

SEVEN ARTS ENTERTAINMENT INC.

(now known as Wireless Connect Inc.)

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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Seven Arts Entertainment, Inc.
(now known as Wireless Connect Inc.)
Consolidated Condensed Balance Sheets
(Unaudited)

	September 30, 2014	June 30, 2014
ASSETS		
Cash	$ 489	$ 2,804
Due from related party	3,500	—
Total Current Assets	3,989	2,804
Investment in subsidiaries	3,000,000	-
Film costs, net of accumulated amortization of $13,883,672 and $13,877,172	-	6,500
Building Improvements, net of amortization of $165,526 and $165,526	-	3,934,199
Property and equipment, net of accumulated depreciation of $119,940 and $119,940	-	1,836
TOTAL ASSETS	$ 3,003,989	$ 3,945,339
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	612,536	627,628
Accrued liabilities	500,000	1,164,554
Accrued compensation	47,110	-
Accrued interest	15,612	-
Due to related parties	287,418	1,868,276
Participation and residuals	96,819	96,819
Convertible debt	6,871,359	3,870,053
Convertible debt, related party		
Mortgage and construction loans	-	5,518,961
Film & production loans	475,383	7,405,352
Deferred income	-	771,900
Total Current Liabilities	10,979,127	21,323,543
TOTAL LIABILITIES	$ 10,979,127	$ 21,323,543
STOCKHOLDERS' EQUITY		
Convertible redeemable Series A preferred stock at $10 stated value, 125,125 and 125,125 shares authorized and outstanding	$ 1,251,250	$ 1,251,250
Convertible redeemable Series B preferred stock at $100 stated value, 200,000 authorized, 0 and 43,850 shares issued and outstanding, respectively	-	5,525,458
Convertible redeemable Series D preferred stock at $100 stated value, 200,000 authorized, 30,000 and 0 shares issued and outstanding, respectively	3,000,000	-
Common stock; $0.001 par value; 249,000,000 authorized, 257,994,252 and 111,905,662 issued and outstanding, respectively	257,994	9,240,049
Additional paid in capital	28,187,856	16,559,077
Shares held as collateral	(455,246)	(455,246)
Accumulated deficit	(39,767,633)	(48,840,692)
Warrants to be distributed	-	480,371
Total Seven Arts Entertainment Inc. equity (deficit)	(7,525,779)	(16,239,733
Non-controlling interest	(449,359)	(1,138,471)
Total Shareholders' equity (deficit)	(7,975,138)	(17,378,204)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,003,989	$ 3,945,339

The accompanying notes are an integral part of these consolidated condensed financial *statements.*

Seven Arts Entertainment, Inc.
(now known as Wireless Connect Inc.)
Consolidated Condensed Statements of Operations
(Unaudited)

	For The Three Months Ended September 30,	
	2014	**2013**
Revenue:		
Film revenue	$ 95,530	$ 96,996
Music revenue	-	14,974
Post production revenue	-	3,765
Total revenue	95,530	115,735
Cost of Revenue:		
Amortization of film costs and music assets	6,500	100,447
Other cost of revenue	-	1,526
Total Cost of revenue	6,500	101,973
Gross Margin	89,030	13,762
Operating expenses:		
General and administrative expenses	134,366	527,270
Amortization of leasehold improvements	-	41,359
Total operating expenses	134,366	568,629
Loss from operations	(45,336)	(554,867)
Other income and (expense):		
Interest expense	(105,212)	(1,065,738)
Gain on extinguishment of debt	9,912,719	-
Total other income (expense)	9,807,507	(1,065,738)
Gain (loss) before provision for income taxes	9,762,171	(1,620,605)
Provision for income tax	-	-
Net gain (loss)	9,762,171	(1,620,605)
Less: Net income (loss) attributable to non-controlling interests	689,112	(175,040)
Net income (loss) attributable to Seven Arts Entertainment, Inc.	$ 9,073,059	$ (1,445,565)
Weighted average shares of common stock outstanding:		
Basic and Diluted	162,462,438	7,938,455
Basic and Diluted income (loss) per share	$ 0.06	$ (0.18)

The accompanying notes are an integral part of these consolidated condensed financial statements

Seven Arts Entertainment Inc.
Consolidated Condensed Statements of Cash Flows
(Unaudited)

