

BOURQUE INDUSTRIES, INC.

ANNUAL REPORT Quarter Ended February 28, 2017

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BOURQUE INDUSTRIES, INC.

Unaudited Consolidated Balance Sheets **Assets**

ASSETS	February 28, 2017	May 31, 2016	May 31, 2015
Current Assets			
Cash	\$ 45	\$ 672	\$ 11,350
Due from related parties	3,143	7,244	11,951
Prepaid Rent	0	1,500	0
Retainers	0	5,500	5,500
Total Current Assets	3,188	14,916	28,801
Property and Equipment			
Processing Equipment	5,629	5,629	2,629
Office equipment	3,200	3,200	2,200
	8,829	8,829	4,829
Less: Accumulated Depreciation	(6,530)	(5,480)	(4,080)
Total Property and Equipment	2,299	3,349	749
Non-Current Assets			
Intangible Assets			
Patents	5,038,733	5,010,588	4,922,690
Accumulated Amortization	(1,022,063)	(834,167)	(585,731)
Total Intangible Assets	4,016,670	4,176,421	4,336,959
Total Non-Current Assets	4,018,969	4,179,770	4,337,708
Total Assets	\$ 4,022,157	\$ 4,194,686	\$ 4,366,509

BOURQUE INDUSTRIES, INC.

Unaudited Consolidated Balance Sheets Liabilities & Stockholders' Equity

<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>	<u>February 28, 2017</u>	<u>May 31, 2016</u>	<u>May 31, 2015</u>
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 530,914	\$ 493,220	\$ 400,374
Provision for Contingent Liabilities	459,878	465,000	500,000
Current Portion of Long-Term Liabilities	<u>373,042</u>	<u>366,317</u>	<u>322,822</u>
Total Current Liabilities	<u>1,363,834</u>	<u>1,324,537</u>	<u>1,223,196</u>
Total Liabilities	<u>1,363,834</u>	<u>1,324,537</u>	<u>1,223,196</u>
Stockholders' Equity			
Common stock, .0001 par value, 1,000,000,000			
935,875,190 shares issued and outstanding	1,514,192	1,508,192	1,506,750
Additional Paid-in-Capital	42,140,683	42,126,683	43,023,992
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
Treasury Stock	1,185,000	1,185,000	0
Accumulated Deficit	<u>(42,286,552)</u>	<u>(42,054,725)</u>	<u>(41,492,429)</u>
Total Stockholders' Equity	<u>2,658,323</u>	<u>2,870,149</u>	<u>3,143,313</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,022,157</u>	<u>\$ 4,194,686</u>	<u>\$ 4,366,509</u>

BOURQUE INDUSTRIES, INC.
Unaudited Consolidated Income Statements

	Quarter Ended <u>February 28, 2017</u>	Fiscal Year Ended <u>May 31, 2016</u>	Fiscal Year Ended <u>May 31, 2015</u>
Revenues			
Sales	\$ 0	\$ 1,845	\$ 0
Total Revenues	<u>0</u>	<u>1,845</u>	<u>0</u>
Gross Profit	<u>0</u>	<u>1,845</u>	<u>0</u>
Operating Expenses			
Legal, Consulting & Professional Fees	13,597	96,063	29,467
Rents	0	5,791	0
Depreciation & Amortization Expense	62,982	249,836	186,212
Non-Trade Bad Debt Expense	0	0	6,500
General & Administrative	3,392	78,322	47,002
Compensation Expense	<u>1,610</u>	<u>98,841</u>	<u>202,662</u>
Total Operating Expenses	<u>81,581</u>	<u>528,852</u>	<u>471,843</u>
Net Operating (Loss)	<u>(81,581)</u>	<u>(527,007)</u>	<u>(471,843)</u>
Other Income (Expense)			
Other Income	3,329	0	1,352,347
Interest Income (Expense)	<u>(7,255)</u>	<u>(35,289)</u>	<u>(12,906)</u>
Total Other Income (Expense)	<u>(3,926)</u>	<u>(35,289)</u>	<u>1,339,441</u>
Income (Loss) Before Income Taxes	(85,507)	(562,296)	867,598
Provision (Benefit) for Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Net Income (Loss)	\$ <u>(85,507)</u>	\$ <u>(562,296)</u>	\$ <u>867,598</u>

BOURQUE INDUSTRIES, INC.

