

Quasar Aerospace Industries Inc. and Consolidated Subsidiaries
Notes to financial reports for the three months
ended March 31, 2014.

The attached financial statements have not been audited nor reviewed by a third party accounting firm. These statements have been produced in conjunction with an ongoing forensic audit of the books and records of Quasar Aerospace Industries Inc. and its subsidiaries.

Records supporting the issuance of debt securities, which are secured by assets of the company, are not available in the company offices. We do not know what happened to these records and therefore cannot measure the amount or nature of the company's debt or any related derivative liabilities for convertible features imbedded in these securities, which, we believe, is secured by certain assets of the company and its subsidiaries.

Note 1. Significant Accounting Policies

Use of Estimates

Preparation of the Company's financial statements, in accordance with generally accepted accounting principles, requires the use of management's estimates and assumptions that affect the financial statements and related notes. Actual results could differ from those estimates.

Revenue Recognition

The Company earns revenue from the sale of flight training, aircraft accessories, and educational material related to flight training. Revenue from these products and services is recognized when received.

Financial Instruments

The carrying amounts reported in the balance sheet for cash, accounts receivable, and accounts payable approximate fair value based on the short-term maturity of these accounts.

Equipment

Office equipment, aircraft, goodwill, and related assets are carried at historical cost and depreciated/amortized using straight-line methods over their estimated useful lives. Goodwill associated with the acquisition of A-Cent Aviation, Inc. has been amortized over a 36 month period. Depreciation and amortization expense for the three months ended March 31, 2014 was \$15,487 after adjustment for asset disposals.

Liabilities Subordinated To The Claims of General Creditors

At March 31, 2014 the Company had no liabilities subordinated to the claims of general creditors.

Earnings Per Share

The Company has adopted SFAS, No. 128, Earnings per Share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share would reflect the per share amount that would result if dilutive common stock equivalents were converted to common stock, as prescribed by SFAS No. 128. The company has convertible notes which, if converted, would be anti-dilutive since the company operates at a loss. However, due to the fluctuation in expense due to the derivative liability associated with the convertible notes, the company may experience period of income and the fully dilutive effect of the convertible notes would be recognized.

Stock Based Compensation

The Company has adopted Statement of Financial Accounting Standards 123(R), which requires compensation costs related to share-based payment transactions to be recognized in the financial statements. Generally, the compensation expense is based upon the grant date fair value of the stock issued.

Note 2. Equipment

At March 31, 2014 equipment consisted of the following:

	<u>Useful Life</u>	
Aircraft and equipment	3-5 Years	\$ 284,824
Accumulated Depreciation		<u>\$ (275,061)</u>
Equipment, net		<u>\$ 9,763</u>

Note 3. Commitments and Contingencies

The company has no material long term leases.

The company rents office, hangar, and aircraft tie downs from the Jacksonville Aviation Authority. The leases are for one year and renew annually. The payments due under the lease are approximately \$1,050 per month.

Note 4. Shareholders' Equity

The Company has not adopted a stock option plan for officers or employees.

For the three months ended March 31, 2014 the Company has issued 1,110,985,000 shares of common stock. This included 883,985,000 shares in conjunction with the conversion of long term notes payable and 227,000,000 shares as additional new capital.

Note 5 Other matters

Since 2011, the company has cooperated with a directive from the Internal Revenue Service to complete and file over 30 delinquent tax returns for payroll, unemployment, and income taxes going back to 2007. Income tax returns for all years through 2012 have been filed. The company has no federal income tax liability but believe we owe approximately \$48,000 in payroll tax for 2011, 2012, and 2013. In May, 2014 we finalized these amounts and paid the delinquent taxes, penalties, and interest due.

The Company previously reported that it owned a portion of Corporate Air Repair, LLC. A former employee has disputed this claim, and, acting under a court order, has taken control of that business. The business operated at a loss, and no substantial assets, and was effectively shut down. Accordingly, we do not intend to pursue any additional claims regarding this company.

The Company has issued convertible notes in the past. We believe these notes may have embedded derivative features which we have not recorded because we cannot calculate or estimate the amount. If the Company were operating at a profit the conversion of these notes into the common stock of the Company would have a dilutive effect on earnings per share. But because we are operating at a loss, the amount of dilution created by the convertible nature of the notes would be antidilutive requiring only footnote disclosure. The conversion of the notes into stock is a non-cash transaction.