

AD ASTRA ROCKET COMPANY (A DEVELOPMENT STAGE ENTERPRISE)

(UNAUDITED)

**CONSOLIDATED FINANCIAL STATEMENTS
as of and for the period ending March 31, 2011, the
year ended December 31, 2010 and the period from Inception,
July 15, 2005, to March 31, 2011**

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
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Ad Astra Rocket Company
BALANCE SHEET
March 31, 2011
Unaudited

<u>ASSETS</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Current Assets		
Cash	162,438	383,285
Accounts Receivable	44,291	22,181
Prepaid Expenses	6,580	10,518
Total Current Assets	<u>213,309</u>	<u>415,984</u>
Other Assets	70,087	68,197
Property & Equipment Net	1,736,948	2,015,271
Capital Lease Equipment	65,115	73,100
Total Assets	<u><u>2,085,459</u></u>	<u><u>2,572,552</u></u>
<u>LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)</u>		
Current Liabilities		
Payables	603,220	587,161
Accrued Liabilities	237,792	567,218
NASA Note/License	7,359	7,359
ST Portion Delayed Lease Exp	23,688	31,584
ST Portion Capital Lease Obligation	22,985	30,468
Interest Payable Related Party	39,997	34,191
Line of Credit-Related Party	1,200,000	690,000
Total Current Liabilities	<u>2,135,041</u>	<u>1,947,981</u>
Long Term Liabilities		
LT-Deferred Rent Payable	18,442	18,442
Capital Lease Milling Machine	40,484	40,484
	<u>58,926</u>	<u>58,926</u>
Total Liabilities	<u><u>2,193,967</u></u>	<u><u>2,006,907</u></u>
Equity		
Par Value Common Stock	201,247	200,781
Par Value Preferred Series A	4	4
Paid in Capital	25,407,137	24,939,386
Retained Earnings	(24,574,526)	(24,574,526)
Net Income (Loss)	(1,142,368)	0
Subtotal Equity	<u>(108,506)</u>	<u>565,645</u>
Total Liabilities & Equity	<u><u>2,085,459</u></u>	<u><u>2,572,552</u></u>
Stockholders Equity:		
Preferred Stock:	Series A: par value \$.01, 2,200 shares authorized, 369 and 369 issued and outstanding	
Common Stock:	Par value \$.01, 75,000,000 shares authorized, 20,124,277 and 20,078,052 issued and outstanding	



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

For the period ending March 31, 2011

UNAUDITED

	Period Ended	Year Ended	Period from Inception July 31, 2005 to
	<u>March 31, 2011</u>	<u>December 31, 2010</u>	<u>March 31, 2011</u>
General and administrative expenses:			
Payroll expense	\$ 588,295	\$ 2,293,220	\$ 12,809,342
Professional Fees	25,024	116,676	1,485,446
Other general & administrative expenses	595,225	2,663,351	11,533,640
Total Expense	<u>1,208,545</u>	<u>5,073,247</u>	<u>25,828,429</u>
Other income (expenses)			
Interest Income	76	360	324,058
Interest Expense	(6,616)	(47,818)	(1,111,318)
Other Income	72,717	297,017	898,795
Total other income (expenses) net	<u>66,177</u>	<u>249,559</u>	<u>111,535</u>
Net Income (Loss)	<u>\$ (1,142,368)</u>	<u>\$ (4,823,688)</u>	<u>\$ (25,716,894)</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 Period ending March 31, 2011

