

TMM, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

TMM, INC
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2012

<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash in Bank	2,003,428	
Subscriptions Receivable	<u>5,000</u>	
<u>TOTAL CURRENT ASSETS</u>		2,008,428
 <u>Product Design & Development Costs (Note 3)</u>		
VDK Codec Costs Capitalized	2,005,215	
Code Review and Enhancements	<u>803,591</u>	
Total Product Design, Development And Fixed Asset Costs	2,808,806	
Less: Amortization to Date	<u>(2,005,215)</u>	
<u>NET PRODUCT DESIGN & DEVELOPMENT COSTS</u>		803,591
 <u>OTHER ASSETS (Note 3)</u>		
Legal & Related Costs		<u>364,291</u>
 <u>TOTAL ASSETS</u>		 <u>3,176,310</u>
 <u>LIABILITIES AND SHAREHOLDER EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accrued Expenses	12,204	
Due to International Royalty Corp (Note 4)	<u>175,553</u>	
<u>TOTAL CURRENT LIABILITIES</u>		187,757
 <u>SHAREHOLDER EQUITY (Notes 6, 7, 8, 9 & 12)</u>		
Capital Stock:		
Preferred stock, 50,000,000 shares authorized, 25,110,000 issued and outstanding.		
Common stock, \$0.001 par value 750,000,000 shares authorized 222,905,200 issued and outstanding	632,672	
Additional Paid in Capital	22,734,156	
Proceeds from Private Placement	1,830,000	
Retained Earnings	<u>(22,208,275)</u>	
<u>TOTAL SHAREHOLDER EQUITY</u>		<u>2,988,553</u>
 <u>TOTAL LIABILITIES AND SHAREHOLDER EQUITY</u>		 <u>3,176,310</u>

See accompanying notes to financial statements

TMM, INC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

INCOME

Interest Income 1,101

EXPENSES

Bank Charges 9,914
Consultants 246,792
Director Fees 32,100
Legal & Professional (Note 10) 46,377
Office Supplies & Expenses 33,901
Rent (Note 11) 28,840
Taxes (Note 9) 14,270
Telephone, Fax & Internet Fees 5,618
Travel 43,324

TOTAL EXPENSES 461,136

NET LOSS (460,035)

Retained Earnings - Beginning (21,538,208)

DFI Retained Earnings (210,032)

RETAINED EARNINGS - ENDING (22,208,275)

See accompanying notes to financial statements

TMM, INC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Net Income (Loss)	(460,035)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided or Used by Operating Activities:	
Increase in Subscriptions Receivable	(5,000)
Increase in Accrued Expenses	<u>12,204</u>
<u>TOTAL ADJUSTMENTS</u>	<u>7,204</u>
<u>NET CASH USED BY OPERATIONS</u>	(452,831)
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Purchase of Product Design, Development and Fixed Assets	(621,317)
Capitalized Legal & Related Costs	<u>(201,051)</u>
<u>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</u>	(822,368)
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	
Proceeds from Issuance of Capital Stock	40,290
Proceeds of Additional Paid in Capital	1,705,346
Proceeds of Private Placement	1,830,000
Payment of Loans Payable	(76,618)
Shares Issued on October 2011 Private Placement	<u>(564,500)</u>
<u>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</u>	<u>2,934,518</u>
<u>NET CHANGE IN CASH</u>	1,659,319
CASH AT BEGINNING OF PERIOD	<u>344,109</u>
<u>CASH AT END OF PERIOD</u>	<u>2,003,428</u>

