

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

UNAUDITED

CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2010, the year ended December 31, 2009, and for the period from inception, July 15, 2005, to September 30, 2010

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AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)

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(UNAUDITED)

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AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED BALANCE SHEET
UNAUDITED

As of September 30, 2010 and the Period Ended December 31, 2009

<u>ASSETS</u>	<u>As of</u>	<u>July 15, 2005 to</u>
	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Current Assets		
Cash	\$ 96,518	\$ 78,607
Accounts receivable	16,907	4,365
Subscription receivable	149,940	0
Prepaid expenses	10,133	15,456
Total current assets	<u>273,498</u>	<u>98,428</u>
Other assets	71,337	73,213
Property & equipment, net	2,306,879	3,085,122
Capital lease assets, net	81,085	105,041
Total Assets	<u><u>2,732,800</u></u>	<u><u>3,361,804</u></u>
<u>LIABILITIES AND STOCKHOLDER'S DEFICIT</u>		
Current Liabilities		
Convertible debentures to related party	\$ 0	\$ 6,000,000
Line of Credit-Related Party	569,629	600,000
Short-term portion of notes payable	0	10,000
Accounts payable & accrued liabilities	1,376,556	1,060,768
Short term portion of deferred lease expense	7,896	31,584
Short-term portion of capital lease obligation	7,395	29,057
Interest Payable to Related Party		997,045
Total Current Liabilities	<u>1,961,476</u>	<u>8,728,454</u>
Long Term Liabilities		
Long term portion of notes payable	10,000	10,000
Long term portion deferred lease expense	50,026	50,026
Long-term portion capital lease obligation	70,950	70,950
Total long-term liabilities	<u>130,977</u>	<u>130,976</u>
Total liabilities	<u>2,092,452</u>	<u>8,859,430</u>
Stockholders' deficit		
Preferred stock		
Par value \$.001, 2,000 shares authorized	21	1
369 issued and outstanding		
Common stock	199,430	16,034
Par value \$.001, 75,000,000 shares authorized		
19,943,052 issued and outstanding		
Additional paid-in capital	24,073,996	14,237,177
Deficit accumulated during development stage	(19,750,838)	(19,750,838)
Current year development stage deficit	(3,882,261)	
Total stockholder's deficit	<u>640,347</u>	<u>(5,497,626)</u>
Total liabilities & stockholders' deficit	<u><u>\$ 2,732,800</u></u>	<u><u>\$ 3,361,804</u></u>

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



AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STATE ENTERPRIES)
CONSOLIDATED STATEMENT OF EARNINGS

As of September 30, 2010, December 31, 2009 and Inception to Date

UNAUDITED

	As of	Year Ended	Period from
	September 30, 2010	December 31, 2009	Inception
	September 30, 2010	December 31, 2009	July 31, 2005 to
	September 30, 2010	December 31, 2009	September 30, 2010
Other income			
Interest Income	\$ 7	\$ 3,340	\$ 323,629
Other Income	301,367	73,288	830,428
Total other income	<u>301,374</u>	<u>76,628</u>	<u>1,154,057</u>
Other Expenses			
Interest Expense	<u>(41,782)</u>	<u>(307,221)</u>	<u>(1,098,666)</u>
Total other income (expenses) net	<u>(41,782)</u>	<u>(307,221)</u>	<u>(1,098,666)</u>
General and administrative expenses:			
Payroll expense	\$ (1,708,496)	\$ (2,216,718)	\$ (11,636,323)
Professional Fees	(219,759)	(263,155)	(1,563,505)
Other general & administrative expenses	<u>(2,213,598)</u>	<u>(2,251,405)</u>	<u>(10,488,662)</u>
Total Expenses	<u>(4,183,635)</u>	<u>(5,038,499)</u>	<u>(24,787,156)</u>
Net Income (Loss)	<u>\$ (3,882,261)</u>	<u>\$ (4,961,871)</u>	<u>\$ (23,633,099)</u>

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

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT)
for the Quarter ending September 30, 2010