	Preferred Stock			Common Stock			Class B Amount	Stock Subscription Receivable	Additional Paid-in Capital	Accumulated	
	Series A Shares	Amount	Shares	Series B Shares	Amount	Shares				Deficit During Development	Total Stockholders Equity(Deficit)
Balance as of July 15, 2005											
Common Stock Issued for Cash						3,500	4		49,996		50,000
Additional Capital Contributed by Stockholder									2,000		2,000
Common Stock Issued for Services						762			10,885		10,885
Net Loss										(881,852)	(881,852)
Balance as of December 31, 2005						4,262	4		62,881	(881,852)	(818,967)
Common Stock Issued for Cash						100	1		499,999		500,000
Preferred Stock Issued for Cash	809	1							4,044,999		4,045,000
Preferred Stock Subscribed For	111							(1,387,500)	1,387,500		0
Compensatory Element of Stock Option Grant									312,764		312,764
Net Loss										(3,489,603)	(3,489,603)
Balance as of December 31, 2006						4,362	5	(1,387,500)	6,308,143	(4,371,455)	549,194
Common Stock Issued for Cash											
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						4,362	5	0	9,080,432	(9,084,565)	(4,127)
Common Stock Issued for Cash						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	0	0	0	0	0	0	0
Stock Dividends						2,780,072	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						2,781,000	13,089	0	11,840,955	(14,788,967)	(2,932,141)
Common Stock Issued for Cash						160,548	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						2,941,548	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												
Common Stock Issued for Cash/Net of issuance costs of \$319,396												
Common Stock/Debtenture Conversion*		0										
Change in Par Value of Stock Common Stock				0								
Preferred Stock Issued for Cash 2010	0		70	0								
net of issuance costs of \$176,586												
Preferred Stock Converted to Common Stock Sold Prior 2010				(106)								
Preferred Stock Subscribed For	17	0							0			
Change in Par Value of Preferred Stock		3								(3)		
Stock Dividends												
Compensatory Element of Stock Option Grant												
Net Loss												
Balance as of December 31, 2010	369	4	0	0	0	0	20,078,052	200,781	0	24,939,386	(4,823,688)	(4,823,688)
Common Stock Issued for Cash/Net of issuance costs of \$55,553												
Preferred Stock Issued for Cash												
Preferred Stock Subscribed For	0	0							0	0		
Stock Dividends												
Compensatory Element of Stock Option Grant												
Net Loss												
Balance as of March 31, 2011	369	4	0	0	0	0	20,126,232	201,243	0	25,407,139	(1,142,368)	(1,142,368)

AD ASTRA ROCKET COMPANY
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
As of March 31, 2011, the year ended December 31, 2009 and for the
period from inception July 15, 2005 to March 31, 2011

	Period Ended March 31, 2011	Period Ended December 31, 2010	Period from Inception July 15, 2005 to March 31, 2011
Net Loss	-1,142,368	-4,823,688	-25,716,894
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization activities	291,473	1,198,186	4,505,597
Conversion of interest to stock/Related party	0		1,016,826
Common stock issued for services	0		10,885
Compensatory element of stock option grants	41,968	163,144	775,470
Deferred rent expense	-8,228	-31,584	41,798
Changes in operating assets and liabilities	0		0
Accounts receivable	-23,127	-17,816	-45,309
Subscription Receivable	0		0
Prepaid expenses	3,938	4,938	-6,581
Other assets	-1,890	5,016	1,256
Accounts payable and accrued liabilities	29,976	-93,421	693,408
Interest payable, related party	5,805	43,089	29,113
Deferred salary	-343,304	197,914	178,524
Deferred Income		0	0
Net cash used in operating activities	-1,145,757	-3,354,222	-18,515,907
Cash flows used in investing activities:			
Purchase of equipment/Leasehold Improvements	-3,854	-96,394	-6,243,314
Gain/Loss Disposal of fixed assets	0		25,344
Net cash used in investing activities	-3,854	-96,394	-6,217,970
Cash flows from financing activities			
Payments on capital lease obligations	-7483	-29,055	-96,250
Payments on royalty note payable	0	-12,641	-12,641
Proceeds from:			0
Line of Credit	510,000	600,000	1,710,000
Issuance of debentures/Converted to Common Stock			6,000,000
Capital contribution by stockholder			2,000
Stockholder subscription receivable			1,387,500
Issuance of common stock	426,247	1,447,876	4,959,270
Issuance of preferred stock	0	1,749,114	10,946,436
Net proceeds provided by financing activities	928,764	3,755,294	24,896,315
Net (decrease) increase in cash and cash equivalents	-220,847	304,678	162,438
Cash and cash equivalents, beginning of period	383,285	78,607	0
Cash and cash equivalents, end of period	162,438	383,285	162,438
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	0	0	100,320
Income taxes			
Noncash investing and financing activities:			
Equipment acquired through capital lease obligation	0	0	159,719
Stock dividend			15,864
Royalty payable converted into a note payable			20,000
Conversion of Common Stock Debentures	0		0
Conversion of debentures/Issuance of Debentures	0	7,016,826	7,016,826
Conversion of LOC, related party to Preferred Stock	0	510,000	510,000

Continued

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

1. Summary of Significant Accounting Policies

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

Basis of Consolidation

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

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

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.

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

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.

The Company uses 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. The Company did not recognize any interest or penalties related to any unrecognized tax position during the years ended December 31, 2010 and 2009.

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.

