

# **BOURQUE INDUSTRIES, INC.**

## **ANNUAL REPORT Fiscal Year Ended May 31, 2014**

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# BOURQUE INDUSTRIES, INC.

(A Development Stage Company)

## Unaudited Consolidated Balance Sheets Assets

ASSETS	May 31, 2014	May 31, 2013	May 31, 2012
Current Assets			
Cash	\$ 1,048	\$ 265	\$ 831
Trade Accounts Receivable	0	0	0
Inventories	0	0	0
Retainers	5,500	0	0
Total Current Assets	6,548	265	831
Property and Equipment			
Land	0	0	0
Furniture & Fixtures	8,319	8,319	8,319
Buildings and Improvements	0	0	0
Leasehold Improvements	168,940	168,940	168,940
Processing Equipment	362,841	437,841	232,246
Office equipment	15,324	14,387	14,387
Vehicles	-	9,982	9,982
	555,424	639,469	433,874
Less: Accumulated Depreciation	(554,628)	(564,469)	(160,128)
Total Property and Equipment	796	75,000	273,746
Non-Current Assets			
Lease Deposits	0	60,000	60,000
Loan Fees	0	0	0
Intangible Assets			
Patents	3,720,467	3,720,467	3,695,467
Accumulated Amortization	(399,707)	(233,954)	(58,657)
Goodwill	0	0	920,000
Total Intangible Assets	3,320,760	3,486,513	4,556,810
Notes Receivable	13,521	670,549	1,072,282
Allowance for Uncollectible			
Notes Receivable	0	(670,549)	0
Net Notes Receivable	13,521	0	1,072,282
Total Non-Current Assets	3,335,077	3,546,513	5,689,092
Total Assets	\$ 3,341,625	\$ 3,621,778	\$ 5,963,669

# **BOURQUE INDUSTRIES, INC.**

(A Development Stage Company)

## **Unaudited Consolidated Balance Sheets Liabilities & Stockholders' Equity**

LIABILITIES & STOCKHOLDERS' EQUITY	May 31, 2014	May 31, 2013	May 31, 2012
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 696,990	\$ 926,289	\$ 652,547
Accrued Compensation Payable	278,502	276,882	130,515
Provision for Contingent Liabilities	1,000,000	1,000,000	0
Current Portion of Long-Term Liabilities	218,856	100,295	100,000
Total Current Liabilities	2,194,348	2,303,466	883,062
Long-Term Liabilities			
Notes Payable	0	15,700	139,950
Royalty Notes Payable	227,500	227,500	227,500
Total Long-Term Liabilities	227,500	243,200	367,450
Total Liabilities	2,421,848	2,546,666	1,250,512
Stockholders' Equity			
Common stock, .0001 par value, 500,000,000 shares authorized, 468,981,262 shares issued and outstanding	1,461,562	1,454,832	1,449,541
Additional Paid-in-Capital	41,713,242	41,315,049	40,072,459
Convertible preferred stock, .0001 par value, 100,000,000 authorized and outstanding	10,000	10,000	10,000
Series A convertible preferred stock, 2,000 authorized and outstanding	95,000	0	0
Accumulated Deficit	(42,360,027)	(41,704,769)	(36,818,843)
Total Stockholders' Equity	919,777	1,075,112	4,713,157
Total Liabilities and Stockholders' Equity	\$ 3,341,625	\$ 3,621,778	\$ 5,963,669

# BOURQUE INDUSTRIES, INC.

(A Development Stage Company)

## Unaudited Consolidated Income Statements

	Fiscal Year Ended May 31, 2014	Fiscal Year Ended May 31, 2013	Fiscal Year Ended May 31, 2012	June 1, 1978 (inception) to May 31, 2014
Revenues				
Sales	\$0	\$ 39,946	\$ 14,204	\$384,010
Total Revenues	0	39,946	14,204	384,010
Cost of Goods Sold	0	13,164	10,840	209,478
Gross Profit	0	26,782	3,364	174,532
Operating Expenses				
Legal, Consulting & Professional Fees	287,117	1,199,096	1,285,384	5,595,161
Rents	0	97,858	43,690	147,439
Depreciation & Amortization Expense	165,894	231,470	110,239	722,093
Impairment of Goodwill	0	920,000	0	29,115,238
Non-Trade Bad Debt Expense	0	211,876	0	211,876
General & Administrative	141,524	130,455	744,617	3,701,289
Compensation Expense	58,436	113,869	229,275	5,326,226
Total Operating Expenses	652,971	2,904,624	2,413,205	44,819,322
Net Operating (Loss)	(652,971)	(2,877,842)	(2,409,841)	(44,644,790)
Other Income (Expense)				
Other Income	0	0	0	19,139
Interest Income (Expense)	(2,287)	10,633	(7,318)	(118,212)
Gain (Loss) on Sales of Property	0	0	(47,202)	2,541,332
Gain on Renegotiated Loan	0	0	0	10,103
Loss on Joint Venture	0	0	0	369,365
Impairment of Long-Lived Assets	0	(348,168)	0	(348,168)
Merger Adjustment	0	0	0	1,481,753
Total Other Income (Expense)	(2,287)	(337,535)	(54,520)	3,955,312
Income Before Extraordinary Expenses				
Related Party Note Receivable				
Allowance for Uncollectibility	0	(670,549)	0	(670,549)
Provision for Contingent Expenses	0	(1,000,000)	0	(1,000,000)
Total Extraordinary Expenses	0	(1,670,549)	0	(1,670,549)
Income (Loss) Before Income Taxes	(655,258)	(4,885,926)	(2,464,361)	(42,360,027)
Provision (Benefit) for Income Taxes	0	0	0	0
Net Income (Loss)	\$ (655,258)	\$ (4,885,926)	\$ (2,464,361)	\$ (42,360,027)

# BOURQUE INDUSTRIES, INC.

(A Development Stage Company)