	For The Three Months Ended September 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net gain (loss)	$ 9,762,171	$ (1,620,605)
Adjustments to reconcile net gain (loss) to net cash used in operating activities:		
Depreciation	-	2,936
Amortization of film costs and music assets	6,500	100,477
Amortization of leasehold improvements	-	41,359
Common stock issued for services	11,700	-
Gain on forgiveness of debt	(9,912,719)	-
Increase in accounts receivable	-	(18,619)
Increase in due from related parties	(3,500)	
Increase in other receivables and prepayments	-	(5,331)
Decrease in film costs	-	146,346
Decrease in music assets	-	6,304
Increase (decrease) in accounts payable	(15,092)	209,191
Increase (decrease) in accrued liabilities	(4,957)	22,966
Decrease in due to related parties	-	(7,438)
Increase in accrued interest ($89,604 and $1,104,241 included in notes payable, respectively)	105,212	1,104,241
Decrease in deferred income	-	(3,685)
Net Cash Used in Operating Activities	(50,685)	(21,858)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:	-	-
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Proceeds from borrowings	53,000	25,000
Net Cash Provided by Financing Activities	53,000	25,000
NET INCREASE IN CASH	2,315	3,142
CASH AT BEGINNING OF PERIOD	489	4,884
CASH AT END OF PERIOD	$ 2,804	$ 8,026
Cash paid during the year for:		
Interest	$ -	$ -
Franchise and income taxes	$ -	$ -
Supplemental disclosure of non-cash activities:		
Shares of common stock issued upon conversion	$ 45,914	$ 339,500
Preferred stock issued for purchase of subsidiaries	$ 3,0000,000	$ -
Cancellation of Series B preferred stock	$ 5,525,458	$ -

The accompanying notes are an integral part of these consolidated condensed financial statements.

Seven Arts Entertainment, Inc.
(Now known as Wireless Connect Inc.)
Notes to Consolidated Condensed Financial Statements
September 30, 2014 and 2013
(Unaudited)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Nature of Activities, History and Organization

Seven Arts Entertainment, Inc., now known as Wireless Connect Inc. (herein referred to as "the Company", "Seven Arts", "SAE" or "We"), a Wyoming Corporation, is the continuation of certain business of Seven Arts Pictures Plc. ("PLC"), which was founded in 2002 as an independent motion picture production and distribution company engaged in the development, acquisition, financing, production, and licensing of theatrical motion pictures for exhibition in domestic (*i.e.*, the United States and Canada) and foreign theatrical markets, and for subsequent worldwide release in other forms of media, including home video and pay and free television. The Company currently owns interests in 14 completed motion pictures, subject in certain instances to the prior financial interests of other parties.

Seven Arts Music Inc. ("SAM") became a wholly owned subsidiary of the Company on February 23, 2012, although transaction costs had been incurred as early as September 2011. The first of the DMX albums acquired from David Michery was released on September 11, 2012. The first of the Bones Thugs-N-Harmony albums is fully delivered to the Company as of June 30, 2013 and scheduled for release in November, 2013. The agreements under which SAM acquired its music assets were effective as of September 29, 2011 (Big Jake Music, "BJM") and December 19, 2011 (Michery Assets, "Michery") publicly announced and commenced business activities commenced on those dates, but definitive agreements were not executed, nor control gained, until February 23, 2012.

On June 30, 2012 Seven Arts Filmed Entertainment Louisiana LLC ("SAFELA") was transferred to the Company. SAFELA, which is now 60% owned by the Company, has a 30 year lease to operate a film production and post-production facility at 807 Esplanade in New Orleans, Louisiana. The post production facility commenced operations on July 1, 2012.

On June 11, 2010, SAE, was formed and became a wholly owned subsidiary of PLC. As of June 11, 2010, the Company entered into an Asset Transfer Agreement, as amended on January 27, 2011 and again on August 31, 2011, to transfer assets (as now reflected on our balance sheet) from PLC to SAE, in exchange for assumption by SAE of all booked indebtedness (now reflected on our balance sheet) and for one share of common stock of SAE for each ordinary share of PLC which have been distributed to shareholders. Additionally, 6 shares (2,000,000 shares as adjusted for the 1:100, 1:70 and 1:50 reverse stock splits discussed herein) of SAE were issued to PLC as additional consideration to PLC. This transfer was approved by the PLC shareholders at an Extraordinary General Meeting on June 11, 2010. The purpose of this transfer was to eliminate our status as a foreign private issuer and to assume compliance with all obligations of a domestic issuer under all applicable state and Federal securities laws.