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 year ended December 31, 2010 and 2009 and for the period from inception, July 15, 2005 to December 31, 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 periods ended March 31, 2011, December 31, 2010 and for the period from inception, July 15, 2005, to March 31, 2011, was \$41,968, \$163,144, and \$775,470, respectively, which consists of stock-based compensation expense related to employee and director stock options issuances.

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

1. Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk

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

Research and Development

Costs of research and development projects are expensed as incurred. These costs consist of direct costs associated with the design of new products. Research and development expenses for the period ended March 31, 2011, December 31, 2010, and for the period from inception, July 15, 2005, to December 31, 2010 was \$1,678,966, \$1,678,966, and \$7,751,593.

Fair Value of Financial Instruments

As per ASC 820-10, formerly known as FAS No. 157, "*Fair Value Measurements*", 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.

Reclassifications

Certain items in the 2009 consolidated financial statements have been reclassified to conform to the 2010 consolidated financial statements' presentation. The reclassifications have no impact on net loss or stockholders' equity/(deficit) as previously reported.

New Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*, expanding disclosures about fair value measurements by adding disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements and the transfers between Levels 1, 2 and 3. The new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure requirements related to the activity in Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years beginning after December 15, 2010. The Company adopted the new guidance in fiscal 2010, and it did not have an impact on the Company's financial statements.

In May 2009, the FASB issued ASC 855, formerly known as Statement of Financial Accounting Standards No. 165, "Subsequent Events" ("FAS 165"), which establishes general standards of accounting and disclosure for events that occur after the balance sheet date, but before financial statements are issued. The Company adopted these provisions in the third quarter of 2009. Adoption of these provisions did not have an impact on the Company's financial statements.

In December 2007, the FASB revised their guidance for business combinations and non-controlling interests. The new standards change how business acquisitions are accounted for and impact financial statements both on the acquisition date and in subsequent periods. The changes also impact the accounting and reporting for minority interests, which are recharacterized as non-controlling interests and classified as a component of equity. The new standards were effective for periods beginning after December 15, 2009. The adoption of the new standards did not have a material impact on the Company's financial statements.

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

2. Accounts Receivable

The balance of Accounts Receivable, resulting from various speaking and consulting engagements provided by Company officials and Sponsorships in Costa Rica, as of March 31, 2011 and December 31, 2010 was \$43,662 and \$22,181 respectively. Due to the limited number and valuation of the receivables, a reserve has not been set up for uncollectable accounts.

3. Other Assets

Other assets were comprised of the following at March 31, 2011 and December 31, 2010:

	<u>2011</u>	<u>2010</u>
Deposits	\$ 33,212	\$ 30,697
License	<u>36,875</u>	<u>37,500</u>
Total	<u>\$ 70,087</u>	<u>\$ 68,197</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 the period ended March 31, 2011 and December 31, 2010 the period from inception, July 15, 2005, to March 31, 2011, the Company recorded amortization expense of \$625, \$2,500 and \$13,125, respectively.

4. Inventory

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

5. Property and Equipment

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

<u>Description</u>	<u>2010</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2011</u>
Computer and software	\$ 555,801	\$ 3,854	\$ -	\$ 559,655
Laboratory equipment	3,829,339	-	-	3,829,339
Machine shop equipment	38,287	-	-	38,287
Leasehold improvements	1,570,963	-	-	1,570,963
Other	<u>138,587</u>	<u>-</u>	<u>-</u>	<u>138,587</u>
	6,132,977	-	-	6,136,831
Less accumulated depreciation	<u>(4,117,706)</u>	<u>(254,722)</u>	<u>-</u>	<u>(4,372,428)</u>
Net property and equipment	<u>\$ 2,015,271</u>	<u>\$ 250,868</u>	<u>\$ -</u>	<u>\$ 1,764,403</u>

Depreciation and amortization expense of \$254,722, \$1,166,245 and \$4,117,706 was recognized during the periods ended March 31, 2011, December 31, 2010 and during the period from inception, July 15, 2005, to March 31, 2011, respectively.

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

6. Accrued Liabilities

Accrued liabilities were comprised of the following at March 31, 2011

	<u>2011</u>	<u>2010</u>
Deferred salaries	\$ 190,242	\$ 480,161
Other wages payable	19,958	19,132
Payroll taxes and benefits	27,720	67,873
Other	<u>52</u>	<u>52</u>
	<u>\$ 237,972</u>	<u>\$ 567,218</u>

7. 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.