## Unaudited Consolidated Statements of Cash Flows

	Fiscal Year Ended May 31, 2014	Fiscal Year Ended May 31, 2013	Fiscal Year Ended May 31, 2012	June 1, 1978 (inception) to May 31, 2014
Cash Flows from Operating Activities:				
Net Income ( Loss)	\$ (655,258)	\$ (4,885,926)	\$ (2,464,361)	\$ (42,360,027)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:				
Depreciation and amortization	165,894	231,470	110,239	722,093
Warrant Expense	49,286	0	0	49,286
Impairment of goodwill	0	920,000	0	29,115,238
Common stock issued for services	191,950	469,257	18,455	5,656,463
Preferred stock issued for services	0	0	10,000	10,000
Loss on joint venture	0	0	0	379,468
Gain on renegotiation loan	0	0	0	(10,103)
Loss on sale of property	0	0	47,202	47,202
Gain on sale of property	0	0	0	(2,588,534)
Valuation for options issued	0	0	0	955,330
Impairment of Long-Lived Assets	0	348,168	0	348,168
Change in current assets and liabilities net of acquisitions of businesses:				
(Increase) Decrease in:				
Deposits and prepaids	54,500	0	(60,000)	(6,585)
Notes receivable	0	0	0	(140,607)
Inventory	0	0	14,556	(47,921)
Accounts payable and accrued expenses	(164,558)	420,109	629,307	1,644,037
Provision for Contingent Liabilities	0	1,000,000	0	1,000,000
Net Cash Provided Used by Operating Activities	(358,186)	(1,496,922)	(1,694,602)	(5,226,492)
Cash Flows from Investing Activities:				
Cash acquired in acquisition of businesses	0	0	141,657	141,657
Acquisitions of businesses, net of cash required	0	0	(4,598,370)	(35,551,289)
Purchases of land, equipment and improvements	(937)	(205,595)	(282,326)	(2,013,650)
Investment in patents	0	(25,000)	0	(25,000)
Sale of building , land and equipment	75,000	0	600,000	3,375,000
Allowance for uncollectible notes receivable	0	882,425	0	882,425
Payments on notes receivable	0	189,857	340,251	530,108
Net Cash Used by Investing Activities	74,063	841,687	(3,798,788)	(32,660,749)
Cash Flows from Financing Activities:				
Increase or (decrease) in notes payable	102,861	(123,955)	90,267	(380,310)
Increase in notes receivable from property sale	0	0	(625,649)	(625,649)
Decrease or (increase) in notes receivable	(13,521)	0	340,251	242,323
Proceeds from royalties interest notes payable	0	0	0	227,500
Proceeds from issuance of common stock	100,000	778,624	5,660,676	37,899,425
Proceeds from issuance of preferred stock	95,000	0	10,000	105,000
Prior period adjustment	0	0	0	420,000
Net Cash Provided (Used) by Financing Activities	284,340	654,669	5,475,545	37,888,289
Increase (Decrease) in cash	<u>\$ 217</u>	<u>(566)</u>	<u>(17,845)</u>	<u>\$ 1,049</u>
CASH & CASH EQUIVALENTS - Beginning of period	<u>831</u>	<u>831</u>	<u>18,676</u>	
CASH & CASH EQUIVALENTS - End of period	<u>\$ 1,048</u>	<u>\$ 265</u>	<u>\$ 831</u>	

# **BOURQUE INDUSTRIES, INC.**

(A Development Stage Company)

## **Unaudited Consolidated Statements of Retained Earnings & Stockholders' Equity**

	Common Stock		Additional	Subscription	Deficit	Total
	Shares	Amount	Paid-in Capital	Received	Accumulated	Equity
Stock issued for cash	420,000	\$ 420	\$ 148,330			
Net loss for the year ended 12/31/2000				\$	(217,406)	
Balance 12/31/2000	420,000	420	148,330		(217,406)	(68,656)
Stock issued for cash	2,216,000	2,216	336,580			
Stock issued for services	7,010,000	7,010	693,990			
Stock issued for debts	1,716,000	1,716	59,408			
Net loss for the year ended 12/31/2001					(508,268)	
Balance 12/31/2001	11,362,000	11,362	1,238,308		(725,674)	523,996
Stock issued for cash	877,201	877	219,323			
Stock issued for services	51,500	52	19,261			
Net loss for the year ended 12/31/2002					(31,641)	
Balance 12/31/2002	12,290,701	12,291	1,476,892		(757,315)	731,868
Stock issued for cash	1,922,000	1,922	178,278			
Stock issued for services	1,650,000	1,650	163,350			
Stock issued for loans	1,050,000	1,050	48,996			
Net loss for the year ended 12/31/2003					(535,601)	
Balance 12/31/2003	16,912,701	16,913	1,867,516		(1,292,916)	591,513
Stock issued for cash	800,000	800	79,200			
Stock issued for services	300,000	300	29,700			
Net loss for the year ended 12/31/2004					(258,613)	
Balance 12/31/2004	18,012,701	18,013	1,976,416		(1,551,529)	442,900
Stock issued for cash	168,576	169	29,831			
Stock issued for services	5,000,000	5,000	695,000			
Stock issued for debts	1,650,000	1,650	231,450			
Adjustment for merger at 7/20/2005	67,865,005	902,132	(1,207,667)	12,500	(1,259,162)	
Balance at 7/20/2005	92,696,282	926,964	1,725,030	12,500	(28,105,691)	(146,197)
Stock issued for cash	530,000	5,300	17,700	(12,500)		
Stock issued for services	7,825,000	78,250	409,750			
Stock options issued			955,330			
Stock subscriptions				5,500		
Net loss for fiscal year ended 5/31/06					64,279	
Balance at 5/31/06	101,051,282	1,010,514	3,107,810	5,500	(2,746,412)	1,377,412
Stock issued for cash	285,000	2,850	10,750	(5,500)		
Stock issued for royalty conversion	41,667	417	833			
Stock issued for services	124,500	1,245	2,490			
Net loss for fiscal year ended 5/31/07					(540,399)	
Balance at 5/31/07	101,502,449	1,015,026	3,121,883		(3,286,811)	850,098
Stock issued for services	6,500,000	65,000	1,650,243			
Net loss for fiscal year ended 5/31/08					(350,017)	
Balance at 5/31/08	108,002,449	1,080,026	4,772,126		(3,636,827)	2,215,325
Stock issued for services	4,000,000	40,000				
Net loss for fiscal year ended 5/31/09					(1,367,021)	
Balance at 5/31/09	112,002,449	1,120,026	4,772,126		(5,003,848)	888,304
Stock issued for services	24,575,000	245,750	485,042			
Stock issued for license agreement	4,800,000	48,000				
Net loss for fiscal year ended 5/31/10					(767,210)	
Balance at 5/31/10	141,377,449	1,413,776	5,257,168		(5,771,058)	899,886
Stock issued for acquisitions	39,123,079	142,268	30,497,681			
Treasury stock acquired		(120,000)				
Stock issued for services	4,710,000	471	118,779			
Net loss for fiscal year ended 5/31/11					(30,065,177)	
Balance at 5/31/11	185,210,528	1,436,515	35,873,628		(35,836,235)	1,473,908
Stock issued for acquisitions	117,800,001	11,780	3,300,617			
Stock issued for cash	2,445,333	245	799,755			
Stock issued for services	8,552,498	855	17,600			
Stock issued for lease purchase option	100,000	10	990			
Stock issued to correct prior year split calculation	50,000					
Stock issued in exchnage for debt	1,357,143	136	79,864			
Rounding			5			
Adjustment for merger equity at 10/17/2011					1,481,753	
Net loss for the fiscal year ended 5/31/2012					(2,464,361)	

**BOURQUE INDUSTRIES, INC.**  
(A Development Stage Company)  
**Unaudited Consolidated Statements**  
**of Retained Earnings & Stockholders' Equity**  
(continued)