See accompanying notes to financial statements

TMM, INC
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	<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>
<u>BALANCE AT DECEMBER 31, 2011</u>	592,382	44,110,000	163,615,200	20,818,778	564,500	(21,538,208)	437,452
2012 Activity:							
Conversion of Preferred to Common		(19,000,000)	19,000,000				- 0 -
Issue of Private Placement Received In 2011	28,225		28,225,000	536,275	(564,500)		- 0 -
Proceeds of April 2012 Private Placement	12,065		12,065,000	1,194,435			1,206,500
Proceeds of May 2012 Private Placement					1,830,000		1,830,000
Costs of Private Placements (Note 12)				(25,364)			(25,364)
Equity of Digital Focus Inc. (Note 9)				210,032		(210,032)	- 0 -
2012 Net Loss						(460,035)	(460,035)
<u>BALANCE AT Dec 31, 2012</u>	<u>632,672</u>	<u>25,110,000</u>	<u>222,905,200</u>	<u>22,734,156</u>	<u>1,830,000</u>	<u>(22,208,275)</u>	<u>2,988,553</u>

See accompanying notes to financial statements

TMM, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012

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. Also included in this account are funds spent currently 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 related follow-up litigation by the Company 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 information.(See Note 10)

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.

TMM, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

4. AMOUNTS DUE TO INTERNATIONAL ROYALTIES, CORP

The amounts due to International Royalties, Corp. are for funds advanced to the Company in 2009 (\$18,778) and for fees due for managerial and director services rendered from 2007 to the present (\$156,775). The amounts due for services are anticipated to be satisfied by the issuance of capital stock in the Company.

5. LITIGATION

The Company is currently in litigation to recover certain tax, financial, corporate governance and proprietary documents from the Company's previous management and certain related parties that could have a material effect on this Financial Statement and the financial position of the Company.

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 within three (3) years. 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 within three (3) years.

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.

TMM, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

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.

In addition, there are 18,300,000 shares in the process of being issued as the result of the May 2012 Private Placement.

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. Such shares are in the process of being returned to the company to be cancelled.

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). The term of these warrants are three years and expire on December 31, 2014.	28,225,000 shares
Options for the issuance of Common Stock at \$0.02 per share on October 18, 2011. These options expire in 2016.	33,300,000 shares
Options for the issuance of Common Stock at \$0.04 and \$0.10 per share in 2012. These options expire in 2016.	33,600,000 shares
Warrants for the issuance of Common Stock at \$0.15 per share (from the Private Subscription Offering). The term of these warrants are three years and expire on July 31, 2015.	12,065,000 shares

TMM, INC
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In addition to the above, there will be 18,300,000 warrants issued at \$0.15 per share as the result of the May 20, 2012. The term of these warrants will be three years and they will expire at December 31, 2015.

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/SGI source code from Iterated Systems, Inc.

\$12,502 of the Tax Expense reflected on the Income Statement was paid on behalf of Digital Focus, Inc. These taxes were franchise taxes paid to re-instate Digital Focus, Inc into good standing with the State of California.

10. RENT & LEASE OBLIGATIONS

The Company is reimbursing International Royalties Corp. for rent on a month to month basis. The company has not signed a lease and has no long term commitment to pay rent.

11. LEGAL & PROFESSIONAL FEES

As reported in Note 3, certain legal and professional fees have been capitalized as additional Product Development and Patent related costs. Also ongoing corporate organizational and governance costs are deemed to have ongoing value. The legal and professional fees expensed are costs for normal operational services performed during the year.

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.

TMM, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. EARNINGS (LOSS) PER SHARE INFORMATION

Earnings (Loss) per share for 2012 is as follows:

	<u>Earnings Per Share</u>	<u>Earnings Per Share (Fully Diluted)</u>
<u>Loss for 2012</u>	<u>(460,035)</u>	<u>(460,035)</u>
<u>Shares Outstanding:</u>		
Preferred	25,110,000	25,110,000
Common	222,905,200	222,905,200
Shares in Process	39,388,750	39,388,750
Shares to be Cancelled (20,000,000)	(20,000,000)	(20,000,000)
<u>If Exercised:</u>		
Warrants	- 0 -	58,590,000
Options	<u>- 0 -</u>	<u>66,900,000</u>
<u>Total Shares & Equivalents</u>	<u>267,403,950</u>	<u>392,893,950</u>
<u>Loss Per Share</u>	<u>(\$0.0017)</u>	<u>(\$0.0012)</u>