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

<u>Debenture Amount</u>	<u>Interest Income</u>	<u>Conversion Price</u>
\$ 1,000,000	\$ 201,768	\$ 0.95
1,000,000	188,051	\$ 0.95
1,000,000	179,203	\$ 1.67
1,000,000	161,634	\$ 3.33
1,000,000	151,743	\$ 4.16
<u>1,000,000</u>	<u>134,427</u>	\$ 4.76
<u>\$ 6,000,000</u>	<u>\$ 1,016,826</u>	

8. Stock Incentive Plan

Effective August 25, 2005 the Company's Board of Directors adopted the Ad Astra Rocket Company 2005 Stock Incentive Plan (the "Plan"). A total of 1,500,000 shares of common stock are reserved for issuance under the Plan. The purpose of the Plan is to provide eligible persons who participate with an opportunity to acquire a proprietary interest in the Company as an incentive for them to remain in the service of the Company. Eligible persons include employees, non-employee members of the Board of Directors, consultants and other independent advisors who provide services to the Company.

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

8. Stock Incentive Plan, continued

The following table summarizes certain information relative to stock options:

	2005 Stock Incentive Plan	
	Shares	Weighted-Average Exercise Price
Outstanding, December 31, 2006	375,000	\$ 1.67
Granted	66,000	4.22
Forfeited/cancelled	-	-
Outstanding, December 31, 2007	441,000	2.05
Granted	18,000	6.67
Forfeited/cancelled	(6,000)	4.17
Outstanding, December 31, 2008	453,000	2.20
Granted	123,000	6.67
Forfeited/cancelled	(54,000)	3.26
Outstanding, December 31, 2009	522,000	3.15
Granted	100,000	10.00
Forfeited/cancelled	(7,500)	6.67
Outstanding, December 31, 2010	<u>614,500</u>	<u>\$ 4.22</u>
Exercisable, December 31, 2010	<u>439,125</u>	<u>\$ 2.50</u>

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at December 31, 2010 were 6.8 years and \$4.22, respectively. The exercise prices for the options outstanding at December 31, 2010 ranged from \$1.67 to \$10.00, and information relating to these options is as follows:

Range of Exercise	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contract Life	Weighted Average Weighted Average Exercise Price	Exercise Price of Options Exercisable
\$0 - \$1.67	345,000	345,000	5.5 years	\$ 1.67	\$ 1.67
\$4.17	45,000	36,000	6.4 years	\$ 4.17	\$ 4.17
\$6.67	124,500	58,125	8.2 years	\$ 6.67	\$ 6.67
\$10.00	<u>100,000</u>	<u>-</u>	10 years	\$ 10.00	
	<u>614,500</u>	<u>439,125</u>			

The weighted-average estimated fair value of the 100,000 of the stock options granted pursuant to the Plan during the year ended December 31, 2010 was \$10.00 per share using the Black-Scholes model. These values were calculated using the Black-Scholes model with the following assumptions:

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8. Stock Incentive Plan, continued

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expected volatility	669.0%	681.0%	415.0%	425.0%	676.0%	-
Risk-free interest rate	1.15%	1.9%	2.4%	5.01%	5.0%	-
Expected life	10 years	10 years	10 years	10 years	10 years	-

During the year ended December 31, 2010, the Company cancelled 7,500 options. The total fair value of options expensed pursuant to the Plan during the period ended March 31, 2011, the 12 months ended December 31, 2010 and for the period from inception, July 15, 2005 through December 31, 2010 were \$41,968, \$163,144, and \$775,472 respectively.

As of March 31, 2011, there was approximately \$1,272,292 of total unrecognized option expense related to non-vested share-based compensation arrangements.

9. Related Party Transactions

For the periods ended March 31, 2011 and December 31, 2010, the Company incurred approximately \$0 and \$12,737, respectively, in legal expenses paid to a director and a stockholder of the Company. As of March 31, 2011 and December 31, 2010, the Company had a balance outstanding of \$126,000 and \$126,000, 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 shares of Series A Preferred Stock. Following this conversion and for the periods ended March 31, 2011 and December 31, 2010, the Company's outstanding balance on the line of credit was \$1,200,000 and \$690,000 plus accrued interest of \$39,997 and \$34,191 respectively. All principal and accrued unpaid interest shall be due and payable on or before the Maturity Date. The "Maturity Date" is currently defined as October 31, 2011. The interest rate on this line of credit is equal to the current "prime" interest rate, 3.25% at March 31, 2011.