	Common Stock		Additional	Subscription	Deficit	Total
	Shares	Amount	Paid-in Capital	Received	Accumulated	Equity
Balance at 5/31/12	315,515,503	\$ 1,449,541	\$ 40,072,459	\$	\$ (36,818,843)	\$ 4,703,157
Stock issued in exchange for debt and services	74,965,758	5,291	1,242,590			
Net loss for the nine months ended 02/28/2013					(4,885,926)	
Balance at 5/31/13	390,481,261	\$ 1,454,832	\$ 41,315,049	\$	\$ (41,704,769)	\$ 1,065,112
Stock issued in exchange for debt and services	78,500,001	\$ 6,730	\$ 398,193			
Net loss for the twelve months ended 05/31/2014					\$ (655,258)	
Balance at 5/31/14	468,981,262	\$ 1,461,562	\$ 41,713,242	\$	\$ (42,360,027)	\$ 814,777
	Series A Convertible & Preferred Stock		Paid-in	Subscription	Deficit	Total
	Shares	Amount	Capital	Received	Accumulated	Equity
Balance at 5/31/12						
Stock issued for employment agreement	100,000,000	\$ 10,000				
Balance at 5/31/13	100,000,000	\$ 10,000				\$ 10,000
Stock issued in exchange for debt and services	2,000	\$ 95,000				\$ 95,000
Balance at 5/31/2014	100,002,000	\$ 105,000				\$ 105,000
Total Equity Balance at 5/31/2014		\$ 1,566,562	\$ 41,713,242		\$ (42,360,027)	\$ 919,777

# **BOURQUE INDUSTRIES, INC.**

(A Development Stage Company)

## **Notes to Unaudited Financial Statements Fiscal Years Ended May 31, 2014, 2013 and 2012**

### **Note 1**

#### ***Summary of Significant Accounting Policies***

Bourque Industries, Inc. (the Company) was incorporated in the State of Nevada, under the predecessor names of Global Platinum + Gold, Inc. and Global Energy, LTD. The Company's name was changed to Bourque Industries, Inc. effective January 31, 2011.

#### ***Nature of Operations***

The Company is a development stage company, with a focus on advanced materials sciences. The Company invented Kryron, a metal-alloying process that uses nanotechnology to fundamentally alter certain common metals at the molecular level to create ultra-high performing alloys for industrial and commercial applications.

Kryron is a patented material created using carbon nanotubes which can be combined with common metals -- such as aluminum, copper, and steel -- to create ultra-high performing super alloys with significantly different characteristics than the base metals. These characteristics make Kryronized alloys a potential solution for a wide range of industrial, commercial, and military applications, which include ballistic body armor for military and law enforcement applications, as well as applications within agricultural and mining industries. SIC Codes include 3341, 3399, 3441, 3499, 3795, 3999 and 5085.

The Company is currently conducting operations, although many of Kryron's applications are in early stage research and development, and to-date, the Company has not had material orders or sales, and has not been able to produce continuing revenue from sales of its Kryron-based products.

On February 13, 2012 the Company received National Institute of Justice (NIJ) certification for its Level III stand-alone Kryron Terminator Armor. The Armor complies with the most recent NIJ Standard-0101.06. NIJ certification is a prerequisite for most US law enforcement agencies when purchasing personal body armor for its frontline officers.

#### ***Accounting Method***

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") with the following exception.

#### ***Share-Based Payments***

The Company records payments made with the issuance of common stock the market price for the goods or services to determine the fair value of the issued common stock. In those situations where, in the opinion of management, the fair value of goods or services could not be estimated



reliably and then such fair value is measured by reference to the fair value of equity instruments granted.

### ***Use of Estimates***

The use of estimates and assumptions as determined by management are required in the preparation of these financial statements in conformity with GAAP. The estimates are based on management's evaluation of historical trends and other information available when the financial statements are prepared. Changes in estimates, when they occur, are recognized in accordance with the accounting rules for estimates. Actual results could differ from those estimates.

### ***Revenue Recognition***

The Company uses the provisions of SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB 104"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements.

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Delivery does not occur until products have been shipped, risk of loss has been transferred to the customer and either customer acceptance has been obtained, client acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. The Company expects to derive revenues through the production of body armor and other Kryon based products.

### ***Inventories***

Inventories, when maintained by the Company, are stated at the lower of cost or net realizable value using the first-in first-out method of accounting. Net realizable value represents estimated selling prices less direct selling expenses.

### ***Property, Equipment and Depreciation***

The cost of property, plant, and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated (amortized) over the lesser of the length of the related leases or the estimated useful lives of the assets. The estimated useful lives are as follows:

Leasehold improvements	5 years
Equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years

### ***Patents and Long-Lived Intangible Assets***

The cost of patents is amortized over an estimated useful life of 20 years. In addition, The Company evaluates long-lived assets, including intangible assets subject to amortization (such as

patents) for impairment whenever events or circumstances indicate there may be a possible permanent loss of value.

### ***Goodwill***

Goodwill represents the cost in excess of fair value of net assets acquired in business combinations accounted for by the purchase method. In accordance with SFAS 142 goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. If it is determined impairment has occurred, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value and classified as impairment charges in the consolidated income statement. The Company conducts its annual impairment testing as of the last day of its fiscal year.

### ***Income Taxes***

The Company has adopted FASB 109 to account for income taxes. The Company currently has no material items that create timing differences that would mandate deferred tax expense. Net operating losses would create possible tax assets in future years, but due to the uncertainty as to the utilization of a net operating loss carry forward, a valuation allowance has not been made to the extent of any tax benefit that net operating losses may generate.

### ***Reclassifications***

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-period financial statements.

### ***Fair Value of Financial Instruments***

The recorded amounts of financial instruments, including cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt approximate their market values as of the fiscal year ended May 31, 2014 and fiscal years ended May 31, 2013 and 2012. The Company has no investments in derivative financial instruments.

## **Note 2**

### ***Going Concern***

The Company has recurring losses and has a deficit accumulated during the development stage of \$42,360,027 as of May 31, 2014 and no material working capital. This condition raises substantial doubt about the Company's ability to continue as a going concern.

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has no significant "current" source of revenue. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern.

The Company's management plans on raising cash from private debt or equity financing on an as needed basis and in the longer term, revenues from the development of business opportunities sales of patented alloy products, and or licensing of technology The Company's ability to continue as a going concern is dependent on these additional cash financings, and ultimately, upon achieving profitable operations.

### **Note 3**

#### ***Related Party Transactions***

The Company has entered into transactions, advanced funds and borrowed funds from various related parties and sources. Following are the material related party transactions during the fiscal year ended May 31, 2014 and fiscal years ended May 31, 2013 and 2012.

