Quasar Aerospace Industries Inc.
Notes to financial reports for the six months ended June 30, 2013.

The attached financial statement 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. This audit is incomplete at this time but much progress has been made.

In the course of this review, the current management has determined that the previous management's accounting practices did not conform to generally accepted accounting principles.

For example, it appears the prior management had the accounting staff record liabilities of the company, due to management, for "back wages". This was done retrospectively.
To our knowledge, there was no justification or legally binding agreement for these entries and the amounts in question are excessive for both the service provided and the size of the companies involved. Subsequently, as management raised funds issuing debt secured by assets of the company, these funds were diverted into bank accounts not carried on the books of the company which were controlled only by the management. The management then had the accounting staff record these payments as reductions in the liabilities due to management by the company. Currently, the company is unable to obtain these bank statements to determine exactly the number and size of the transactions processed.

Further, it appears payments were made to numerous individuals which included employees and contractors, and recorded as loans to these parties. Subsequently, before the fiscal year ended, these amounts due from employees (and others) were transferred to the managements' personal loan account and written off (or netted) against the amounts management claimed were due to them for past services.

In addition, it appears that the individuals charged with entering transactions into the accounting software program were not trained properly. Many entries reviewed in the course of the review were incorrect. Documents, such as bank statements, have disappeared from the company office. We believe these were intentionally destroyed in an effort to destroy the audit trail or make verification more difficult. However, we cannot prove this. We have ordered duplicate statement from the banks that were involved going back as far as four years.

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. We believe we will be able to determine these liabilities accurately in the coming months as the bank records become available, debt holders come forward, and we learn more about the historical operations of the company.

Additional notes To Unaudited Financial Statements

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 is amortized over a 36 month period. Depreciation and amortization expense for the six months ended June 30, 2013 was $39,697.

Liabilities Subordinated To The Claims of General Creditors

At June 30, 2013 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 June 30, 2013 equipment consisted of the following:

	Useful Life	
Aircraft and equipment	3-5 Years	$ 311,156
Accumulated Depreciation		$ (283,897)
		$ 27,259

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 renews annually. The payments due under the lease are approximately $1,050 per month.

The company has received an invoice in the amount of $19,124.65 from The Griggs Group, CPA's, Ponte Verda Beach, Florida for services provided prior to 2011. The exact nature of this claim is unknown to the current management and we intend to dispute the invoice. During our audit, previously discussed, we found financial statements on the letterhead of the Griggs Group which were apparently prepared by the firm. These statement were subsequently found to be materially deficient and documents supported entries made to the general ledger were missing. Accordingly, we will not recognize this invoice and the related services until the matter has been investigated fully.

Note 4. Shareholders' Equity

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

For the six months ended June 30, 2013 the Company has issued 92,338,226 shares of common stock. This included 73,104,893 shares in conjunction with the conversion of long term notes payable, 15,233,333 shares as additional capital, and 4,000,000 shares issued for services provided.

Note 5 Other matters

The company had several loans receivable on the books which we have been written off. We attempted to collect these amounts but are having little success. Documentation of the original transactions is poor or absent, making the task of collection more difficult.

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 2011 have been filed. The company has no federal income tax liability but believe we owe approximately $49,000 in payroll tax for 2011, 2012, and 2013. We have not finalized these amounts nor do we know the amount of any penalties or 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. These notes have a derivative liability which we have not recorded because we cannot calculate or estimate the amount. We have no reliable history of the trading price of the Quasar stock which is needed to compute the derivative liability 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.