

Quasar Aerospace Industries Inc. and Consolidated Subsidiaries

Notes to financial reports for the nine months

ended September 30, 2014.

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.

Records supporting the issuance of debt securities, which are secured by assets of the company, may not be available in the company offices. We have records for the past 2 years and do not know the location of some of the prior 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, proctoring FAA and professional exams, aircraft accessories, educational material related to flight training and aircraft rental. The Company generates additional revenue from the retail sale of hydroponic grow equipment, supplies, nutrients and the rental of equipment. Revenue from these products and services are 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 nine months ended September 30, 2014 was \$15,487 after adjustment for asset disposals.

Liabilities Subordinated To The Claims of General Creditors

At September 30, 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's operates at a consolidated 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 if 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 September 30, 2014 equipment consisted of the following:

	<u>Useful Life</u>
Aircraft and equipment 3-5 Years	\$ 224,824
Accumulated Depreciation	\$ (215,061)
Equipment, net	\$ 9,763

Note 3. Commitments and Contingencies

The company has no material long term leases.

The company rents offices, hangar, and aircraft tie downs from the Jacksonville Aviation Authority. The lease for the hanger is for five years and the leases for the offices and tie downs are month to month. The payments due under the leases are approximately \$2,187.45 per month. The company rents an office from Lancaster Airport. The lease is month to month and the payments due under the lease are approximately \$300.00 per month. The company rents a retail location owned KC Enterprises and Investments, LLC. The lease is through June of 2015 and the payments due under the lease are approximately \$1,885.93 per month. The company rents a warehouse from Ford Group, LLC. The lease is month to month and the payments due under the lease are approximately \$500.00 per month.

Note 4. Shareholders' Equity

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

For the nine months ended September 30, 2014 the Company has issued 2,971,472,423 shares of common stock. This included 1,111,808,375 shares in conjunction with the conversion of long term notes payable, 647,315,128 shares for conversion of shares and 372,000,000 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 \$16,475 in payroll tax for 2011, 2012, and 2013. In May, 2014 we paid \$36,060.15 to the IRS toward the delinquent taxes, penalties, and interest due.

The Company previously reported that it owned a portion of Corporate Air Repair, LLC. A former officer and director has disputed this claim, and, has taken control of the location by and through his new employer by out bidding for the location. JAA subsequently provided us 30 days to vacate and terminated our month to month lease for the maintenance facility. 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, other than potential tax liability against other alleged owners.

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 consolidated 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. All notes submitted to the Company for conversion are required to provide supporting evidence of actual investment funding to the Company and all associated documentation prior to the Company processing said conversion.