#### ***John Bourque, former Chief Executive Officer and current majority shareholder***

##### **Employment Agreement.**

On September 22, 2011, the Company entered into a long term Employment Agreement and Royalty Agreement with John Bourque, thereby securing his services as Chief Executive Officer for a minimum term of 10 years, and in exchange obtaining a transfer of all remaining rights to his Kryron material. Pursuant to these Agreements, the Company agreed to pay Mr. Bourque an initial salary of \$360,000 per year, privately issue him 100 million shares of Series A Convertible Preferred Stock, thereby assuring him control of Bourque Industries for the immediate future, and pay Mr. Bourque a 5% royalty over a 20 year term on gross sales of products and services utilizing the Kryron technology, and all derivative products, but specifically limited to Kryronized alloy materials produced for such products.

On February 6, 2013 Mr. Bourque was convicted of felony driving under the influence charges and subsequently sentenced to serve a term in Arizona state prison of four and one-half years. Under the terms of the employment agreement with Mr. Bourque the employment period may be terminated for cause which includes a conviction of a felony.

On February 25, 2013 the Company announced that John M. Bourque resigned as a member and Chairman of the Company's Board of Directors and from any officer or executive position within the Company. Subsequent to Mr. Bourque resignation the Company expanded and appointed new independent members to the Company's Board of Directors and appointed a new interim Chief Executive Officer.

Accordingly, Mr. Bourque's resignations were accepted by the Company and the employment agreement was terminated effective February 6, 2013. Mr. Bourque's salary accrual and employment ended with the termination of the employment agreement for cause. Mr. Bourque's position is that the Royalty Agreement is separate and apart from his Employment Agreement and represented separate consideration for the transfer of all of Mr. Bourque's rights to the Kryron Technology to the Company, and the Company has concurred with this position. As a result, the Royalty Agreement remains in effect for its term.

As of February 09, 2015 John Bourque resumed his employment with Bourque Industries as Chief Science Officer. There is no formal employment agreement in place. Mr. Bourque's legal issues have been resolved.

**Amounts Due to/from Mr. Bourque.**

Mr. Bourque at the fiscal years ended May 31, 2014, 2013 and 2012 owed the Company \$7,021, zero and \$234,757 respectively. These loans were primarily made by the merged-in company JBIT, Inc. The note was due on demand with interest payable annually at 4.5%. Mr. Bourque was repaying the note on a regular ongoing basis with combination of cash payments and offset against his compensation due him under the terms of his long term employment agreement. As explained in this note, Mr. Bourque's employment agreement was terminated effective February 6, 2013.

**Participant in October 2011 mergers of Bourque Alloys, LLC, Bourque Alloys Manufacturing, LLC and Kryron Global, LLC.**

John M. Bourque was the principal shareholder in the three companies acquired by the Company on or about October 17, 2011. The three companies were Bourque Alloys, LLC, Bourque Alloys Manufacturing, LLC and Kryron Global, LLC. To review the details of these acquisitions refer to Note 6.

**Sale of real property to entity in which Mr. Bourque had a financial interest.**

During the fiscal year ended May 31, 2012 the Company sold real property to Full Circle Trust, an irrevocable trust of which the Company's CEO, Mr. Bourque is a co-trustee and beneficiary.

Mr. Bourque disclosed his interest to the Board and abstained from voting on the transaction. At the time of the disclosure and vote Mr. Bourque advised the Board that the property transaction was to be consummated at fair market value which he estimated at \$600,000. The sales price was therefore set at \$600,000, and was paid in the form of an unsecured note in that amount executed by Full Circle Trust as payee, bearing interest at 12% per annum, and payable on demand after May 31, 2013. Upon payment of the Note, the Company agreed to pay out of the proceeds, \$94,250 in encumbrances which existed on the property at the date of sale.

Subsequently, the Board after investigation has concluded that the fair market value of the property was likely substantially less than the \$600,000 estimated, and that as a result, the sale of the property occurred at substantially more than the realistic market value of the property.

Also, subsequent to the transactions, Full Circle Trust has defaulted in payment on the Note delivered to the Company, and has also defaulted on its obligations to service the existing secured notes on the property. As a result, the property was foreclosed by the first trust deed holder and the note and the related allowance were written off in February 2014.

**Provision for Contingent Liabilities.**

As described in Note 9, Provision for Contingent Liabilities, the Company has embarked on an immediate review of prior matters which may have a material financial effect on the Company. As of the filing of these financial statements the review process was ongoing and not yet complete.

**Mr. Bourque's relinquishment of control.**

On March 8, 2013, John Bourque, the Company's inventor and former Chief Executive Officer, as well as its principal shareholder, executed a "Principle Shareholders Lock-Up Agreement", whereby Mr. Bourque agreed not to exercise his voting rights on 100,000,000 Series A Preferred Shares which have 4 for 1 voting rights, and not to exercise his voting rights on all but 20 million of his shares of the Company's Common Stock, for a term which extends through the earlier of

March 8, 2017, or date on which Mr. Bourque is able to re-commit to full time employment with the Company.

This Agreement not to exercise such voting rights is subject to a number of exceptions. For example, Mr. Bourque is not precluded from exercising his voting rights if the Company proposes to issue in the aggregate more than 50 million common shares, or if a shareholder vote is called for approval of certain Fundamental Corporate Transactions or under certain other circumstances spelled out in the Agreement.

The Lock-Up Agreement was approved by the Board of Directors on March 19, 2013, and is now in place. This Lock-Up Agreement removes Mr. Bourque from a position of control of the Company (except under certain circumstances) for the period of its term and gives the Board of Directors full authority to press forward with reorganization of the Company's business and its evolving business plan for the marketing and sales of various contemplated product lines based upon the Company's Kryon material.

***Bourque Alloys, LLC (BAL), previously controlled by former Chief Executive Officer John Bourque.***

At the end of the fiscal year ended May 31, 2012 and 2011 BAL owed the Company \$194,393 and \$219,410 respectively. The loans were made by the merged-in company JBIT, Inc. Refer to Note 8 for the details of the loans and Note 4 for more details of the merged-in company JBIT, Inc. On October 17, 2011 the Company acquired BAL in a reverse triangular merger which resulted effectively in a full loan payoff as of the acquisition date. Refer to Note 6 for details of the acquisition.

***Bourque Alloys Manufacturing, LLC (BAM) elements of common control.***

During the fiscal year-to-date period ended October 16, 2011 and the fiscal year ended May 31, 2011 the Company received loans of \$474,500 and \$15,000 respectively from BAM. On October 17, 2011 the Company acquired BAM in a reverse triangular merger which effectively resulted in a full loan payoff as of the acquisition date. Refer to Note 6 for details of the acquisition and to Note 9 for the details of the loans.

