

# **BOURQUE INDUSTRIES, INC.**

## **ANNUAL REPORT Quarter Ended August 31, 2015**

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# **BOURQUE INDUSTRIES, INC.**

(A Development Stage Company)

## **Unaudited Consolidated Balance Sheets** **Assets**

ASSETS	August 31, 2015	May 31, 2015	May 31, 2014
Current Assets			
Cash	\$ 33,924	\$ 11,350	\$ 1,048
Accounts Receivable	13,976	11,951	0
Retainers	5,500	5,500	5,500
Total Current Assets	53,400	28,801	6,548
Property and Equipment			
Furniture & Fixtures	0	0	8,319
Leasehold Improvements	0	0	168,940
Processing Equipment	5,629	2,629	362,841
Office equipment	3,200	2,200	15,324
	8,829	4,829	555,424
Less: Accumulated Depreciation	(4,430)	(4,080)	(554,628)
Total Property and Equipment	4,399	749	796
Non-Current Assets			
Intangible Assets			
Patents	4,944,208	4,922,690	3,720,467
Accumulated Amortization	(647,840)	(585,731)	(399,707)
Total Intangible Assets	4,296,368	4,336,959	3,320,760
Notes Receivable - net	0	0	13,521
Total Non-Current Assets	4,300,767	4,337,708	3,335,077
Total Assets	\$ 4,354,167	\$ 4,366,509	\$ 3,341,625

# BOURQUE INDUSTRIES, INC.

(A Development Stage Company)

## Unaudited Consolidated Balance Sheets Liabilities & Stockholders' Equity

LIABILITIES & STOCKHOLDERS' EQUITY	August 31, 2015	May 31, 2015	May 31, 2014
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 418,803	\$ 400,374	\$ 696,990
Accrued Compensation Payable	0	0	278,502
Provision for Contingent Liabilities	465,000	500,000	1,000,000
Current Portion of Long-Term Liabilities	371,926	322,822	218,856
Total Current Liabilities	1,255,729	1,223,196	2,194,348
Long-Term Liabilities			
Notes Payable	0	0	0
Royalty Notes Payable	0	0	227,500
Total Long-Term Liabilities	0	0	227,500
Total Liabilities	1,255,729	1,223,196	2,421,848
Stockholders' Equity			
Common stock, .0001 par value, 1000000000 authorized			
960,665,190 shares issued and outstanding	1,510,730	1,506,750	1,461,562
Additional Paid-in-Capital	43,107,012	43,023,992	41,713,242
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	95,000	95,000
Accumulated Deficit	(41,624,304)	(41,492,429)	(42,360,027)
Total Stockholders' Equity	3,098,438	3,143,313	919,777
Total Liabilities and Stockholders' Equity	\$ 4,354,167	\$ 4,366,509	\$ 3,341,625

**BOURQUE INDUSTRIES, INC.**  
(A Development Stage Company)  
**Unaudited Consolidated Income Statements**

	Quarter Ended August 31, 2015	Fiscal Year Ended May 31, 2015	Fiscal Year Ended May 31, 2014	June 1, 1978 (inception) to August 31, 2015
Revenues				
Sales	\$0	\$0	\$0	\$384,010
Total Revenues	0	0	0	384,010
Cost of Goods Sold	0	0	0	209,478
Gross Profit	0	0	0	174,532
Operating Expenses				
Legal, Consulting & Professional Fees	23,637	29,467	287,117	5,648,265
Rents	1,291	0	0	148,730
Depreciation & Amortization Expense	62,459	186,212	165,894	970,764
Impairment of Goodwill	0	0	0	29,115,238
Non-Trade Bad Debt Expense	0	6,500	0	218,376
General & Administrative	16,451	47,002	141,524	3,764,742
Compensation Expense	21,100	202,662	58,436	5,549,988
Total Operating Expenses	124,938	471,843	652,971	45,416,103
Net Operating (Loss)	(124,938)	(471,843)	(652,971)	(45,241,571)
Other Income (Expense)				
Other Income	0	1,352,347	0	1,371,486
Interest Income (Expense)	(6,937)	(12,906)	(2,287)	(138,055)
Gain (Loss) on Sales of Property	0	0	0	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	0	0	(348,168)
Merger Adjustment	0	0	0	1,481,753
Total Other Income (Expense)	(6,937)	1,339,441	(2,287)	5,287,816
Income Before Extraordinary Expenses				
Related Party Note Receivable				
Allowance for Uncollectibility	0	0	0	(670,549)
Provision for Contingent Expenses	0	0	0	(1,000,000)
Total Extraordinary Expenses	0	0	0	(1,670,549)
Income (Loss) Before Income Taxes	(131,875)	867,598	(655,258)	(41,624,304)
Provision (Benefit) for Income Taxes	0	0	0	0
Net Income (Loss)	<u>\$ (131,875)</u>	<u>\$ 867,598</u>	<u>\$ (655,258)</u>	<u>\$ (41,624,304)</u>