	Preferred Stock				Common Stock				Stock	Additional	Accumulated	Total
	Series A		Series B		Class A		Class B		Subscription	Paid-in	Deficit	Stockholders
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Receivable</u>	<u>Capital</u>	<u>During</u>	<u>Equity(Deficit)</u>
											<u>Development</u>	
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 Converted to Common Stock	(857)	0	0	0	857				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)

	Preferred Stock				Common Stock				Stock Subscription Receivable	Additional Paid-in Capital	Accumulated Deficit During Development	Total Stockholders Equity(Deficit)
	Series A		Series B		Class A		Class B					
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance forward as of December 31, 2009	352	1	36	0	2,941,548	2,941	13,092,000	13,092	0	14,237,178	(19,750,838)	(5,497,625)

	Preferred Stock				Common Stock				Stock Subscription Receivable	Additional Paid-in Capital	Accumulated Deficit During Development	Total Stockholders Equity(Deficit)
	Series A		Series B		Class A		Class B					
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Consolidate Common Stock Class A & Class B					(2,941,548)	(2,941)	2,941,548	2,941				0
Common Stock Issued for Cash						0	45,504	327		416,945		417,272
Common Stock/Debenture Conversion*		0				0	3,546,000	3,546		7,013,281		7,013,281
Change in Par Value of Stock Common Stock				0		0		176,345		(176,345)		(176,345)
Preferred Stock Issued for Cash 2010	17	0	70	1						2,435,699	0	2,435,700
Preferred Stock Converted to Common Stock			(70)	-1			210,000	2,100		(2,100)		(1)
Preferred Stock Converted to Common Stock Sold Prior 2010			(36)				108,000	1,080		(1,080)		0
Preferred Stock Subscribed For	0	0							0	0		0
Change in Par Value of Preferred Stock		4								(4)		0
Stock Dividends												0
Compensatory Element of Stock Option Grant										150,437		150,437
Net Loss											(3,882,261)	(3,882,261)
Balance as of September 30, 2010	369	4	0	0	0	0	19,943,052	199,431	0	24,074,012	(23,633,099)	460,458

Continued

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
As of September 30, 2010, the year ended December 31, 2009 and for the
period from inception July 15, 2005 to September 30, 2010

	Period Ended September 30, 2010	Period Ended December 31, 2009	Period from Inception July 15, 2005 to September 30, 2010
Cash flows from operating activities:			
Net Loss	-3,882,261	-4,961,871	-23,633,099
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization activities	894,313	1,148,638	3,910,251
Common stock issued for services	0		10,885
Compensatory element of stock option grants	150,437	86,219	720,795
Deferred rent expense	-23,688	-31,588	57,922
Changes in operating assets and liabilities			
Accounts receivable	-12,541	59,981	-16,907
Subscription Receivable	-149,940		-149,940
Prepaid expenses	5,324	-8,895	-10,133
Other assets	1,875	54,432	5
Accounts payable and accrued liabilities	172,795	292,900	929,648
Interest payable, related party/Line of Credit	18,773	0	18,773
Interest payable, related party/Debentures	19,781	284,224	1,016,826
Deferred salary	143,848	261,414	467,762
Deferred Income		-30,000	0
Net cash used in operating activities	<u>-2,661,284</u>	<u>-2,844,546</u>	<u>-16,677,212</u>
Cash flows used in investing activities:			
Purchase of equipment/Leasehold Improvements	-104,023	-176,425	-6,247,089
Gain/Loss Disposal of fixed assets	11,908		37,252
Net cash used in investing activities	<u>-92,115</u>	<u>-176,425</u>	<u>-6,209,837</u>
Cash flows from financing activities			
Payments on capital lease obligations	-21,662	-25,280	-81,374
Payments on NASA Contract	0		0
Proceeds from:			0
Line of Credit	-60,000	600,000	540,000
Issuance of debentures	0		6,000,000
Capital contribution by stockholder			2,000
Stockholder subscription receivable			1,387,500
Issuance of common stock	417,272	1,115,147	3,502,419
Issuance of preferred stock	2,435,700	1,195,020	11,633,022
Net proceeds provided by financing activities	<u>2,771,310</u>	<u>2,884,887</u>	<u>22,983,567</u>
Net (decrease) increase in cash and cash equivalents	17,911	-136,084	96,518
Cash and cash equivalents, beginning of period	78,607	214,791	
Cash and cash equivalents, end of period	<u>96,518</u>	<u>78,707</u>	<u>96,518</u>
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	<u>23,008</u>	<u>7,822</u>	<u>100,320</u>
Income taxes			
Noncash investing and financing activities:			
Equipment acquired through capital lease obligation	<u>0</u>	<u>35,615</u>	<u>159,719</u>
Stock dividend			15,864
Royalty payable converted into a note payable			20,000
Conversion of Common Stock Debentures	<u>7,016,827</u>		<u>7,016,827</u>
Conversion of debentures/Issuance of Debentures	<u>-6,000,000</u>		<u>-6,000,000</u>
Conversion of Interest Accruals Debentures	<u>-1,016,826</u>		<u>-1,016,826</u>