On August 31, 2011, NASDAQ Capital Market ("NASDAQ") approved the substitution of one share of SAE, Inc. stock for the Company's NASDAQ listing, effective at the opening of trading on September 1, 2011. On that date, each of the Company's ordinary shares were exchanged for one share of common stock of SAE, and commenced trading on NASDAQ as the successor to the Company's NASDAQ listing. This transaction was approved by the Company's stockholders at the Company's Extraordinary General Meeting on June 11, 2010. On August 31, 2012, the Company announced a 1- for-70 reverse stock split, which was effective immediately. All share references herein have been adjusted to reflect this split.

On November 8, 2011, the Company's listing predecessor, PLC, was placed into involuntary creditors' liquidation under English law. Certain indebtedness of PLC remained with PLC and will be subject to administration or payment in those administration proceedings.

On January 1, 2012, Seven Arts Film Entertainment Limited ("SAFE") sold all of its film assets to SAE for assumption of indebtedness. SAFE ceased operations on May 31, 2013 on closing of its office in London, England. The Company was placed into involuntary liquidation of SAFE in England on October 9, 2013. The asset transfer agreement had no impact on the Company's consolidated financial statements.

In connection with the acquisition of the music assets of Michery, the Company issued 100,000 shares of our Series B convertible preferred stock, par value $100 convertible at approximately $1.10 per share to Michery and his assigns. 50,000 of these shares of the Company's Series B convertible preferred stock were placed in escrow.

During the quarter ended December 31, 2012, Mr. Michery converted and sold 38,000 of the 50,000 shares of Series B that he and his assigns hold. The Company and Mr. Michery have agreed the remaining 50,000 shares of Series B in escrow will be disposed of by release of 20,000 shares of the Series B convertible preferred stock to Mr. Michery in full satisfaction of any claims he may have against the Company and the balance of the 30,000 shares of Series B will be cancelled. The release of the 20,000 shares has been recognized as services in the accompanying financial statements. As of June 30, 2014, Mr. Michery's 32,000 shares of Series B convertible preferred stock were cancelled

In connection with the acquisition of the stock of BJM, the Company issued 80,000 shares of the Company's Series B convertible preferred stock, stated value $100 convertible at approximately $1.10 per share to Jake Shapiro and his assigns. 70,000 shares of our Series B convertible preferred stock were placed in escrow. The Company entered into a settlement agreement with Mr. Shapiro on February 27, 2013 and all shares of Series B preferred stock held in escrow for him and persons associated with him have been cancelled. As of September 30, 2014 all remaining shares of Series B Preferred have been cancelled as the condition for their conversion have expires. The name and the website of Big Jake Music were also reassigned to Mr. Shapiro as part of the settlement agreement.

Seven Arts Pictures Louisiana LLC, ("SAPLA"), entered into a Credit Agreement with Advantage Capital Community Development Fund LLC dated October 11, 2007, for the acquisition and improvement of the production and post-production facility located at 807 Esplanade Avenue in New Orleans, Louisiana ("807 Esplanade") for aggregate principal advances of up to $3,700,000. This agreement was guaranteed by the Company's predecessor. Approximately $3,700,000 plus interest has been drawn under the terms of this Credit Agreement, as of June 30, 2012. The Company has now assumed the liability for $1,000,000 of this amount plus a contingent sum of $750,000 (contingent on receipt of at least $5,000,000 in cash proceeds from the tax credits to be earned by SAPLA) due to an agreement with the now mortgagor Palm Finance Corp. ("Palm"). A construction loan of $1,850,000 previously guaranteed by the Company has now also been assumed by the Company, through SAFELA. On August 28, 2014, the Company satisfied the obligations to Palm as discussed below.

On February 13, 2014, May 2, 2013 and August 31, 2012, the Company affected one-for-one hundred, one-for-fifty and one-for-seventy reverse stock splits, respectively, collectively referred to as the Stock Splits. Unless otherwise noted, all impacted amounts included in the consolidated financial statements and notes thereto have been retroactively adjusted for the Stock Splits. Unless otherwise noted, impacted amounts include shares of common stock authorized and outstanding, share issuances and cancellations, shares underlying preferred stock, convertible notes, warrants and stock options, shares reserved conversion prices of convertible securities, exercise prices of warrants and options, and loss per share.