# BOURQUE INDUSTRIES, INC.

(A Development Stage Company)

## Unaudited Consolidated Statements of Cash Flows

	Quarter Ended <u>August 31, 2015</u>	Fiscal Year Ended <u>May 31, 2015</u>	Fiscal Year Ended <u>May 31, 2014</u>	June 1, 1978 (inception) to <u>August 31, 2015</u>
Cash Flows from Operating Activities:				
Net Income ( Loss)	\$ (131,875)	\$ 867,598	\$ (655,258)	(41,624,304)
Adjustments to Reconcile Net Loss to Net Cash				
Provided by Operations:				
Depreciation and amortization	62,459	186,212	165,894	970,764
Warrant Expense	0	0	49,286	49,286
Impairment of goodwill	0	0	0	29,115,238
Cancellation of Debt Income	0	(853,406)	0	(853,406)
Common stock issued for services	87,000	170,938	191,950	5,914,401
Preferred stock issued for services	0	0	0	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	1,059	0	48,261
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	0	0	348,168
Change in current assets and liabilities				
net of acquisitions of businesses:				
(Increase) Decrease in:				
Deposits and prepaids	0	0	54,500	(6,585)
Notes receivable	0	0	0	(140,607)
Accounts Receivable	(2,025)	1,570	0	(455)
Inventory	0	0	0	(47,921)
Accounts payable and accrued expenses	18,429	12,254	(164,558)	1,674,720
Provision for Contingent Liabilities	(35,000)	(500,000)	0	465,000
Net Cash Provided Used by Operating Activities	(1,012)	(113,775)	(358,186)	(5,341,279)
Cash Flows from Investing Activities:				
Cash acquired in acquisition of businesses	0	0	0	141,657
Acquisitions of businesses, net of cash required	0	0	0	(35,551,289)
Purchases of land, equipment and improvements	(4,000)	(1,200)	(937)	(2,018,850)
Investment in patents	(21,518)	(17,223)	0	(63,741)
Sale of building , land and equipment	0	0	75,000	3,375,000
Allowance for uncollectible notes receivable	0	0	0	882,425
Payments on notes receivable	0	0	0	530,108
Net Cash Used by Investing Activities	(25,518)	(18,423)	74,063	(32,704,690)
Cash Flows from Financing Activities:				
Increase or (decrease) in notes payable	49,104	142,500	102,861	(188,706)
Increase in notes receivable from property sale	0	0	0	(625,649)
Decrease or (increase) in notes receivable	0	0	(13,521)	242,323
Proceeds from royalties interest notes payable	0	0	0	227,500
Proceeds from issuance of common stock	0	0	100,000	37,899,425
Proceeds from issuance of preferred stock	0	0	95,000	105,000
Prior period adjustment	0	0	0	420,000
Net Cash Provided by Financing Activities	49,104	142,500	284,340	38,079,893
Increase (Decrease) in cash	22,574	10,302	21	33,924
CASH & CASH EQUIVALENTS - Beginning of period	11,350	1,048	83	
CASH & CASH EQUIVALENTS - End of period	33,924	11,350	1,048	

# **BOURQUE INDUSTRIES, INC.**

(A Development Stage Company)

## **Notes to Unaudited Financial Statements**

**Quarter Ended August 31, 2015, and Fiscal years Ended May 31, 2015 and 2014**

### **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, wire, automotive, mining industries, etc. SIC Codes include: 3341, 3399, 3441, 3499, 3795, 3999 and 5085.

The Company is currently conducting operations. 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 officer.

#### ***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 based on 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, 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 sale of Kryron or, in some cases, the production of body armor and other Kryron 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 quarter ended August 31, 2015 and fiscal years ended May 31, 2015 and 2014. 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 \$41,624,304 as of August 31, 2015 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 August 31, 2015 and fiscal years ended August 31, 2014 and 2013.

#### ***John Bourque, Chief Science Officer and current majority shareholder***

As of February 09, 2015 John Bourque resumed his employment with Bourque Industries as Chief Science Officer and majority shareholder. There is currently no formal employment agreement in place.