***Russell Twiford, former Chief Executive Officer***

Mr. Twiford at fiscal year ended May 31, 2014 and fiscal years ended May 31, 2013 and 2012 owed zero, zero and \$211,876 respectively. As of May 31, 2013 the Company wrote-off the balance as a bad debt against the previously recorded allowance for uncollectibility of this note. These loans were originally for advances issued by the Company under the direction of the former CEO Twiford to himself prior to January 31, 2011. Mr. Twiford has indicated he intends not to repay the loans. The Company is in the process of referring the matter to outside counsel to pursue collection of the amounts owed to the Company by Mr. Twiford. However, the Company believes there is a high likelihood that the amount due may not be collectible. The Company has recognized a bad debt expense in the amount of \$211,876 for the year ended May 31, 2013.

***Kim Southworth, former Director***

Included in trade accounts payable are amounts due to Advanced Business Strategies, LLC, a company owned by the spouse of Mr. Southworth. These payables represent amounts owed to Advanced Business Strategies, LLC under a consulting contract for Mr. Southworth's work with

the Company and subsidiary Basalt Fiber Technologies, Inc. Payables owed at year ended May 31, 2014 and fiscal years ended May 31, 2013 and 2012 were \$192,000, \$192,000, \$139,500 and zero respectively. Included in balances at fiscal year ended May 31, 2014 and fiscal years ended May 31, 2013 and 2012 is a payable in the amount of \$80,000 which was owed from Basalt Fiber Technologies to Advanced Business Strategies, LLC at the time Basalt Fiber Technologies was merged into Bourque Industries, Inc.

#### **Note 4**

##### ***Goodwill and Acquisition of JBIT, Inc.***

During the fiscal year ending May 31, 2011 the Company approved and executed a plan of acquisition and reorganization that provided for the exchange of 150,000,000 unregistered common shares of the Company for “all” of the issued and outstanding common shares of JBIT, Inc. The acquisition was made to combine the manufacturing and distribution capabilities of the Company with the license agreements of patented alloys held by JBIT, Inc. The amount of goodwill acquired during the combination was recorded based on the share price of the Company at the time of the acquisition and reorganization at \$28,695,238, but without consideration of the illiquid and uncertain nature of the public market for the Company’s common stock.

The Board of Directors at the end of the Company’s 2011 fiscal year, after review, concluded that the value of existing manufacturing technology to extract gold from various fluids previously developed by the Company, and technology for use of certain alloys in such process, did not appear to be economically or physically viable, and accordingly that recorded goodwill as a result of such combination should be substantially adjusted and reduced. Accordingly, the Company determined that there has been a significant impairment of goodwill at the end of the fiscal year ended May 31, 2011, and the Company recognized an impairment charge against goodwill of \$28,195,238, and reduced goodwill carried on the Company’s books to \$500,000, effective as of the end of said fiscal year.

The Company conducted its annual impairment testing of the goodwill acquired from JBIT, Inc. and it has determined that as of May 31, 2013 the remaining goodwill was significantly impaired and was written of in its entirety in these financial statements.

#### **Note 5**

##### ***Goodwill and Acquisition of Basalt Fiber Technologies, Inc.***

The Company conducted its annual impairment testing of the goodwill acquired from Basalt Fiber Technologies, Inc. and it determined that as of May 31, 2013 the goodwill was significantly impaired and was written of in its entirety in these financial statements. The impairment charge for this item was \$420,000.

#### **Note 6**

##### ***Acquisitions***

Based on new and changing market opportunities and conditions, the Company accomplished strategic acquisitions of four related companies. Existing Management believed these acquisitions would support the Company’s strategic plan to use the acquired Kryron alloy technologies to expand business in the development, manufacturing and sales of products for use

in armor applications, electrical applications and other applications requiring light weight high strength alloys. In addition, with the acquisition of all rights related to the Kryron alloys, the Company gained the position to enter into exclusive and non-exclusive licensing arrangements with other manufacturers.

Prior to these acquisitions the Company held only a limited non-exclusive right to the patented alloy known as Kryron under a “field of use license.” Under the field of use license the Company had rights to use Kryron only in “metal extraction processes in mining” and “armor manufactured for military use.” As a part of its long term strategic plan the Company Management determined that to achieve the full market potential of the Kryron alloys it was required that one entity would need to control all aspects of the rights to Kryron and its derivative works – from the patents through manufacturing to sales and finally to the end customer. Accordingly, the Company entered into negotiations to consolidate and acquire all the patents, licenses and rights to Kryron and related products.

The Company, on September 26, 2011, agreed to acquire four companies through four separate reverse triangular mergers whereby the Company formed four new wholly owned subsidiaries, and agreed to merge each subsidiary with one of the four companies. This parent-subsidiary structure, when combined, encompasses full and complete control of all the rights to Kryron. The acquired companies were Bourque Alloys, LLC, Bourque Alloys Manufacturing, Inc., Kryron Global, LLC and Basalt Fiber Technologies, LLC. An aggregate of approximately 113 million shares of restricted common stock were issued and exchanged with the shareholders of the four companies in connection with the acquisition of these companies. All four of the acquired companies were considered development stage companies and had no material revenues or earnings for the fiscal years ended May 31, 2012, 2011 and 2010.

Bourque Alloys, LLC, an Arizona limited liability company (BAL). BAL was organized in May 2009 and is the licensee under a license agreement from Kryron Global LLC granting it the rights to exclusive manufacturing of Kryron metal alloys to be used in all Kryron products. John M. Bourque, current CEO of the Company, owned a controlling ownership interest in BAL, making it a related company

Bourque Alloys Manufacturing, Inc., a Nevada corporation (BAM). BAM was incorporated in May 2011 and is the licensee under an long-term license agreement from Kryron Global LLC granting BAM the rights to exclusive manufacturing of Kryron products including armor for military and law enforcement, mining equipment and agricultural equipment. John M. Bourque owned a controlling ownership interest in BAM, making it a related company

Kryron Global LLC, an Arizona limited liability company (KGL). KGL was organized on November 15, 2008 and was wholly owned by John M. Bourque. KGL owned and controlled many patents (as further described in Section G of Item 9 below) related to Kryron and its applications and had control over the granting of licenses for all products making it a related company.

As a result of, and upon the Company's acquisition of these first three target companies, all intellectual property and all pending or issued patents associated with the Kryron material invented by John M. Bourque is now fully owned and controlled by Bourque Industries, Inc.

Basalt Fiber Technologies, LLC, a Utah limited liability company (BFT). BFT was organized in March 2010 and has under development new technology to produce basalt fiber in quantities far exceeding current basalt fiber production methods and at substantially lowers costs. Basalt fiber is made from quarried basalt rock, which is heated and pushed through fine nozzles to create streams of molten rock that solidify into fibers. The resulting product is similar to fiberglass, but is physically stronger and significantly cheaper. An inert rock found worldwide, basalt is the generic term for solidified volcanic lava. Basalt is used in fireproof textile in the aerospace and automotive industries and as a composite to produce products such as camera tripods.