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Rocket \("VASIMR"\)](#) 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.

Financial Accounting Standards Board ("FASB") Codification

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, *"The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162"* ("SFAS 168"). The FASB Accounting Standards Codification TM, ("Codification" or "ASC") became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

Following SFAS 168, the FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, FASB Interpretations, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right; rather, these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. SFAS No. 168 is incorporated in ASC Topic 105, *Generally Accepted Accounting Principles*. The Company adopted SFAS No. 168 in the second quarter of 2009, and the Company will provide reference in its consolidated financial statements to both the Codification topic reference and the previously authoritative references related to Codification topics and subtopics, as appropriate.

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.

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued

Property and Equipment

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

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

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 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.

In 2008, the Company adopted ASC 740-10, formerly known as Financial Accounting Standard ("FAS") Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an Interpretation of FAS No. 109"*, 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. Effective for fiscal years beginning after December 15, 2007, ASC 740-10 also provides guidance on the derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of ASC 740-10 did not have a material impact on the Company's results of operations, financial position or cash flows and the Company did not recognize any interest or penalties related to any unrecognized tax positions.

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 five 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.

Continued

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued

Stock-Based Compensation, continued

The Company adopted ASC 718-10 using the modified prospective transition method, as of January 1, 2006. The Company's consolidated financial statements as of and for the quarter ended September 30, 2010 and for the period from inception, July 15, 2005 to September 30, 2010 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. Stock-based compensation expense recognized under ASC 718-10 for the period ended September 30, 2010 and the year ended December 31, 2009 and for the period from inception, July 15, 2005, to September 30, 2010 was \$150,437, \$86,220, and \$720,795, respectively, which consists of stock-based compensation expense related to employee and director stock options issuances.

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 quarter ended September 30, 2010, the year ended December 31, 2009 and for the period from inception, July 15, 2005, to September 30, 2010 was \$1,409,908 \$1,235,182, and \$7,215,834.

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.

Effective January 1, 2008, the Company adopted ASC 820-10, formerly known as FAS No. 157, "*Fair Value Measurements*", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Effective for fiscal years beginning after November 15, 2007, ASC 820-10 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The adoption of ASC 820-10 did not have a material impact on the Company's results of financial position, operations or cash flows.

Reclassifications

Certain items in the 2008 consolidated financial statements have been reclassified to conform to the 2009 consolidated financial statements' presentation. The reclassifications have no impact on net income or stockholders' deficit as previously reported..

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AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

New Accounting Pronouncements

In February 2007, the FASB issued ASC 825-10, formerly known as SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", which provides companies with an option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. ASC 825-10 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007 with early adoption allowed. The Company's adoption of ASC 825-10 did not have a material effect on its financial statements

1. Summary of Significant Accounting Policies, continued

New Accounting Pronouncements, continued

In December 2007, the FASB issued ASC 805-10, formerly known as SFAS No. 141 (revised 2007), "Business Combinations" and ASC 810-10, formerly known as SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". ASC 805-10 and ASC 810-10 are products of a joint project between the FASB and the International Accounting Standards Board. The revised standards continue the movement toward the greater use of fair values in financial reporting. ASC 805-10 will significantly change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. These changes include the expensing of acquisition related costs and restructuring costs when incurred, the recognition of all assets, liabilities and noncontrolling interests at fair value during a step-acquisition, and the recognition of contingent consideration as of the acquisition date if it is more likely than not to be incurred. ASC 810-10 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. ASC 805-10 and ASC 810-10 are effective for fiscal years beginning on or after December 15, 2008. ASC 805-10 will be applied prospectively. ASC 810-10 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of ASC 810-10 shall be applied prospectively. Early adoption is prohibited for both standards. The Company's adoption of these statements did not have a material effect on its financial statements.