In addition this vendor has outstanding balances of \$199,893 and \$199,893 related to systems integration services as of March 31, 2011 and December 31, 2010, respectively. During 2010, the Houston facility temporarily sub-let rental space in its facility to this member of the board. This agreement ended in July 2010. The rental expense for the year 2010 was reduced by \$21,000, as a result of this agreement. There was not an outstanding balance related to this sub-let rental agreement as of December 31, 2010.

For the periods years ended March 31, 2011 and December 31, 2010, the Company leased its Costa Rica laboratory and warehouse from an investment fund that is controlled by an affiliate of the Company's investment banker and shareholder ("Aldesa"), with lease expenses totaling \$31,202 and \$122,789 respectively. As of March 31, 2011 and December 31, 2010, the Company had an outstanding balance of \$10,444 and \$0 respectively with this affiliate. For the periods ended March 31, 2011 and December 31, 2010, the Company paid Aldesa commissions earned in connection with the sale of the Company's stock in the amount of \$48,180 and \$349,648 respectively.

During the year 2010, a contract was entered into by the Company, Costa Rican government, and several small engineering firms in Costa Rica. This contract is funded by the Costa Rican government. The goal of the project is to design and manufacture a mock up of the platform to house the VASIMR engine on the International Space Station. The total estimated revenue generated by this project will be up to \$216,000, with the Company's proportionate share being approximately \$48,000 in total of which \$32,588 was recorded as other income at December 31, 2010. As of March 31, 2011, a balance of \$0 was recorded in accounts receivable. The estimated completion date on this project is June, 2011.

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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 purposes. For the years ended December 31, 2010 and 2009, 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. Significant components of the Company's deferred tax assets and liabilities, at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Net operating loss carry-forwards	\$ 6,413,735	\$ 5,381,000
Total deferred tax assets	<u>6,413,735</u>	<u>5,381,000</u>
Deferred tax liabilities:		
Basis difference in property and equipment	<u>(168,776)</u>	<u>(107,446)</u>
Total deferred tax liabilities	<u>(168,776)</u>	<u>(107,446)</u>
Valuation allowance	<u>(6,244,959)</u>	<u>(5,273,554)</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, 2010 and 2009 is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Benefit for income tax at federal statutory rate	\$(1,294,333)	(34.0)	\$(1,687,066)	(34.0)
Increase in valuation allowance	971,405	25.5	1,438,639	28.9
Effect of foreign subsidiary losses	206,129	5.4	219,113	4.3
Compensatory element of stock option grants	55,469	1.5	29,314	0.9
Other	<u>61,330</u>	<u>1.6</u>	<u>-</u>	<u>0.0</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2010, for United States of America ("U.S.") federal income tax reporting purposes, the Company has approximately \$19,550,830 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, 2031. 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.

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11. Equity

Common Stock

The Company's Certificate of Incorporation authorizes the issuance of 75,000,000 shares of Common Stock, par value \$0.01 per share. The Board of Directors has the authority to issue any such shares that are not currently outstanding at such prices and other terms as are approved by the Board. The Company is not party to any agreements with any of its stockholders of any class that gives any such stockholders economic rights related to its shares of capital stock that are not available to all holders of such class of capital stock. In February 2010, the Company amended and restated its Certificate of Incorporation to reflect a change in preferred and common stock par value from \$.001 to \$0.01, and to eliminate its Class A and Class B Common Stock in favor of a single class of Common Stock.

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

During the period ended March 31, 2011, the Company sold 36,450 shares of Common Stock at a price of \$10.00 per share and 9,775 shares of Common Stock at a price of \$12.00 per share, resulting in proceeds of \$481,800. The Company recorded issuance costs related to these issuances totaling \$48,180 as an offset to additional paid in capital.

During the year ended December 31, 2010, the Company sold 175,000 shares of Common Stock at a price of \$9.17 and \$10.00 per share resulting in cash proceeds of \$417,272 and \$1,350,000. The Company recorded issuance costs related to these issuances totaling \$319,396 as an offset to additional paid in capital.

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

At March 31, 2011 and December 31, 2010, the company had 20,124,277 and 20,078,052 shares of Common Stock outstanding, respectively. 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.

On March 16, 2011 the Board of Directors voted to increase the price of each share of Common Stock from \$10 to \$12 per share.

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.

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.