The Company plans to combine basalt with Kryron to develop new materials and products. The Company and BFT had been exploring the integration of basalt fiber technologies into Kryron products for most of 2011, including ballistic armor and plates. Kim D. Southworth was President and controlling owner of BFT, and an officer and director of the Company at the time of the acquisition, making it a related company.

Each of these four acquisitions closed on or about October 17, 2011. As a result of consummation of these acquisitions and the Company's issuance of restricted shares to their shareholders as consideration for the acquisitions, including John M. Bourque and Kim D. Southworth as shareholders of one or more of these target companies.

*Pro Forma Condensed Combined Statements of Operation Information*

The following unaudited pro forma financial information presents the combined results of operations of the Company and the acquired businesses as if the acquisition had occurred as of the June 1, 2009 or the date of formation of the acquired company, whichever is earlier.

	Fiscal Year Ended May 31, 2012	Fiscal Year Ended May 31, 2011	Fiscal Year Ended May 31, 2010
Revenues	\$ 34,966	\$ -	\$ -
Cost of Goods Sold	16,325	-	-
Gross Profit	18,641	-	-
Operating Expenses	2,655,315	30,501,233	1,152,311
Net Operating (Loss)	(2,636,674)	(30,501,233)	(1,152,311)
Other Income (Expense)	15,222	(8,337)	(4,181)
Income (Loss) Before Income Taxes	(2,651,896)	(30,492,896)	(1,148,130)
Provision (Benefit) for Income Taxes	-	-	-
Net Income (Loss)	<u>\$ (2,651,896)</u>	<u>\$ (30,492,896)</u>	<u>\$ (1,148,130)</u>



## **Note 7**

### ***Patents***

As part of the purchase of Kryron Global, LLC, Bourque Alloys Manufacturing, Inc. and Bourque Alloys, LLC during the fiscal year ended May 31, 2012, the company acquired intangible assets of \$4,115,000. Of that amount, \$3,695,000 was assigned to patents. Goodwill of \$420,000, which is not subject to amortization, arose in connection with the acquisitions.

The Company capitalizes patent costs for new patents, both domestic and international. Patent costs incurred by the Company and recorded to the intangible asset during the fiscal years ended May 31, 2014, 2013 and 2012 were zero, \$46,667, and zero respectively.

The acquired patents have an estimated useful life of 20 years. As of May 31, 2014 and May 31, 2013 and 2012 patent assets of the Company were as follows.

	<u>May 31, 2014</u>	<u>May 31, 2013</u>	<u>May 31, 2012</u>
Patents	\$ 3,720,467	\$ 3,720,467	\$ 3,695,467
Minus accumulated amortization	<u>399,707</u>	<u>233,954</u>	<u>58,657</u>
Patents net of accumulated amortization	<u>\$ 3,320,760</u>	<u>\$ 3,486,513</u>	<u>\$ 3,636,810</u>

## Note 8

### **Notes Receivable**

The Company has non-current, non-trade notes receivable as follows.

	May 31, 2014	May 31, 2013	May 31, 2012
Note receivable from John Bourque, a related party, due upon demand, interest payable and accrued annually at 4.5%, secured by common stock of the Company (see Note 3)	\$ 0	\$ 0	\$ 234,757
Note receivable from Russ Twiford, a related party, due upon demand, non-interest bearing, unsecured (see Note 3)	0	0	211,876
Note receivable from Full Circle Trust, a related party, due upon demand, interest payable annually at 12%, secured by real property (see Note 3)	0	670,549	625,649
Subtotal non-current notes receivable	0	670,549	1,072,282
Minus allowance for uncollectible notes receivable	0	(670,549)	0
Total Non-Current Notes Receivable	\$ 0	\$ 0	\$1,072,282

## Note 9

### **Provision for Contingent Liabilities**

On February 25, 2013 the Company announced that John M. Bourque resigned as a member and Chairman of the Company's Board of Directors and from any officer or executive position within the Company. Subsequent to Mr. Bourque resignation the Company expanded and appointed new independent members to the Company's Board of Directors and appointed a new interim Chief Executive Officer.

As a result of this change in control of the Company, the Board of Directors directed the interim Chief Executive officer and consultants of the Company to embark on an immediate review of the financial history of the Company.

This financial review process is ongoing and not yet completed. However, Management has determined it appropriate to record a reserve for contingent liabilities, based on the initial review to-date. Therefore, As of April 15, 2013 the Company has elected to record a reserve for contingent liabilities in the financial statements as of years ended May 31, 2014 and 2013 respectively of \$1,000,000, to account for the Company's potential liability for various unknown

or unsubstantiated claims which may or may not be filed against the Company, and if filed, in which the Company might not prevail.

## Note 10

### Notes Payable

The Company has non-current, notes payable as follows

	May 31, 2014	May 31, 2013	May 31, 2012
Note payable to RM Kulm, non-interest bearing, unsecured, due on demand.	\$ 6,700	\$ 6,700	\$ 6,700
Notes payable to Barclay Tittman, non-interest bearing, unsecured, due on demand.	0	0	30,000
Note payable to Charles Herrim non-interest bearing, unsecured, due on demand.	9,000	9,000	9,000
Note Payable to Bellavita Partners LLC, Interest at 9% due 1 year from December 5, 2013	50,000	0	0
Note Payable to Bellavita Partners LLC, Interest at 9% due 1 year from April 9, 2014	25,000	0	0
Note payable to G&G Holdings, LLC, non-interest bearing, secured by an option to convert to restricted common stock of the Company, due June 2012. Note currently 23 months past due.	100,295	100,295	100,000
Note payable to Timothy & Kevin Ross, interest at 21.0% annually, secured by real property.	0	0	26,228
Note payable to Harlin H. Haack, Trustee, interest at 21.0% annually, secured by real property.	0	0	68,022
Note payable to Scholl & Company, payable at \$1,658 monthly including interest at 12.0%, secured by personal property. Note currently 12 months past due.	27,861	0	0
Subtotal	218,856	115,995	239,950
Less current portion	218,856	100,295	100,000
Total non-current notes payable	\$ -	\$ 15,700	\$ 139,950

Interest expense for the periods were as follows.

	May 31, 2014	May 31, 2013	May 31, 2012
Interest expense	\$ 2,287	\$ 34,783	\$ 36,026

## **Note 11**

### ***Royalty Notes Payable***

In 2004 the Company entered into royalty purchase agreements with various investors. The agreements provided the investors with a royalty payment on revenues generated by real property mineral extraction at rates ranging from one-eight percent of eligible revenues to one percent of eligible revenues. The agreements also provided that, in addition to any royalty payments (of which there were none) the investors would receive back their original investment without any interest or penalty. The royalty notes payable therefore represent the total gross amount of the original investment payments. The notes are unsecured and are payable on demand.

## **Note 12**

### ***Concentration of Credit Risk***

The Company has concentrated its credit risk for cash by maintaining deposits in one bank. The excess deposits reported by the bank over the amounts that would be covered by federal insurance (FDIC) are at risk.

