

TMM, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

TMM, INC  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2013

<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash in Bank	771,150	
Prepaid Expenses	<u>72,988</u>	
<u>TOTAL CURRENT ASSETS</u>		844,138
 <u>Product Design &amp; Development Costs (Note 3)</u>		
VDK Codec Costs Capitalized	2,005,215	
Code Review and Enhancements	<u>2,005,470</u>	
Total Product Design, Development And Fixed Asset Costs	4,010,685	
Less: Amortization to Date	<u>(2,005,215)</u>	
<u>NET PRODUCT DESIGN &amp; DEVELOPMENT COSTS</u>		2,005,470
 <u>OTHER ASSETS (Note 3)</u>		
Legal & Related Costs		<u>755,341</u>
 <u>TOTAL ASSETS</u>		 <u>3,604,949</u>
 <u>LIABILITIES AND SHAREHOLDER EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accrued Expenses	120,474	
Due to International Royalty Corp. (Notes 4 & 7)	<u>155,553</u>	
<u>TOTAL CURRENT LIABILITIES</u>		276,027
 <u>SHAREHOLDER EQUITY (Notes 6, 7, 8, 9, 12 &amp; 13)</u>		
Capital Stock:		
Preferred stock, 50,000,000 shares authorized, 4,485,000 issued and outstanding.		
Common stock, \$0.001 par value 750,000,000 shares authorized 253,780,200 issued and outstanding	651,422	
Additional Paid in Capital	24,574,292	
Proceeds From Private Placement	1,410,000	
Retained Earnings	<u>(23,306,792)</u>	
<u>TOTAL SHAREHOLDER EQUITY</u>		<u>3,328,922</u>
 <u>TOTAL LIABILITIES AND SHAREHOLDER EQUITY</u>		 <u>3,604,949</u>

See accompanying notes to financial statements

TMM, INC  
CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013

INCOME

Interest Income	1,117
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EXPENSES

Bank Charges	6,642
Consultants	389,198
Marketing Costs	24,866
Director Fees	68,000
Filing Fees	4,200
Legal & Professional (Note 11)	256,758
Office Supplies & Expenses	8,931
Administration Fees (Note 10)	231,581
Shareholder Meeting Costs	12,330
Taxes	1,955
Travel	<u>95,173</u>

<u>TOTAL EXPENSES</u>	<u>1,099,634</u>
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<u>NET LOSS</u>	(1,098,517)
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<u>Retained Earnings - Beginning</u>	<u>(22,208,275)</u>
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<u>RETAINED EARNINGS - ENDING</u>	<u>(23,306,792)</u>
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See accompanying notes to financial statements

TMM, INC  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income (Loss)		(1,098,517)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided or Used by Operating Activities:		
Decrease in Subscriptions Receivable	5,000	
Increase in Prepaid Expenses	(72,988)	
Increase in Accrued Expenses	<u>108,270</u>	
<u>TOTAL ADJUSTMENTS</u>		<u>40,282</u>
<u>NET CASH USED BY OPERATIONS</u>		(1,058,235)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Product Design, Development and Fixed Assets	(1,201,879)	
Capitalized Legal & Related Costs	<u>(391,050)</u>	
<u>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</u>		(1,592,929)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Issuance of Capital Stock	18,750	
Proceeds of Additional Paid in Capital	1,840,136	
Proceeds from Private Placement	1,410,000	
Payment of Loans Payable	(20,000)	
Shares Issued from Private Placement	<u>(1,830,000)</u>	
<u>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</u>		<u>1,418,886</u>
<u>NET CHANGE IN CASH</u>		(1,232,278)
CASH AT BEGINNING OF PERIOD		<u>2,003,428</u>
<u>CASH AT END OF PERIOD</u>		<u><u>771,150</u></u>

See accompanying notes to financial statements

**TMM, INC**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>CAPITAL STOCK (\$)</u>	<u>PREFERRED SHARES (#)</u>	<u>COMMON SHARES (#)</u>	<u>ADDITIONAL PAID IN CAPITAL</u>	<u>PRIVATE PLACEMENT PROCEEDS</u>	<u>ACCUMULATED DEFICIT</u>	<u>TOTAL</u>
<b>BALANCE AT</b>							
<b><u>DECEMBER 31, 2012</u></b>	632,672	25,110,000	222,905,200	22,734,156	1,830,000	(22,208,275)	2,988,553
<b>2013 Activity:</b>							
Issue of Private Placement Received In 2012	18,300		18,300,000	1,811,700	(1,830,000)		- 0 -
Common Shares issued as a Result of Settlements (See Note 7)	- 0 -		1,500,000				- 0 -
Common Shares issued as Compensation for Services	250		250,000	24,750			25,000
Common Shares Recovered as a Result of Settlements (See Note 7)	- 0 -		(10,000,000)				- 0 -
Common Shares issued due to exercise of Warrants	200		200,000	9,800			10,000
Preferred Shares Converted to Common Shares	- 0 -	(20,625,000)	20,625,000				- 0 -
Proceeds of 2013 Private Placement					1,410,000		1,410,000
Costs of Issuing Shares				(6,114)			(6,114)
2013 Net Loss						(1,098,517)	(1,098,517)
<b>BALANCE AT</b>							
<b><u>DECEMBER 31, 2013</u></b>	<u>651,422</u>	<u>4,485,000</u>	<u>253,780,200</u>	<u>24,574,292</u>	<u>1,410,000</u>	<u>(23,306,792)</u>	<u>3,328,922</u>