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Equity, continued

Preferred Stock, Continued

Series A Preferred Stock

At March 31, 2011 and December 31, 2010, the Company had 2,200 and 2,200 shares authorized and 369 and 369 shares issued and outstanding of Series A preferred stock, par value \$0.01 per share ("Series A"), respectively. The Series A has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series A is convertible into Common Stock any time at the option of the holder at a price determined by dividing the Series A original issue price by the Series A conversion price in effect at the time of conversion. The Series A conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem the Series A for cash at any time after the five year anniversary date of the issuance at a redemption price calculated by multiplying the Series A original issue price by one plus the Prime Rate (as reported by Bloomberg, L.P.) on the date of redemption times the number of years from the applicable Series A original issue date until the date of such calculation with a partial year being expressed by dividing the number of days which have passed since the most recent anniversary by 365, plus all declared but unpaid dividends.

At March 31, 2011 and December 31, 2010 there were no accumulated, undeclared dividends.

Series B Preferred 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.

At March 31, 2011, December 31, 2010 and December 31, 2009, the Company had 1,000 shares authorized and 0 (zero), 0 (zero) and 36 shares issued and outstanding of Series B Preferred Stock, par value \$0.01 per share ("Series B"), respectively. 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.

During the year ended December 31, 2010, prior to the Common Stock conversion, the Company sold 70 shares of Series B Preferred Stock for proceeds totaling \$2,435,700. The Company recorded issuance costs related to this issuance totaling \$176,586 as an offset to additional paid in capital.

On September 28, 2010, as part of the approval of the RPO in Costa Rica, the 106 shares of issued and outstanding Series B Preferred Stock were automatically converted into 318,000 shares of Common Stock. There were no accumulated or undeclared dividends at the time of conversion on December 31, 2009.

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12. 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 March 31, 2011 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. 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 periods ended March 31, 2011 and December 31, 2010 totaled \$72,488 and \$288,308 respectively, on a straight-line basis. The Company recorded a rent benefit associated with the deferred lease of \$7,896, \$31,584, and \$115,810 for the periods ended March 31, 2011, December 31, 2010 and for the period from inception, July 15, 2005 to March 31, 2011. The remaining deferred lease expense balance at March 31, 2011 and December 31, 2010 was \$42,130 and \$50,026, respectively.

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>
2011	\$ 123,858
2012	<u>110,096</u>
Total	<u>\$ 233,954</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 March 31, 2011 and December 31, 2010:

	<u>2011</u>	<u>2010</u>
Machine shop equipment	\$159,719	\$159,719
Less accumulated depreciation	<u>(94,604)</u>	<u>(86,619)</u>
	<u>\$ 65,115</u>	<u>\$ 73,100</u>

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Future minimum lease payments for the above assets under capital leases at March 31, 2011 are as follows:

2011	\$ 24,885
2012	31,083
2013	8,016
2014	<u>2,990</u>
Total minimum obligations	<u>66,974</u>
Interest	<u>(3,504)</u>
Present value of net minimum obligations	63,470
Current portion of obligation	<u>(22,985)</u>
Long-term obligation	<u>\$ 40,484</u>

The Company recorded amortization expense related to its capital leases of \$7,985, \$31,941 and \$94,604 for the periods ended March 31, 2011, December 31, 2010, and for the period from inception, July 15, 2005 to March 31, 2011, respectively.

13. Going Concern

As a research and development firm, the Company has not generated significant revenue related to its intended operations since its inception and thereby has experienced recurring net losses and negative cash flows from operations as follows. During the periods ended March 31, 2011, December 31, 2010 and during the period from Inception, July 15, 2005 to March 31, 2011, the Company's net losses were \$1,131,914, \$4,823,688, and \$25,706,479, respectively, and net cash used in operating activities was \$1,145,435, \$3,354,222, and \$17,370,150, respectively. These factors raise a substantial doubt about the Company's ability to continue as a going concern. Historically, the Company has financed its operations using sales of its common and preferred stock and the issuance of convertible debentures to a related party.

The Company received cash from its financing activities for the periods ended March 31, 2011, December 31, 2010 and during the period from Inception, July 15, 2005 to March 31, 2011, of \$481,800, \$3,755,294 and \$23,967,551, respectively.

Management plans to continue to focus on raising the funds necessary to fully implement the Company's business plan. The Company's long-term viability depends on its ability to obtain adequate sources of equity or debt funding to meet current commitments and fund the continuation of its business operations and the ability of the Company to ultimately achieve adequate profitability and cash flows from operations to sustain its operations.

14. Contingencies

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. Management, along with the assistance of counsel, will determine the ultimate disposition and potential impact of these matters on the Company's financial condition, liquidity or results from operations. As of December 31, 2010, there were no pending claims or legal actions in which the Company was involved.