Unaudited Consolidated Statements of Cash Flows

	Quarter Ended February 28, 2017	Fiscal Year Ended May 31, 2016	Fiscal Year Ended May 31, 2015
Cash Flows from Operating Activities:			
Net Income (Loss)	\$ (85,507)	\$ (562,296)	\$ 867,598
Adjustments to Reconcile Net Loss to Net Cash			
Provided by Operations:			
Depreciation and amortization	62,982	249,836	186,212
Cancellation of Debt Income	0	0	(853,406)
Common stock issued for services	0	136,110	170,938
Loss on sale of property	0	0	1,059
Change in current assets and liabilities			
(Increase) Decrease in:			
Deposits and prepaids	0	(1,500)	0
Accounts Receivable	7,000	0	0
Due from related parties	8,601	4,707	1,570
Accounts payable and accrued expenses	24,505	99,706	12,254
Provision for Contingent Liabilities	(5,122)	(35,000)	(500,000)
Net Cash Provided (Used) by Operating Activities	12,459	(108,438)	(113,775)
Cash Flows from Investing Activities:			
Purchases of land, equipment and improvements	0	(4,000)	(1,200)
Investment in patents	(12,595)	(78,010)	(17,223)
Sale of building , land and equipment	0	0	0
Net Cash Used by Investing Activities	(12,595)	(82,010)	(18,423)
Cash Flows from Financing Activities:			
Increase or (decrease) in notes payable	191	175,470	142,500
Proceeds from issuance of common stock	0	4,300	0
Net Cash Provided (Used) by Financing Activities	191	179,770	142,500
Increase (Decrease) in cash	\$ 55	\$ (10,678)	\$ 10,302
CASH & CASH EQUIVALENTS - Beginning of period	(10)	11,350	1,048
CASH & CASH EQUIVALENTS - End of period	\$ 45	\$ 672	\$ 11,350

BOURQUE INDUSTRIES, INC.

Notes to Unaudited Financial Statements Quarter Ended February 28, 2017, and Years Ended May 31, 2016 and 2015

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's focus is 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 recognizes revenue only when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee for the arrangement is fixed or determinable; and
- Collectability is reasonably assured.

Persuasive Evidence of an Arrangement—The Company documents all terms of an arrangement in a written contract signed by the customer prior to recognizing revenue.

Delivery Has Occurred—The Company delivers all products prior to recognizing revenue. 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 Fee for the Arrangement Is Fixed or Determinable—Prior to recognizing revenue, a customer's fee is either fixed or determinable under the terms of the written contract. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Collectability Is Reasonably Assured—The Company determines that collectability is reasonably assured prior to recognizing revenue. Collectability is assessed on a customer by customer basis based on criteria outlined by management. New customers are subject to a credit review process, which evaluates the customer's financial position and ultimately its ability to pay. The Company does not enter into arrangements unless collectability is reasonably assured at the outset. Existing customers are subject to ongoing credit evaluations based on payment history and other factors. If it is determined during the arrangement that collectability is not reasonably assured, revenue is recognized on a cash basis.

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.

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.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for the tax years 2005-2016 and for various state authorities for the tax years 2004-2016. In accordance with the accounting standard on accounting for uncertainty in income taxes, management has considered its tax positions and believes that all of the positions taken in its federal and state tax returns are more likely than not to be sustained upon examination.

From time to time, the Company may be subject to interest and penalties assessed by various taxing authorities. Interest and penalties are recognized as general and administrative expenses in the accompanying consolidated income statements when incurred. During the quarter ended February 28, 2017, and fiscal years ended May 31, 2016 and 2015, the Company did not recognize any interest and penalties.

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, due from related parties, accounts payable, accrued expenses, and long-term debt approximate their market values as of the quarter ended February 28, 2017 and fiscal years ended May 31, 2016 and 2015. The Company has no investments in derivative financial instruments.

Note 2

Going Concern

The Company has recurring losses and has a deficit accumulated of \$42,286,552 as of February 28, 2017 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 quarter ended February 28, 2017 and fiscal years ended May 31, 2016 and 2015.