Trading of our common stock on NASDAQ was suspended at the opening of business on September 14, 2012, due to our not meeting the $1 minimum bid price stock listing requirement of NASDAQ for ten trading days prior to September 20, 2012, the expiration date on the Company's six-month extension to meet this listing requirement.

On September 14, 2012 our common stock commenced trading on the OTC Market Group Inc.'s OTCQB tier under our historical symbol "SAPX." On February 25, 2014, our common stock was transferred by the OTC Market Group Inc. to the OTCPink tier under the same symbol.

The Company has closed the acquisition of all capital stock of iPTerra Technologies Inc. and all membership interests in Aeronetworks LLC (the "Closing") from Sanwire Corporation pursuant to the Stock Purchase Agreement dated July 17, 2014 ("Stock Purchase Agreement") by issuance of 30,000 shares of its Series D Preferred Stock $100 par value, or $3,000,000 convertible at a price equal to 100% of the volume weighted average price of the Company's Common Stock for the ten (10) trading days prior to conversion.

iPTerra Technologies, Inc. is a designer, developer, manufacturer, and marketer of a real-time 2-way wireless and/or wireline communications, and mine-safety solution for the global mining industry. iPMine, iPTerra's flagship solution, allows mine operators to communicate (voice, text, and video), track, locate, identify, and monitor with every miner and piece of equipment in a mine, right from an office computer desktop, or from anywhere in the world with an internet connection. iPMine utilizes iPTerra`s 802.11-based zone access points (iPMine-ZAPs) to establish an in-mine wireless data network that functions as the nervous system linking a mine's operation control centre, miners, and equipment. iPTerra`s mobile communication devices (iPMine-M8 devices), which are carried by miners or attached to equipment, broadcast their secure location information and other messages as they roam between various mining zones. This information is intercepted by

iPMine-ZAPs and relayed back to the dispatch office/operations control centre where it's displayed on monitoring and viewing station configured with iPTerra`s iPMine-VU enterprise software.

Aeronetworks provides wireless and wireline communications and broadband services to digital media, entertainment and sports venues, and underserved markets such as rural communities and Native American tribes. Aeronetworks is a quad play service provider, which includes Internet access, voice over IP (VoIP), IPTV, and 4G/LTE communication services.

The Closing occurred on August 22, 2014 but was subject to a condition subsequent as set forth in the Stock Purchase Agreement, requiring the execution of a Loan Workout Agreement between inter alia Palm Finance Corp. ("Palm") and the Company, which was not executed until August 29, 2014.

At the Closing, all members of the Board of Directors of the Company except Anthony Hickox have resigned and Mr. Richard Bjorklund ("Chairman") and Mr. Robert Riggs were appointed to the Board. Mr. Riggs resigned effective November 7, 2014 and was replaced by Bradley Holmes. Mr. Bjorklund's and Mr. Holmes' experience and history are as follows:

Richard Bjorklund. Mr. Bjorklund is current Managing Partner of Aeronetworks LLC and iPTerra Technologies and has held this position since July 1, 2008. From July 2006 to July 2008, Mr. Bjorklund was President and CEO of the Tulsa County Public Facilities Authority. Mr. Bjorklund has represented clients such as Western Oil Partners LLC, Service King Manufacturing, Inc., Walt Disney Imagineering, as well as numerous Olympic and national sporting associations, including the NFL and NBA. Mr. Bjorklund's education includes Arizona State University, Bachelor of Science Degree; US Air Force Academy, Commandant's Commendation.

Bradley Holmes. Mr. Holmes is an entertainment industry finance and management consultant and founder of the Outsource Media Group. He formed OMG in 1996 to create opportunities for private banks and equity investment funds to participate safely and fairly in A-list Studio feature films, where he focuses on strategic planning and financing with heavy emphasis on international and financial structuring (private, on- and off-balance sheet, and high volume output agreements in film). Mr. Holmes received a Bachelor of Arts degree in Business with emphasis in Marketing & Communication, from Arizona State University in 1990.

Pursuant to the closing, Ms. Katrina Hoffman resigned as acting Chief Executive Officer and Mr. Richard Bjorklund was appointed as President and Chief Executive Officer of the Company. Ms. Candace Wernick resigned as Chief Financial Officer and Mr. Robert LaSalle was appointed as Chief Financial Officer. Mr. LaSalle resigned on October 21, 2014. The Company has appointed Rachel Boulds as Chief Financial Officer effective December 1, 2014.