#### **Patents Added:**

February 19, 2013 Mr. Bourque added an additional patent to the Bourque Industries patent portfolio. This is an additional armor patent titled Ballistic Strike Plate and Assembly. This patent was valued at \$1,185,000.

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

Mr. Bourque at the quarter ended August 31, 2015 and fiscal years ended May 31, 2015 and 2014 owed the Company \$13,976, \$11,951 and \$7,021, respectively.

### **Note 4**

#### ***Patents***

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.

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, 2015, 2014 and 2013 were \$17,223, zero, and \$46,667 respectively.

An additional patent dated February 19, 2013 titled Ballistic Strike Plate and Assembly was added to these financial exhibits in the amount of \$1,185,000.

The acquired patents have an estimated useful life of 20 years. As of August 31, 2015 and May 31, 2015 and 2014 patent assets of the Company were as follows.

	August 31, 2015	May 31, 2015	May 31, 2014
Patents	\$ 4,944,208	\$ 4,922,690	\$ 3,720,467
Minus accumulated amortization	647,840	585,731	399,707
Patents net of accumulated amortization	<u>\$ 4,296,368</u>	<u>\$ 4,336,959</u>	<u>\$ 3,320,760</u>

## **Note 5**

### ***Provision for Contingent Liabilities***

Management has determined it appropriate to record a reserve for contingent liabilities, based on a review of prior matters. As of April 15, 2013 the Company 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. As of May 31, 2015 the Company reduced their contingent liability to \$500,000 and recorded the change as other income. A careful review of past prior matters, as well as any possible or probably contingent liabilities for the future prompted the reduction.

As of August 31, 2015, the Company identified \$35,000 of liabilities and reduced the provision for contingent liabilities.

## Note 6

### Notes Payable

The Company has notes payable as follows:

	August 31, 2015	May 31, 2015	May 31, 2014
Note payable to RM Kulm, non-interest bearing, unsecured, due on demand.	\$ 0	\$ 0	\$ 6,700
Note payable to Charles Herrim non-interest bearing, unsecured, due on demand.	0	0	9,000
Note Payable to Bellavita Partners LLC, Interest at 9% due 1 year from December 5, 2013	50,000	50,000	50,000
Note Payable to Bellavita Partners LLC, Interest at 9% due 1 year from April 9, 2014	25,000	25,000	25,000
Note Payable to Deborah Santigati, Interest at 10% due 1 year from July 27, 2015	50,000	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.	100,295	100,295	100,295
Note payable to Scholl & Company, payable at \$1,658 monthly including interest at 12.0%, secured by personal property.	0	0	27,861
Note payable to OTC Group, LLC, interest at 20% due November 14, 2015. The noteholder has an option to convert the note and accrued interest to common stock at maturity.	60,000	60,000	0
Various notes payable with interest at rates ranging from 9% to 15% due in one year or less. The notes carry certain stock issuance rights and stock conversion rights at maturity.	86,631	87,527	0
Subtotal	371,926	322,822	218,856
Less current portion	371,926	322,822	218,856
Total non-current notes payable	\$ -	\$ -	\$ -

Interest expense for the periods was as follows.

	August 31, 2015	May 31, 2015	May 31, 2014
Interest expense	<u>\$ 6,937</u>	<u>\$ 12,906</u>	<u>\$ 2,287</u>

## **Note 7**

### ***Royalty Notes Payable Written Off***

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 were unsecured and were payable on demand.

The notes were written off in May 2015. The Company is no longer in the business of mineral extraction.

## **Note 8**

### ***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 9**

### ***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 10**

### ***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 11**

### ***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 August 31, 2015. Share-based compensation expense calculated per the Black-Scholes option pricing model totaled \$49,286 for the year ended May 31, 2014.

**Note 12*****Extraordinary Income and Expenses*****Provision for Contingent Expenses of \$465,000**

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, but substantially 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 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. As of May 31, 2015 the Company reduced the contingent liability to \$500,000.

After an extensive review of expenses from 2011 through 2014, a substantial cleanup of expenses was completed. This review cancelled debt no longer considered relevant due to the nature of its existence, as well as reduction of the Contingent Liability from \$1 million to \$500,000. As of August 31, 2015, the Company identified \$35,000 of liabilities and reduced the provision for contingent liabilities. Management will continue to review this Provision.

**Note 13*****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 14*****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 \$21,000.

### **Note 15**

#### ***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.