2. Other Assets

Other assets at September 30, 2010 and December 31, 2009:

	<u>Sep 30, 2010</u>	<u>Dec 31, 2009</u>
Deposits	\$ 33,212	\$ 33,212
License	<u>38,125</u>	<u>40,000</u>
Total	<u>\$ 71,337</u>	<u>\$ 73,213</u>

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 quarter ending September 30, 2010, and the period from inception, July 15, 2005, to September 30, 2010, the Company recorded amortization expense of \$1,875, and \$11,875, respectively.

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AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. Property and Equipment

Property and equipment at September 30, 2010 and December 31, 2009

		Additions	Retirements	
<u>Property and Equipment</u>	<u>2009</u>	<u>Transfers In</u>	<u>Transfers out</u>	<u>Sep 30, 2010</u>
Computer and software	\$ 517,572	\$ 34,925	\$	\$ 552,497
Laboratory equipment	3,794,122	47,394	11,908	3,829,608
Machine shop equipment	38,287			38,287
Leasehold improvements	1,549,259	21,704	-	1,570,963
Other	<u>137,343</u>	<u> </u>	<u> </u>	<u>137,343</u>
	6,036,583	104,023	11,908	6,128,698
Less accumulated depreciation	<u>(2,951,461)</u>	<u>(870,358)</u>	<u>-</u>	<u>(3,821,819)</u>
Net property and equipment	<u>\$3,085,122</u>	<u>\$ (766,335)</u>	<u>\$ (11,908)</u>	<u>\$2,306,879</u>

Depreciation expense of \$870,358, and \$2,951,461 was recognized during the period ended September 30, 2010 and the year ended December 31, 2009.

4. Convertible Debentures

During the period from inception, July 15, 2005, to December 31, 2008, the Company issued \$6 million, of the Company's 4.75% Convertible Debentures ("Debentures"), to the Company's Chairman and Chief Executive Officer. The Debentures were due September 15, 2010, accrue interest at the rate of 4.75% per year and are not collateralized. Interest was payable in full upon maturity on September 15, 2010. All or any portion of the Debentures, including interest accrued thereon, were convertible into shares of the Company's common stock or preferred stock at the option of the holder at any time prior to the maturity date at conversion prices ranging from \$0.95 to \$4.76 per share.

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AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

On January 26, 2010, the holder of the convertible debentures elected to convert 100% of the \$6,000,000 outstanding principal and the \$1,016,826 of accrued interest into 3,546,000 shares of common stock. The conversion prices for each of the debentures and the corresponding interest are as follows:

Debenture	Conversion
<u>Amount</u>	<u>Price</u>
\$1,000,000	\$0.95
\$1,000,000	\$1.67
\$1,000,000	\$1.67
\$1,000,000	\$3.33
\$1,000,000	\$4.167
\$1,000,000	\$4.762

5. 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.

On September, 28, 2010 the Company authorized the issuance of 100,000 options to purchase shares of the Company's common stock to be granted to various individuals at a price of \$10.00 per share based on the cash sales of the Company's common stock at or near the grant date of the options. These options are to be granted by December 31, 2010.

During the year ended December 31, 2009, the Company granted 123,000 options to purchase shares of common stock to various individuals at a price of \$6.67 per share based on cash sales of the Company's common stock at or near the grant date of the options. During 2010, 18,000 of these options will vest and the remaining 105,000 have an estimated requisite service period of 4 years and vest 25% per year beginning after the first year anniversary.