See accompanying notes to financial statements

TMM, INC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of TMM, Inc (the Company) and Digital Focus Inc, its wholly owned subsidiary, is presented to assist in understanding the Company's financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

BUSINESS ACTIVITY

TMM, Inc is in the business of developing a fractal based video codec labeled TRUDEF™. The codec was developed in the early 1990's in collaboration with Iterated Systems, Inc. The company has contracted programmers to modernize, develop and test a commercial product.

METHOD OF ACCOUNTING

The Company keeps its books on the accrual basis.

USE OF ESTIMATES AND ASSUMPTIONS

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

INCORPORATION

The company was incorporated on October 8, 1986, in the State of Nevada.

INCOME TAXES

Income Taxes are provided currently for all items included in the Statement of Income regardless of when such taxes are payable. Deferred taxes arise from the recognition of revenues and expenses in different periods for tax and financial statement purposes.

CONSOLIDATION

These financial statements present the consolidated information of TMM, Inc. and Digital Focus, Inc, its wholly owned subsidiary. See Note 9.

TMM, INC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2013

2. BASIS OF PRESENTATION

These Financial Statements have been compiled using historical data from reports prepared by the previous management of the Company along with the recent activity of the Company and the Shareholder Group who initiated the change in the Company's management. These financial statements are preliminary and are based on the best information available at this time. As the discovery and review of certain historical documents continues (the current management was voted into office on October 17, 2011) any revisions will be updated in the next fiscal quarter (See Note 5). These statements have not been audited or reviewed and accordingly, no opinion or any other form of assurance is expressed on them.

3. COMPOSITION OF CERTAIN ASSET ACCOUNTS

VDK Codec Costs Capitalized: Represents historical costs previously capitalized and fully amortized for the development of the VDK Codec code.

Code Review and Enhancements: Represent funds spent currently to review, update and enhance the company's software. These costs have been capitalized as computer software to be sold, leased or otherwise marketed as a separate product or process. The Company's intention is to market the software. Since it is currently being demonstrated to prospective customers the Company believes it meets the feasibility test required for capitalization. Also, the Company has adequate technical, financial and any other required resources to complete the development and sell or lease the resulting product or process. Also included in this account are funds spent for computer equipment and the secured facilities and improvements being used in the development of the code.

Legal and Related Costs: Represents fees and costs paid for the shareholder action and subsequent technology related litigation by the Company and Digital Focus, Inc. together with professional and consulting fees incurred with respect to certain recoveries, and the discovery, updating and evaluation of certain corporate governance documents and proprietary

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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information. Most of these costs are related to litigation to protect trade secrets, to maintain exclusive ownership of the underlying Codec and to explore, initiate and protect certain patent rights. (See Notes 5 & 11)

The above costs are deemed to have certain future value and as such have been presented as assets of the Company. These assets will be amortized at a future date and will be charged to reflect a proper matching against future revenue.

4. AMOUNTS DUE TO INTERNATIONAL ROYALTIES, CORP

The amounts due to International Royalties, Corp. are for fees due for managerial and director services rendered from 2007 to the present. The amounts due are anticipated to be satisfied by the issuance of capital stock in the Company.

5. LITIGATION

The Company and its subsidiary, Digital Focus, Inc. (DFI), filed a lawsuit in the Clark County, Nevada District Court to protect and resolve their respective rights as to certain of their intellectual property and technology that could have a material effect on these financial statements and the financial position of the Company. The lawsuit was filed initially on March 21, 2013, and in response to new information contained in Defendants' responsive Motions, an Amended Complaint was filed by the Company and DFI on May 15, 2013. The case is currently pending.

6. PRIVATE SUBSCRIPTION OFFERINGS

The Company successfully completed several Subscription Offerings. The first was initiated in late October, 2011 for private investors and raised \$564,500 US for the Company. The \$0.02 per Unit offering consisted of one share of TMMI common stock and one warrant to purchase one additional share of TMMI common stock at \$0.05 per share.



