2015 and 2014, and related activity for the years then ended, were as follows:

December 31, 2015

<u>Description</u>	<u>2014</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2015</u>
Computer and software	\$ 574,068	\$ 76,678	\$ -	\$ 650,746
Laboratory equipment	3,830,773	50,950	-	3,881,723
Machine shop equipment	38,287	51,972	-	90,259
Leasehold improvements	1,570,963	-	-	1,570,963
Other	<u>138,956</u>	<u>-</u>	<u>-</u>	<u>138,956</u>
	6,153,047	179,600	-	6,332,647
Less accumulated depreciation	<u>(6,103,139)</u>	<u>(44,226)</u>	<u>-</u>	<u>(6,147,365)</u>
Net property and equipment	<u>\$ 49,908</u>	<u>\$ 135,374</u>	<u>\$ -</u>	<u>\$ 185,282</u>

December 31, 2014

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

Depreciation and amortization expense of \$44,226, and \$41,637 was recognized during the years ended December 31, 2015 and 2014.

6. Accrued Liabilities

Accrued liabilities, at December 31, 2015 and 2014, was comprised of the following:

	<u>2015</u>	<u>2014</u>
Deferred salaries	\$ 607,628	\$ 607,628
Other wages payable	5,713	42,270
Payroll taxes and benefits	117,986	113,647
Legal contingency	150,000	150,000
Other	<u>144</u>	<u>144</u>
	<u>\$ 881,471</u>	<u>\$ 913,689</u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Notes Payable and Long-Term Debt

Line of Credit, Related Party

At December 31, 2015 and 2014, the Company had a \$408,000 line of credit with a related party vendor, owned by a member of the Company's board of directors. The line of credit and related accrued interest of \$122,250 and \$92,549, at December 31, 2015 and 2014, are due on demand. The interest rate on this line of credit is equal to the current "prime" interest rate, 3.25% at December 31, 2015 and 2014.

Notes Payable

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

	<u>2015</u>	<u>2014</u>
Note payable to a bank, bearing interest at a fixed rate of 9% per year and due in total monthly payments of \$2,500, including interest, through March 2017, at which date, a balloon payment for the remaining principal balance of \$229,000 is due. The note was originally collateralized by certain customer contracts which ended in December 2014. At December 31, 2015, the note was uncollateralized.	239,541	246,713
Note payable to a vendor, bearing interest at a 7.6% fixed rate and due in total monthly payments of \$3,493, including interest, through March 2015. The note was uncollateralized.	-	10,153
Demand note payable to a member of the Company's Board of Directors, bearing interest at a fixed rate of 3.25% per year and uncollateralized. The note holder has the right to convert any outstanding principal and or interest into shares of common stock of the Company at the estimated market price at the date of conversion. Accrual interest on this note was \$18,208 and \$5,276 at December 31, 2015 and 2014, respectively.	<u>500,000</u>	<u>250,000</u>
	739,541	506,866
Less current maturities	<u>(508,063)</u>	<u>(268,217)</u>
Total long-term debt, net of current maturities	<u>\$ 231,478</u>	<u>\$ 238,649</u>

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

<u>Year</u>	
2016	\$ 508,063
2017	<u>231,478</u>
	<u>\$ 739,541</u>

The Company's weighted average interest rate on outstanding short-term debt obligations for the years ended December 31, 2015 and 2014 was 5.84% and 5.27%, respectively. The Company's weighted average effective rate on outstanding short-term debt obligations for the years ended December 31, 2015 and 2014 was 6.86% and 6.36%, respectively.

8. 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 promote continued service by certain key employees, non-employee members of the Board of Directors, consultants and other independent advisors, by providing the opportunity to acquire an interest in the Company.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock Incentive Plan, continued

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

	2005 Stock Incentive Plan	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding, December 31, 2013	507,000	\$ 3.91
Granted	-	-
Forfeited/cancelled	<u>(99,700)</u>	<u>6.39</u>
Outstanding, December 31, 2014	407,300	3.31
Granted	55,000	6.00
Forfeited/cancelled	<u>-</u>	<u>-</u>
Outstanding, December 31, 2015	<u>462,300</u>	<u>3.63</u>
Exercisable, December 31, 2015	<u>406,300</u>	<u>\$ 3.29</u>

The weighted-average remaining life and weighted-average exercise price of outstanding options at December 31, 2015 were 2.29 years and \$3.63. The exercise prices for outstanding options ranged from \$1.67 to \$12.00 at December 31, 2015, and information relating to such options 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>Exercise Price of Options Exercisable</u>
\$0 - \$1.67	285,000	285,000	0.6 years	\$ 1.67	\$ 1.67
\$1.68 - \$4.17	27,000	27,000	1.4 years	\$ 4.17	\$ 4.17
\$4.18 - \$6.67	116,500	61,500	6.0 years	\$ 6.35	\$ 6.67
\$6.68 - \$12.00	<u>33,800</u>	<u>32,800</u>	5.1 years	\$ 10.30	\$ 10.24
	<u>462,300</u>	<u>406,300</u>			

During the years ended December 31, 2015, the Company granted 55,000 options. The Company used the Black-Scholes-Merton option pricing model and the following assumptions to calculate weighted-average estimated fair value of the stock options granted under the Plan for the years ended December 31 2015 and 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 years ended December 31, 2014, the Company cancelled 99,700 options. The fair value of options expensed under the Plan was \$61,533, and \$138,171 during the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, there was \$205,016 of unrecognized expense related to non-vested share-based compensation arrangements.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Related Party Transactions

At December 31, 2015 and 2014, the account payable to related party of \$279,656 and \$199,893, respectively, payable to a company owned by a member of the Company's board of directors for systems integration services.