During the year ended December 31, 2008, the Company granted 18,000 options to purchase shares of common stock to various individuals at a price of \$6.67 per share based on recent cash sales of the Company's common stock at or near the grant date of the options. All of these options had a one year requisite service period.

During the year ended December 31, 2007, the Company granted 66,000 options to purchase shares of common stock to various individuals at prices ranging from \$4.17 to \$5.33 per share based on cash sales of the Company's common stock at or near the grant date of the options. During 2008, 18,000 of these options vested and the remaining 48,000 have an estimated requisite service period of 5 years and vest on varying schedules over this five year period.

During the year ended December 31, 2006 the Company granted 375,000 options to purchase shares of common stock to various individuals at a price of \$1.67 per share based on recent cash sales of the Company's common stock at or near the grant date of the options. During 2006, 285,000 of these options vested immediately and the remaining 90,000 have an estimated requisite service period of 4 years and vest equally over this four year period.

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. Stock Incentive Plan, continued

The following table summarizes certain information relative to stock options:

	<u>2005 Stock Incentive Plan</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding, December 31, 2006	375,000	\$1.67
Granted	66,000	4.22
Forfeited/cancelled	<u>-</u>	<u>-</u>
Outstanding, December 31, 2007	441,000	2.05
Granted	18,000	6.67
Forfeited/cancelled	<u>6,000</u>	<u>4.17</u>
Outstanding, December 31, 2008	453,000	2.20
Granted	123,000	6.67
Forfeited/cancelled	<u>54,000</u>	<u>3.26</u>
Outstanding, December 31, 2009	522,000	3.15
Exercisable, December 31, 2009	<u>321,000</u>	<u>2.09</u>
Granted	0	0
Forfeited/cancelled	<u>0</u>	<u>0</u>
Outstanding, September 30, 2010	522,000	3.15
Exercisable, September 30, 2010	421,500	<u>2.09</u>

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

	Weighted		Weighted Average		
	-		Average	Weighted	Exercise
	Stock	Stock	Remaining	Average	Price of
	Options	Options	Contract	Exercise	Options
<u>Range of Exercise</u>	<u>Outstanding</u>	<u>Exercisable</u>	<u>Life</u>	<u>Price</u>	<u>Exercisable</u>
\$0 - \$1.67	345,000	345,000	5.8 yrs.	\$ 1.67	\$ 1.67
\$4.17	45,000	36,000	6.6 yrs.	\$ 4.17	\$ 4.17
\$6.67	<u>132,000</u>	<u>40,500</u>	8.5 yrs.	\$ 6.67	\$ -
	<u>522,000</u>	<u>421,500</u>			

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at September 30, 2010 and December 31, 2009 were 7 years and \$3.15, respectively. The exercise prices for the options outstanding at December 31, 2009 ranged from \$1.67 to \$6.67, and information relating to these options is as follows:

The weighted-average estimated fair value of the 123,000 of the stock options granted pursuant to the Plan during the year ended December 31, 2009 was \$6.67 per share using the Black-Scholes model. These values were calculated using the Black-Scholes model with the following assumptions:

Expected volatility	681%
Risk-free interest rate	1.9%
Expected life	10 years

During the year ended December 31, 2009, the Company cancelled 54,000 options. The total fair value of options expensed pursuant to the Plan during the period ended of September 30, 2010 and the twelve months ended December 31, 2009 and for the period from inception, July 15, 2005 through September 30, 2010 were \$150,437, \$570,358, and \$720,795 respectively.

As of September 30, 2010, there was approximately \$451,870 of total unrecognized option expense related to non-vested share-based compensation arrangements.

6. Related Party Transactions

For the period ending September 30, 2010 and the year ending December 31, 2009, the Company incurred approximately \$20,000 and approximately \$96,000, respectively, in legal expenses paid to a director and a stockholder of the Company. As of September 30, 2010 and December 31, 2009, the Company had a balance outstanding of \$146,000 and \$136,000, respectively, related to these services.