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A second offering was initiated in April 2012 for private investors and raised \$1,206,500 US for the Company. A third offering was initiated in May 2012 for private investors which raised \$1,830,000 US for the Company. The \$0.10 per Unit offerings consisted of one share of TMMI common stock and one warrant to purchase one additional share of TMMI common stock at \$0.15 per share. As of the balance sheet date an additional offering was in process at \$0.10 per unit. The Company received \$1,410,000 which has been reflected in the shareholder equity section of the balance sheet. The shares and warrants related to this placement were issued in January 2014. In December 2013 an additional Private Placement was initiated to raise \$1,234,000 (12,340,000 units at \$0.10 per unit). No funds had been received on this offer at the balance sheet date.

The Company is using the Subscription funds to cover its expenses associated with gathering and organizing the Company's corporate governance documents and intellectual property records. In addition, such subscription proceeds will enable the Company to continue developing its TRUDEF™ Technology which is the successor of the Company's VDK Codec SoftVideo™ fractal compression technology which was first under development in the 1990's.

7. ADDITIONAL STOCK ISSUANCE AND CANCELLATION

At the balance sheet date, the issuance of an additional 21,088,750 shares of common stock was in progress. This stock will be issued to individuals and companies who had contributed funds and services prior to the October 17, 2011 change in management and who had never received their shares.

Also at the balance sheet date there were 20,000,000 shares of common stock recovered by the Company as a result of the settlements of litigation initiated by the company against former management members and a vendor for its non-performance under a contract. 10,000,000 shares have been returned and cancelled and additional 10,000,000 shares are still in the process of being returned to the company to be cancelled. As a part of these settlements, the company has issued an additional 1,500,000 shares of common stock.

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8. OPTIONS AND WARRANTS OUTSTANDING

The Company has the following Warrants and Options for Common Stock Outstanding:

Warrants for the issuance of Common Stock at \$0.05 per share (from the Private Subscription Offering). These warrants expire on December 31, 2019. 28,025,000 shares

Options for the issuance of Common Stock at \$0.02 per share on October 18, 2011. These options expire December 31, 2019. 21,300,000 shares

Options for the issuance of Common Stock at \$0.04 and \$0.10 per share in 2012 and 2013. These options expire on December 31, 2019. 39,150,000 shares

Warrants for the issuance of Common Stock at \$0.15 per share (from the Private Subscription Offering). These warrants expire on December 31, 2019. 12,065,000 shares

Warrants for the issuance of Common Stock at \$0.15 per share (from the Private Subscription Offering). These warrants expire on December 31, 2019. 18,300,000 shares

In addition to the above, warrants for 14,100,000 shares were issued in January 2014 as result of the Private Placement in process at December 31, 2013. Also options for 3,000,000 shares of Common Stock at \$0.10 and \$0.14 per share were issued in January 2014

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9. ACQUISITION OF DIGITAL FOCUS, INC

On June 8, 2012 TMM, Inc completed the acquisition of the outstanding shares of Digital Focus, Inc. a California corporation. Digital Focus, Inc.'s sole asset is an exclusive license agreement to the PVS/SIGI source code from Iterated Systems, Inc that is currently the subject of the litigation referenced in Note 5.

10. ADMINISTRATION EXPENSES

The Company has contracted International Royalties Corp. to provide administrative services. IRC is reimbursed for the staff, facilities, office and other expenses related to the day to day administrative operations of the company. IRC also oversees the ongoing development of the VDK Codec.

11. LEGAL & PROFESSIONAL FEES

As reported in Note 3, certain legal and professional fees have been capitalized as additional Product Development, technology related litigation and Patent related costs. The legal and professional fees expensed are costs for operational services performed during the period.

12. PRIVATE PLACEMENT COSTS

Costs associated with the various Private Placements of Stock have been deducted from the proceeds of the applicable stock offerings. As a result, these costs are not included in the results of operations but as a reduction of the Additional Paid in Capital resulting from the placements.

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13. EARNINGS (LOSS) PER SHARE INFORMATION

Earnings (Loss) per share for December 31, 2013 is as follows:

	<u>Earnings Per Share</u>	<u>Earnings Per Share (Fully Diluted)</u>
<u>Loss for 2013</u>	<u>(1,098,517)</u>	<u>(1,098,517)</u>
<u>Shares Outstanding:</u>		
Preferred	4,485,000	4,485,000
Common	253,780,200	253,780,200
Shares in Process	35,188,750	35,188,750
Shares to be Cancelled (10,000,000)	(10,000,000)	(10,000,000)
<u>If Exercised:</u>		
Warrants	- 0 -	72,490,000
Options	<u>- 0 -</u>	<u>60,450,000</u>
<u>Total Shares &amp; Equivalents</u>	<u>283,453,950</u>	<u>416,393,950</u>
<u>Loss Per Share</u>	<u>(\$0.0039)</u>	<u>(\$0.0026)</u>