John Bourque, Chief Innovation Officer / Director 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.

Amounts Due to/from Mr. Bourque.

Mr. Bourque at the quarter ended February 28, 2017 and fiscal years ended May 31, 2016 and 2015 owed the Company \$3,143, \$7,244, and \$11,951, respectively.

On June 12, 2014 Mr. Bourque purchased 395,000,000 shares for consideration of \$1,185,000 in the transfer of current and future patent rights. On October 12, 2015, the 395,000,000 shares,

which were being held by the Company, were returned to Bourque Industries as Treasury Stock. Value of shares is determined to be \$1,185,000.

Note 4

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 quarter ended February 28, 2017 and fiscal years ended, 2016 and 2015 were \$12,595, \$87,897, and \$17,223, respectively.

The acquired patents have an estimated useful life of 20 years. As of February 28, 2017 and May 31, 2016 and 2015 patent assets of the Company were as follows.

	February 28, 2017	May 31, 2016	May 31, 2015
Patents	\$ 5,038,733	\$ 5,010,588	\$ 4,922,690
Minus accumulated amortization	1,022,063	834,167	585,731
Patents net of accumulated amortization	\$ 4,016,670	\$ 4,176,421	\$ 4,336,959

Amortization expense for the quarter ended February 28, 2017 and fiscal years ended May 31, 2016, and 2015 totaled \$62,632, \$248,436, and \$186,024, respectively and is included in Depreciation and Amortization Expense in the accompanying statements of income. Amortization expense is estimated to be \$250,529 per year for the next five years.

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 the year ended 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 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.

For the year ended May 31, 2016, the Company identified \$35,000 of liabilities and reduced the provision for contingent liabilities. For the quarter ended February 28, 2017, the Company made a payment of \$5,122 against prior year federal tax liabilities and reduced the provision for contingent liabilities.

Note 6

Notes Payable

The Company has notes payable as follows:

	<u>February 28, 2017</u>	<u>May 31, 2016</u>	<u>May 31, 2015</u>
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 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 Keith Schott, interest at 19% annually, due 6 months from December 2015.	\$ 50,000	\$ 50,000	\$ -
Note payable to Tom Leyden, interest at 9.0%, due April 26, 2017. The noteholder has an option to convert the note and accrued interest to common stock at maturity.	\$ 50,000	\$ 50,000	\$ -
Note payable to Deborah Santigati, interest at 10%. Due July 27, 2016.	\$ 50,000	\$ 50,000	\$ -
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
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.	<u>\$ 47,747</u>	<u>\$ 41,022</u>	<u>\$ 87,527</u>
Subtotal	\$ 373,042	\$ 366,317	\$ 322,822
Less current portion	<u>\$ 373,042</u>	<u>\$ 366,317</u>	<u>\$ 322,822</u>
Total non-current notes payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest expense for the periods was as follows.

	<u>February 28, 2017</u>	<u>May 31, 2016</u>	<u>May 31, 2015</u>
Interest expense	<u>\$ 7,255</u>	<u>\$ 35,289</u>	<u>\$ 13,290</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 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 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 quarter ended February 28, 2017.

For the year ended May 31, 2016 the Company issued 750,000 shares of common stock for warrants exercised in satisfaction of \$30,000 in notes payable.

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 determined it appropriate to record a reserve for contingent liabilities, based on their 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. For the year ended May 31, 2016, the Company identified \$35,000 of liabilities and reduced the provision for contingent liabilities. Management will continue to review this Provision. A prior year federal payroll tax payment in the amount of \$5,122 was made in the quarter ended February 28, 2017, as such, contingent liabilities were reduced accordingly.

Note 13

Income Taxes

The Company has federal net operating loss tax carryforwards (“NOL’s”) available of approximately \$14.9 million to offset future taxable income which will expire over the next 20 years.

Note 14

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 15

Illegal Acts

The Company is aware of the following illegal acts as of the date of the issuance 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 16

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.

Note 17***Non-Cash Activities***

For the year ended May 31, 2016 the Company issued 19,840,000 shares of common stock for approximately \$137,800 in payment of notes payable, \$92,550 of consulting and wage expense, \$25,307 of interest and other accrued expense.