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. On September 30, 2010 this vendor converted \$510,000 of the outstanding balance on this line of credit into seventeen (17) shares of Series A Preferred Stock. Following this conversion and as of September 30, 2010, and for the year ended December 31, 2009, the Company's balance outstanding on the line of credit was \$550,000 and \$600,000 respectively, plus accrued interest of \$29,660 and \$10,855 respectively. All principal and accrued unpaid interest shall be due and payable on or before the Maturity Date. The "Maturity Date" is defined as the earlier of (i) the date the Company or its designated entity is funded from proceeds of the sale of capital stock in the Company through means of the Costa Rican semi-public offering, or (ii) October 31, 2011. The interest rate on this line of credit is equal to the current "prime" interest rate.

In addition this vendor has outstanding balances of \$74,085 and \$6,900 related to systems integration services due to this vendor as of September 30, 2010 and December 31, 2009 respectively

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

For the period ending September 30, 2010 and the year ended December 31, 2009 the Company leased its Costa Rica laboratory and warehouse from an investment fund that is controlled by an affiliate of Aldesa, with lease expenses totaling \$91,234 and \$116,699 respectively. As of September 30, 2010, the Company owes this affiliate of Aldesa \$30,951. For the period ending September 30, 2010 and for the year ended December 31, 2009, the Company paid Aldesa commissions earned in connection with the sale of the Company's stock in the amount of \$199,528 and \$89,340 respectively.

7. 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 purposes. For the years ended December 31, 2009 and 2008, there were no provisions for income taxes and deferred tax assets have been entirely offset by valuation allowances. Significant components of the Company's deferred tax assets and liabilities, at December 31, 2009, were as follows:

Deferred tax assets:	<u>2009</u>	<u>2008</u>
Net operating loss carry-forwards	\$ 5,381,000	\$ 4,176,484
Other	<u>-</u>	<u>9,679</u>
Total deferred tax assets	<u>5,381,000</u>	<u>4,186,163</u>
Deferred tax liabilities:		
Basis difference in property and equipment	<u>(107,446)</u>	<u>(351,248)</u>
Total deferred tax liabilities	<u>(107,446)</u>	<u>(351,248)</u>
Valuation allowance	<u>(5,273,554)</u>	<u>(3,834,915)</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, 2009 and 2008 is as follows:

	<u>2009</u>		<u>2008</u>	
Benefit for income tax	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
at federal statutory rate	\$(1,687,066)	(34.0)	\$(1,939,497)	(34.0)
Increase in valuation allowance	1,438,639	28.9	1,641,714	28.8
Effect of foreign subsidiary losses	219,113	4.4	248,705	4.3
Compensatory element of stock option grants	29,314	.7	47,732	0.9
Other	<u>-</u>	<u>.0</u>	<u>1,346</u>	<u>0.0</u>
	<u>\$ -</u>	<u>0.00</u>	<u>\$ -</u>	<u>0.0</u>

Continued

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. Income Taxes, continued

As of December 31, 2009, for United States of America ("U.S.") federal income tax reporting purposes, the Company has approximately \$15,825,000 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, 2029. 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.

8. 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.

On September 28, 2010 the Company received authorization by the Superintendencia General de Valores de Costa Rica (Sugeval) to effect a Restricted Public Offering. This offering will be conducted under Costa Rican law outside of the United States. On September 28, 2010, 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 ten dollars (\$10.00) per share. Upon the approval of the RPO by Sugeval, all issued and outstanding shares of Series B Preferred Stock were automatically converted to Common Stock. Prior to the approval of the Restricted Public Offering, 106 shares of Preferred Stock Class B were outstanding.

At September 30, 2010, the company had 19,943,052 shares of Common Stock outstanding. At December 31, 2009, the Company had 2,941,548 shares of Class A Common Stock outstanding, and 13,092,000 of Class B Common Stock outstanding.

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 shares of common stock are not subject to redemption.

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.

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

Series A Preferred Stock

At September 30, 2010 and December 31, 2009, the Company had 2,200 shares authorized and 369 and 352 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.

At September 30, 2010 and December 31, 2009, there were no accumulated, undeclared dividends.