Financial instruments that potentially subject the Company to credit risk consist primarily of trade accounts receivable and related party notes receivable.

## **Note 13**

### ***Lease Commitments***

The Company, in July 2011, entered into an operating lease for manufacturing plant and administrative office premises for a 38 month term. The future minimum lease payments under the operating leases are as follows for the fiscal years ending May 31.

2015	\$ <u>25,600</u>
	\$ <u>25,600</u>

As of the date of the issuance of these financial statements the Company was approximately 12 months in default in payments under this lease, and had been locked out of the premises by the landlord. The Company is currently renting space on a month-to-month basis at a new location.

## **Note 14**

### ***Stock Issued to Settle Debt***

On August 22, 2012, Bourque Industries, Inc. and Ironridge Global IV, Ltd. settled \$778,624 in current accounts payable of the Company, in exchange for shares of Company common stock. Ironridge recently agreed to purchase the payables from Company creditors for full face value in cash,

Pursuant to an order approving stipulation for settlement of claims, Ironridge is entitled to receive 250,000 Bourque common shares, plus that additional number of shares which have an aggregate “agreed” value equal to the debt amount, plus third party agent fees in the amount of ten percent, plus reasonable attorney fees, divided by a price per share equal to a 20% discount to a calculated Bourque “formula” share price.

The formula share price is based upon the volume weighted average price of the Company’s common stock over that number of consecutive trading days following the date of receipt of an initial advance of shares, required for the total aggregate trading volume of all Company shares traded on the over-the-counter market to exceed \$5 million. In calculating total aggregate trading volume, each daily volume used is not to exceed the arithmetic average of the individual daily volume weighted average prices of any five trading days during such period.

By way of example only, if the Company’s average trading volume were \$50,000 per day, the calculation period would be 100 days. If the volume weighted average price of the Company’s common stock during that period were \$0.12 per share (which was the closing share price on August 22, 2012), and the arithmetic average of the individual daily volume weighted average prices of any five trading days during such period were also \$0.12 per share, then Ironridge would be entitled to retain a total of 9,333,560 shares in exchange for settling \$778,624 in debt. Based on a \$0.12 per share assumed value, the Bourque Common shares received would have a \$1,120,027 value, and would be received as full compensation for the \$778,624 debt extinguished.

In connection with the transaction, Ironridge is prohibited from receiving at any one time shares of common stock that would cause it in the aggregate with other shares then held, to be deemed to beneficially own more than 9.99% of the Company’s total outstanding shares. Ironridge received as an advance, an initial issuance of 35,000,000 shares, which is equal to 9.99% of the total outstanding shares after such issuance. Based on the above example, Ironridge would be required to return 25,666,440 of these shares advanced to the Company for cancellation at the end of the formula calculation period. If the stock price during the calculation period were higher, it would be required to return more shares. If it were lower, Ironridge may be entitled to return fewer shares or to be issued more shares. The final number of shares to be retained by Ironridge will not be calculated until the end of the calculation period.

Ironridge agreed not to hold any short position in the issuer’s common stock, and not to engage in or effect, directly or indirectly, any short sale until at least 180 days after the end of the calculation period, and it is prohibited from doing so. This provision means that Ironridge can only trade advanced shares it reasonably appears to have earned under the formula; it could not trade all 35 million shares unless there was a very sizable drop in the Bourque share price in the market. Ironridge also cannot vote any shares of common stock, exercising any dissenter’s rights, execute or solicit any proxies, or engage or participate in any plans relating to any extraordinary corporate transaction or change of control.

The shares were issued without registration under the Securities Act of 1933, as amended, pursuant to the exemption from registration provided by Section 3(a)(10) of the Act, as securities

issued in exchange for one or more bona fide outstanding claims or property interests, where the terms and conditions of such issuance and exchange are approved, after a hearing upon the fairness of such terms and conditions at which all persons to whom it is proposed to issue securities in such exchange shall have the right to appear, by any court, or by any governmental authority expressly authorized by law to grant such approval. As a result, the shares are free trading and not restricted shares.

As of the date of the issuance of these financial statements the final accounting for the stock issued to settle debt was not yet completed or due from Ironridge, but a total of 91,500,000 common shares have been issued by the Company to Ironridge under this Agreement to date.

## **Note 15**

### ***Series A Preferred Stock and Stock Purchase Agreement***

The Company has entered into a \$7.5 million stock purchase agreement with Ironridge Technology Co. Under the terms of the agreement, the Company will issue Ironridge restricted convertible preferred stock as funds are drawn down. These are convertible into restricted common stock at a fixed price of \$0.04 per share. Ironridge will be unable to convert the preferred shares into common stock for at least 6 months after each issuance. The preferred shares will earn dividends of 8% per year for 18 years, subject to adjustment.

The securities offered in this private placement have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration with the U.S. Securities and Exchange Commission or an applicable exemption from such registration requirements.

The series of Preferred Stock is designated as the Corporation's Series A Preferred Stock (the "Series A Preferred Stock") and the number of shares so designated will be 2,000, which will not be subject to increase without any consent of the holders of the Series A Preferred Stock (each a "Holder" and collectively, the "Holders") that may be required by applicable law.

The Series A Preferred Stock will, with respect to dividend rights and rights upon liquidation, winding-up or dissolution, rank: (a) senior with respect to dividends and right of liquidation with the Corporation's Common Stock ("Common Stock"); (b) *pari passu* with respect to dividends and right of liquidation with the Corporation's Series A Preferred Stock and Series B Preferred Stock; and (c) junior to all existing and future indebtedness of the Corporation. Without the prior written consent of a majority of Holders, the Company may not issue any Series A Preferred Stock, Series B Preferred Stock, Series A Preferred Stock, or Preferred Stock that is not junior to the Series A Preferred Stock in right of dividends and liquidation.

Except as required by applicable law or as set forth herein, the holders of shares of Series A Preferred Stock will have no right to vote on any matters, questions or proceedings of this Corporation including, without limitation, the election of directors.

Commencing on the date of the issuance of any such shares of Series A Preferred Stock (each respectively an "Issuance Date"), Holders of Series A Preferred Stock will be entitled to receive

monthly dividends on each outstanding share of Series A Preferred Stock ("Dividends"), at a rate equal to 8.0% per annum ("Dividend Rate"), subject to adjustment as provided herein. Dividends will be payable on the first business day of each calendar month, and upon redemption of the Series A Preferred Stock. If at any time dividends not permitted to be paid by the Nevada Revised Statutes, dividends shall accrue and be paid as soon as otherwise permitted or permitted upon redemption.

Dividends are payable at the Corporation's election, (a) in cash, or (b) in shares of Common Stock valued at 90.0% of the following: the volume weighted average price of the Common Stock on the date of delivery, not to exceed the Closing Price of any Trading Day from the date of filing of the Certificate of Designations of Preferences, Rights and Limitations of Series A Preferred Stock with the Nevada Secretary of State through the end of the applicable Equity Conditions Measuring Period, less \$0.01 per share of Common Stock.