During the years ended December 31, 2015 and 2014, the Company leased its Costa Rica laboratory and warehouse from an investment fund and recognized lease expense of \$88,000 and \$78,300, respectively. The investment fund is a related party because it is controlled by an affiliate of the Company's investment banker and shareholder ("Aldesa"). At December 31, 2015 and 2014, there was no outstanding balance due to this affiliate under the lease agreement. During the years ended December 31, 2015 and 2014, the Company paid Aldesa commissions of \$1,443 and \$26,126, respectively. Aldesa earned the commissions for sale of 12,028 and 41,173 shares of the Company's common stock for net proceeds of \$70,725 and \$ 232,662, during the years ended December 31, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Net operating loss carry-forwards	\$ 9,604,441	\$ 9,493,397
Non-deductible accruals	460,332	507,180
Basis difference in property and equipment	<u>173,666</u>	<u>231,204</u>
Total deferred tax assets	<u>10,238,439</u>	<u>10,231,781</u>
Valuation allowance	<u>(10,238,439)</u>	<u>(10,231,781)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

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, 2015 and 2014 is as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Benefit for income tax at federal statutory rate	\$ (209,983)	(34.0)	\$ (436,060)	(34.0)
Change in valuation allowance	(6,658)	(1.1)	354,344	27.6
Compensatory stock option grants	20,921	3.4	46,978	3.7
Tax accrual to return adjustments	195,720	31.7	-	-
Other	<u>-</u>	<u>-</u>	<u>34,738</u>	<u>2.7</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

At December 31, 2015, for United States federal income tax reporting purposes, the Company has approximately \$28,248,000 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, 2035. 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, 2015.

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Equity

Common Stock

The Company's Certificate of Incorporation authorizes issuance of 75,000,000 shares of \$0.01 par value common stock. At December 31, 2015 and 2014, the Company had 20,997,713 and 20,835,685 shares of common stock issued and outstanding, respectively. The Board of Directors may issue any authorized but unissued shares of common stock at prices and under other terms approved by the Board. The Company has not entered into any agreements with common stockholders that provide such stockholders with preferential economic rights 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 undertake 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, 2015, the Company sold 12,028 shares of Common Stock pursuant to the RPO at a price of \$6.00, per share resulting in cash proceeds of \$70,725. The Company recorded issuance costs related to these issuances totaling \$1,443.

During the year ended December 31, 2015, the Company also sold 150,000 shares of Common Stock through private placements at a price of \$5.00, per share resulting in cash proceeds of \$750,000. The Company had no costs related to these issuances.

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 net cash proceeds of \$22,505, \$208,125, and \$24,536. The Company recorded issuance costs related to these issuances totaling \$26,126.

During the year ended December 31, 2014, 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 \$0.01 par value Preferred Stock. The Preferred Stock may be issued in series, with designations, rights, preferences, and limitations determined by the Board of Directors.

Series A Preferred Stock

At December 31, 2015 and 2014, the Company had 2,200 shares authorized and 369 shares issued and outstanding of \$0.01 par value Series A preferred stock ("Series A"). Series A has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. 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 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

11. Equity, continued

Series A Preferred Stock, continued

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

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

Series C Preferred Stock

At December 31, 2015 and 2014, the Company had 1,000 shares authorized and 26 issued and outstanding, of \$0.01 par value Series C preferred stock ("Series C"). 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. The Company has the right to redeem 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. Series C stock become mandatorily convertible to common shares at a conversion rate of 3,000 common shares for each Series C share if Company closes an underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Securities Act of 1933, as amended.

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

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

12. Commitments

Operating Leases

In November of 2015, the Company negotiated a new lease agreement with its related party for office and laboratory space in Liberia, Costa Rica. The term of the agreement is for thirty-six months. The agreement for the first 12 months is for a rent of \$6,900 per month, for months 13-24 rent is \$7,107 per month, and for months 25 to 36 rent is \$7,320 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. In July of 2015 the Company exercised its one time option to extend the lease for an additional two years, through March 2017.

Rent expense for the years ended December 31, 2015 and 2014 totaled \$309,446, and \$287,780.

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>
2016	\$ 256,289
2017	191,060
2018	<u>73,202</u>
	<u>\$ 520,551</u>

AD ASTRA ROCKET COMPANY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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 March 15, 2016 which is the date the consolidated financial statements were available to be issued.

In November 2015, the Company entered into an agreement with a solar energy system manufacturer in Costa Rica to install a Solar Photovoltaic System at our Costa Rica facility. The agreement calls for the Company to purchase the system equipment for \$200,000 and to pay monthly installments approximately \$2,600 for 120 months including interest rate at 9.75% starting 30 days after installation of the panels are complete and the system is operational. As of December 31, 2015 the installation project had not yet started. It is anticipated that the system will become operational in March 2016 and payments would begin thereafter; in April of 2016.