Series B Preferred Stock

At September 30, 2010 and December 31, 2009, the Company had 1,000 shares authorized and 106 and 36 shares issued and outstanding of Series B Preferred Stock, par value \$0.01 per share ("Series B"). The Series B has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series B 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 B original issue price by the Series B conversion price in effect at the time of conversion. The Series B conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem the Series B for cash at any time after the three year anniversary date of the issuance at a redemption price calculated by multiplying the Series B 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 B 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.

Prior to September 28, 2010 and December 31, 2009 there were no accumulated, undeclared dividends.

At September 28, 2010, upon the approval of the Restricted Public Offering in Costa Rica, the 106 shares of issued and outstanding Series B Preferred Stock were automatically converted into 318,000 shares of Common Stock.

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 so 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 split dividend.

Continued

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

9. Commitments

Operating Leases

In November 2006, the Company entered into a lease agreement for office and laboratory space in Liberia, Costa Rica. The term of the agreement was for thirty-six months with a straight-line monthly rental rate of approximately \$9,167. The Company as of September 30, 2010 is renegotiating its building lease and will continue the lease on a month to month basis until the new terms are complete.

In August 2007, the Company entered into a lease agreement for office and laboratory space in Webster, Texas. The term of the agreement was for sixty months with a base rent of \$13,162 per month plus a pro-rata share of operating expenses. There were no payments due during the first twelve months, hence, the Company has accounted for this as a lease incentive and recorded the deferred lease expense asset and corresponding payable on its balance sheet at December 31, 2008. In July 2008, the Company entered into a lease agreement for additional space for the existing lease entered in August 2007. The term of the agreement is for forty-seven months with a base rent of \$600 per month plus a pro-rata share of operating expenses.

Rent expense for the nine months ended September 30, 2010 and the year ended December 31, 2009 totaled \$200,961 and \$283,233 respectively, on a straight-line basis.

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

<u>Year</u>	<u>Annual Expense</u>
2010	\$ 165,144
2011	165,144
2012	<u>110,096</u>
Total	<u>\$ 440,384</u>

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, 2010:

Machine shop equipment	\$159,719
Less accumulated depreciation	<u>(78,634)</u>
	<u>\$ 81,085</u>

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

Minimum lease payments for the above assets under capital leases at September 30, 2010 are as follows:

2010	\$ 8,295
2011	33,180
2012	31,083
2013	8,016
2014	<u>2,988</u>
Total minimum obligations	\$ <u>83,562</u>
Interest	<u>(5,219)</u>
Present value of net minimum obligations	78,343
Current portion of obligation	<u>(7,393)</u>
Long-term obligation	\$ <u>70,950</u>

10. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities balance consists of Trade Payables, Wages Payable for the period of September 15th through September 30th for the hourly employees, and Deferred Salaries. As of September 30, 2010, December 31, 2009, and December 31, 2008 the Deferred Salaries account had a balance of \$467,762, \$275,600, and \$39,466 respectively. This balance reflects salaries deferred by officers of the Company, plus the Severance Pay Accrual for the Costa Rican employees.

The Company had a Beginning of the Period Cash Balance as of January 1, 2010, January 1, 2009 and January 1, 2008 of \$78,607, \$214,791 and \$2,100,511, respectively.

The Company received cash from investments for the periods ended September 30, 2010, December 31, 2009 and December 31, 2008 of \$2,342,972, \$ 2,310,167 and \$2,636,000, respectively. The Accounts Payable and Accrued Liabilities Balance as of September 30, 2010, December 31, 2009 and December 31, 2008, were \$1,376,556 \$1,060,768 and \$526,453 respectively.

Continued

AD ASTRA ROCKET COMPANY

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

11. Going Concern

As a research and development firm, the Company has not generated revenue since its inception and thereby has experienced recurring net losses and negative cash flows from operations as follows. During the nine-month period ended September 30, 2010 and the year ended December 31, 2009 and during the period from Inception, July 15, 2005, to September 30, 2010, the Company's net losses were \$3,882,261, \$4,961,960, and \$23,633,686, respectively, and cash used in operating activities was \$2,661,284, \$2,844,546, and \$16,677,212 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.

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.

12. 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, 2010, there were no pending claims or legal actions in which the Company was involved.