So long as any shares of Series A Preferred Stock are outstanding, no dividends or other distributions will be paid, declared or set apart with respect to any Common Stock. The Common Stock will not be redeemed while the Series A Preferred Stock is outstanding.

Upon or after 18 years after the Issuance Date ("Dividend Maturity Date"), the Corporation will have the right, at the Corporation's option, to redeem all or a portion of the shares of Series A Preferred Stock, at a price per share equal to 100% of the Series A Liquidation Value.

Prior to redemption pursuant to the agreement, the Corporation will have the right, at the Corporation's option, to redeem all or a portion of the shares of Series A Preferred Stock at any time or times after the Issuance Date of such Series A Preferred Stock, at a price per share equal to the sum of the following: (a) the Series A Liquidation Value, plus (b) the Embedded Dividend Liability on the date of the applicable redemption or conversion, less (c) any Dividends that have been paid.

Subject to the terms and conditions of the agreement, one or more of the Series A Preferred Stock may be converted, in part or in whole, into shares of Common Stock, at any time or times after the Issuance Date, at the option of Holder or the Corporation, by (i) if at the option of Holder, delivery of a written notice to the Corporation, of the Holder's election to convert the Series A Preferred Stock, or (ii) if at the option of the Corporation, if the Equity Conditions are met, delivery of a written notice to Holder, of the Corporation's election to convert the Series A Preferred Stock.

In the event that the Closing Price of the Common Stock exceeds 250% of the Conversion Price with respect to a Series A Preferred Stock for any 20 consecutive Trading Days, upon a conversion of any Series A Preferred Stock pursuant to a Corporation Conversion Notice, the Corporation shall issue to the Holder of such Series A Preferred Stock a number of Conversion Shares equal to (a) the Early Redemption Price multiplied by (b) the number of such Series A Preferred Stock subject to the Corporation Conversion Notice divided by (c) the Conversion Price with respect to such Series A Preferred Stock.

## **Note 16**

### ***Warrants***

Effective December 5, 2013, the Company issued stock warrants providing Bellavita Partners, LLC the right to purchase 1,000,000 shares of Common Stock at a purchase price of \$.05 per share. The warrants are fully vested and have a three year contractual term. The weighted average fair value of the warrants granted was \$.0493 per warrant. None of the warrants have been exercised as of fiscal year ended May 31, 2014. Share-based compensation expense calculated per the Black-Scholes option pricing model totaled \$49,286 for the year ended May 31, 2014

## **Note 17**

### ***Extraordinary Expenses***

During the year ended May 31, 2013 the Company recognized two extraordinary events. These events are unusual in nature and are unexpected to occur in the future.

#### **Related Party Note Receivable Allowance for Uncollectibility of \$670,549**

The Company has recorded an allowance for an uncollectible note receivable from a related party. The details of this extraordinary expense are more fully described in Note 3 and the note itself is listed in Note 8 of these financial statements.

#### **Provision for Contingent Expenses of \$1,000,000**

As more fully described in Notes 3 and 9, the Company has embarked on a financial review of past activities. As of the filing of these financial statements the review process is ongoing and not yet complete.

Management has determined it appropriate to record a reserve for contingent liabilities, based on the initial review to date. Therefore, as of April 15, 2013 the Company has elected to record a reserve for contingent liabilities in the financial statements as of May 31, 2013 of \$1,000,000, to account for the Company's potential liability for various unknown or unsubstantiated claims which may or may not be filed against the Company, and if filed, in which the Company might not prevail

## **Note 18**

### ***Facilities***

As of the issuance of these financial statements the Company was in default on the lease for its principal facility located in Tucson, AZ. The Company is approximately 12 months in arrears on lease payments and therefore in default of the terms of the lease agreement. Consequently, the Company has been locked out and does not have current use of the facility. However, the Company is in active negotiations with the property owner to reach a modification of the lease terms and settlement of the outstanding debt. The lease amounts currently due and past due are included in the Company's accounts payable. The Company is currently renting space on a month-to-month basis at a new location.



## **Note 19**

### ***Impairment of Fixed Assets***

As of the issuance of these financial statements the Company's fixed assets were materially impaired. There were two circumstances of impairment as follows.

#### ***Assets Unavailable Due to Violation of Facility Lease Terms***

In April 2013 the Company's landlord of its primary facility in Tucson, AZ exercised his right to prevent the Company from further use of or access to the facility until such time as the lease payments are brought current and all other terms of the lease are brought into compliance. Accordingly, the equipment, furniture and fixtures which were located in the facility are not available for the Company's use. The landlord may file to take title to the assets and dispose of the assets with the proceeds used toward the settlement of the Company's lease obligations. As of the issuance of these financial statements all of the equipment, furniture and fixtures were still located at the facility and owned by the Company. The Company has recorded an impairment loss in the amount of \$330,768 as of May 31, 2013.

#### ***Asset Held for Sale***

In August 2013 the Company sold one a piece of equipment which was unused and not anticipated to be needed for future Company activity. The net proceeds of the sale were \$75,000 resulting in a loss of \$92,400. Accordingly, the Company recorded an impairment loss of \$92,400 as of May 31, 2013.

## **Note 20**

### ***Illegal Acts***

The Company is aware of the following illegal acts as of the date of the issuance of these financial statements.

#### ***Corporate Income Tax Returns***

The Company, and its subsidiaries, are not current with their federal and state filing requirements for either federal or state income tax returns. As funds become available the Company anticipates filing of all past due returns. Due to significant net operating losses which are carried forward from year-to-year under federal and state tax law, the Company does not anticipate any material financial liability due to the non-filing as of the date of these financial statements.

#### ***Payroll Trust Fund Taxes***

As of the date of these financial statements the Company had withheld various income and payroll taxes from employee pay which was not paid over to the federal or state government as required. The estimated balance of these trust fund taxes due, including penalties and interest, as of the date of these financial statements related to trust fund taxes is \$42,000.

**Note 21*****Litigation Contingencies***

The Company is a party to several current legal actions involving former employee claims for pay. As of the issuance of these financial statements there was one material lawsuit which is still in the process of litigation. The Company denies liability in the case based on payment history and payment by stock to the former employee and the former employee's incorrect pay accrual calculations. The Company and its legal counsel do not currently anticipate a material financial impact due to this case and therefore have not recorded any liability for this matter.

In the normal course of its business activities the Company is periodically threatened with legal action. Other than the case referenced above, the Company is not aware of any other filed legal action.

During the fiscal fourth quarter of the fiscal year ended May 31, 2013 the Company was found liable for back pay to two former employees. The total judgment amount, including fees and interest is approximately \$40,000. This judgment is included in the current liabilities of these financial statements.