As part of the Stock Purchase Agreement, Mr. Peter Hoffman and Ms. Katrina Hoffman relieved the Company of its obligation to (a) Mr. Hoffman for sums due to him under his employment agreement or advances to the Company prior to January 1, 2014 ($1,900,000) and (b) to Ms. Hoffman for sums due to her under her employment contract through June 30, 2014 ($172,890) in return for Convertible Notes obligating SAFELA to make such payment but permitting Mr. or Ms. Hoffman to convert such indebtedness into the Company's Common Stock at a price equal to the trading value on the date of conversion. Mr. Hoffman assigned 50% of his Convertible Note to Palm as part of the Loan Workout Agreement. The Company remains liable to Mr. Hoffman for his legal services since January 1, 2014 as general counsel to the Company ($300,000 through June 30, 2014) and SAFELA remains liable on Ms. Hoffman's continuing employment agreement as President and Chief Operating Officer of SAFELA.

Pursuant to the Loan Workout Agreement, Palm relieved the Company of all indebtedness to it. The Company and certain companies controlled by Susan Hoffman, Peter Hoffman's wife, transferred to Palm all their interests in the real property located at 807 Esplanade Avenue in New Orleans, and all United States and Louisiana historic rehabilitation tax credits and Louisiana film infrastructure tax credits associated with that property. The Company waived any further claims for service fees or interest related to such tax credits. The Company also transferred all its interests in any and all completed motion picture and motion picture projects in development to Palm, subject to the grant of all distribution rights of Seven Arts Filmed Entertainment Louisiana LLC ("SAFELA"), a subsidiary of the Company, pursuant to a Multi-Picture Distribution Agreement between the Company and SAFELA dated October 1, 2013, amended to require that 60% of SAFELA's gross revenue from 13 motion pictures (Distribution Pictures") be payable to Palm on a monthly basis. Default by SAFELA in such payments will result in a termination of its distribution rights. Palm has permitted SAFELA to continue to develop one motion picture property for production. The Distribution Pictures are the only motion pictures in which SAFELA or the Company has any continuing interest. SAFELA may seek to acquire distribution rights in other motion pictures in the future if it has funds to do so, but has not acquired any such rights or the last twelve months. SAFELA will seek to produce television series and other programming, but has not produced any such programming.

The Company has changed its name to "Wireless Connect Inc." to reflect its expanded business plan, and has reincorporated in the state of Wyoming effective October 15, 2014.

Capital Structure

The Company's authorized capital was 500,000,000 shares of capital stock until October 15, 2014 when the Company reincorporated in the state of Wyoming and amended its Articles to allow an unlimited number of shares of capital stock. The Company has authorized the following classes of stock:

- Unlimited of common stock, $0.001 par value per share. As of September 30, 2014, there are 257,994,252 shares of common stock outstanding. Each outstanding share of common stock entitles the holder thereof to one vote per share on matters submitted to a vote of stockholders.
- 125,125 shares of Series A Preferred Stock with a $10 stated value per share (Palm Finance Corp.). All of such authorized shares of Series A Preferred Stock were issued to one stockholder in November 2011. That stockholder assigned 36,625 shares to Susan Hoffman, leaving it with 88,500 shares
- 200,000 shares Series B Preferred Stock with a $100 stated value per share. As of September 30, 2014, there are no shares of Series B Preferred Stock outstanding as all have been cancelled pursuant to the terms of the agreement with Mr. Michery at the time of issuance. The per share conversion price for the Series B Preferred Stock is $1.10 per share.
- 7,500 shares of Series C Preferred Stock with a $100 stated value per share. No shares of Series C Preferred Stock are outstanding.
- 30,000 shares of Series D Preferred Stock with a $100 stated value per share. As of September 30, 2014, there are 30,000 shares of Series D Preferred Stock outstanding.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company's unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These financial statements should be read in conjunction with the unaudited financial statements and footnotes for the year ended June 30, 2014. The results of the three months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending June 30, 2015.

Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

The accompanying unaudited consolidated financial statements include the accounts of Seven Arts Entertainment, Inc. ("SAE"), and its subsidiaries:

- Seven Arts Filmed Entertainment, Limited ("SAFE, Ltd.") (100% owned)
- Seven Arts Music, Inc. ("SAM") (100% owned) and
- Seven Arts Filmed Entertainment Louisiana LLC ("SAFELA") (As of June 30, 2012) (60% owned by SAE, 40% owned by Palm Finance Corp.)

The Company consolidates its subsidiaries in accordance with Accounting Standards Codification ("ASC") 810, "*Business Combinations*", and specifically ASC 810-10-15-8 which states, "The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule, ownership by one reporting entity, directly or indirectly, or over 50% of the outstanding voting shares of another entity is a condition pointing toward consolidation." The

Company does not have any variable interest or special purpose entities. The Company presents Palm Finance's 40% share of SAFELA's profit or loss as a non-controlling interest.

The Company prepares its financial statements on the accrual basis of accounting and in accordance with Generally Accepted Accounting Principles of the United States of America ("US GAAP"). All material intercompany balances and transactions are eliminated. Management believes that all adjustments necessary for a fair presentation of the financial statements have been made.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The most significant estimates made by management in the preparation of the financial statements relate to ultimate revenue and costs of its films which are used in the amortization and impairment of film costs, estimates for allowances and income taxes. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

We maintain our cash in bank deposit accounts, the balances of which at times may exceed federally insured limits. We continually monitor our banking relationships and consequently have not experienced any losses in our accounts. We believe we are not exposed to any significant credit risk on cash.

Cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents for the three months ended September 30, 2014 and the year ended June 30, 2014.

Reclassifications

Certain reclassifications have been made to the prior year financial information to conform to the presentation used in the financial statements for the three months ended September 30, 2014.

Revenue Recognition

FILMS

The Company recognizes revenue from the sale (minimum guarantee or non-refundable advances) or licensing arrangement (royalty agreements) of a film in accordance with ASC 605-15 "*Revenue Recognition.*" Revenue will be recognized only when all of the following criteria have been met:

a) Persuasive evidence of a sale or licensing arrangement with a customer exists.
b) The film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery (i.e. the "notice of delivery" ("NOD") has been sent and there is a master negative available for the customer).
c) The license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale.
d) The arrangement fee is fixed or determinable.
e) Collection of the arrangement fee is reasonably assured.

A written agreement with clients (purchase order, letter, contract, etc.), indicating the film name, territory and period is required for the recognition of revenue. Revenue is recognized when the performance criteria in the contracts have been met. The customer generally confirms agreement by their signature on the contract.

Minimum guarantee revenue (i.e., non-refundable advances) is recognized as and when the film is available for delivery to the respective territories. Cash deposits received on the signing of the contracts are recorded as deferred revenue until the film is available for delivery (as described above) at which point the deferred revenue is recognized as revenue. The Company does not recognize any revenues relating to minimum guarantee on any motion picture or related amortization expense on that picture until United States theatrical release if it has agreed with the licensees that delivery or payment of minimum guarantee will be delayed for any material period of time to permit such a theatrical release.

Royalty revenue, which equates to an agreed share of gross receipts of films, is recognized as income as and when the Company is notified of the amounts by the customers through their royalty reports. Revenue is recorded net of any sales or value added taxes charged to customers.

FILM TAX CREDITS

Many countries make tax credits available to encourage film production in the territory. Seven Arts benefits from tax credits in:

a) The UK and several other European territories for their European productions
b) Canada for their Canadian productions
c) Louisiana for their US productions
d) Tax preferred financing deals

These tax credits may be treated as a reduction in the capitalized costs of the film assets they are financing or as producer fees to us if the tax credits are earned and owned by a company in the Group and paid to us as overhead or producer fees.

Film Costs

Film costs include the unamortized costs of completed films which have been produced by the Company or for which the Company has acquired distribution rights, libraries acquired as part of acquisitions of companies and films in progress and in development. For films produced by the Company, capitalized costs include all direct production and financing costs, capitalized interest and production overhead.

Costs of acquiring and producing films are amortized using the individual-film-forecast method, whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the films. The majority of a film's costs (approximately 80% or more) are generally amortized within three years of the picture's initial release.

Ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. Film costs are stated at the lower of amortized cost or estimated fair value. Individual film costs are reviewed on a title-by-title basis, when an event or change in circumstances indicates that the fair value of a film is less than its unamortized cost. The fair value of the film is determined using management's future revenue and cost estimates and a discounted cash flow approach. Impairment is recorded in the amount by which the unamortized costs exceed the estimated fair value of the film. Estimates of future revenue involve measurement uncertainty, and therefore it is possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management's future revenue estimates.

Films are included in the general "library" category when initial release dates are at least three years prior to the acquisition date.

Films in progress include the accumulated costs of productions which have not yet been completed. Films in development include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and, upon commencement of production, are transferred to production costs. Projects in development are written off at the earlier of the date they are determined not to be recoverable or when abandoned.

All Exploitation Costs (comprising of direct costs, including marketing, advertising, publicity, promotion, and other distribution expenses) incurred in connection with the distribution of a film) are expensed as incurred in accordance with ASC 720- 926- 25-3.

The Company begins to accrue participation costs after a film is released when it is probable that such costs will become payable. Participation costs are accrued using the individual-film-forecast method, which accrues participation costs in the same ratio that current period actual revenue bears to the estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year.

Music Assets

The initial material assets that were acquired comprise 52 completed sound recordings including two completed albums with "DMX", up to two additional albums from "DMX" and up to five albums from "Bone Thugs-N-Harmony".

Music assets include the unamortized costs of completed albums, singles and videos which have been produced by the Company or for which the Company has acquired distribution rights, libraries acquired as part of acquisitions and albums in progress and in development. For albums produced by the Company, capitalized costs include all direct production and financing costs, capitalized interest and production overhead.

Costs of acquiring and producing music assets will be amortized using the individual-album-forecast method, whereby these costs are amortized in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation or sale of the music.

Property & Equipment

Equipment is carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Costs associated with repair and maintenance are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency of our property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which are 3 to 5 years.

Impairment of Long Lived Assets

The Company evaluates, on a periodic basis, long-lived assets to be held and used for impairment in accordance with the reporting requirements of ASC 360-10, "*Accounting for the Impairment or Disposal of Long-Lived Assets*". The evaluation is based on certain impairment indicators, such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, then an estimate of the discounted value of expected future operating cash flows is used to determine whether the asset is recoverable and the amount of any impairment is measured as the difference between the carrying amount of the asset and its estimated fair value. The fair value is estimated using valuation techniques such as market prices for similar assets or discounted future operating cash flows.

Deferred Income

Any income received from customers before a film is delivered for release, (such as deposits on distribution contracts) is recorded as a liability called deferred income in case the film does not reach completion and the income has to be returned to customers.

Earnings Per Share

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share include the effects of any outstanding options, warrants and other potentially dilutive securities. For the periods presented, there were no potentially dilutive securities outstanding, therefore basic earnings per share equals diluted earnings per share. Basic and diluted earnings per share ("EPS") are based on weighted-average common shares and exclude shares that would have an anti-dilutive effect. In accordance with ASC 260-10-45-19, the Company did not consider any potential common shares in the computation of diluted EPS as of September 30, 2014 and 2013, due to the loss from continuing operations, as they would have an anti-dilutive effect on EPS.

Segment Reporting

The Company has three operating segments based on its major lines of businesses: a motion picture producer and distributor, music label, and post-production facility. Each operating segment derives its revenues from the sale of products or services, respectively and each is the responsibility of a group of senior management of the Company who has knowledge of product and service specific operational risks and opportunities. The Company's chief operating decision maker reviews and evaluates separate sets of financial information for decisions regarding resources allocation and performance assessments.

Fair value of financial instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification ("Paragraph 820-10-35-37") to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly

observable as of the reporting date.

Level 3: Pricing inputs that are generally observable inputs and not corroborated by market data.

The Company did not have any assets or liabilities measured at fair value as of September 30, 2014 and June 30, 2014.

Income taxes

The Company follows Section 740-10-30 of the FASB Accounting Standards Codification, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the fiscal year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Statements of Operations in the period that includes the enactment date.

The Company adopted section 740-10-25 of the FASB Accounting Standards Codification ("Section 740-10-25") with regards to uncertainty income taxes. Section 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under Section 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent (50%) likelihood of being realized upon ultimate settlement. Section 740-10-25 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company had no material adjustments to its liabilities for unrecognized income tax benefits according to the provisions of Section 740-10-25.

Stock-based Compensation

We account for equity-based transactions with nonemployees under the provisions of ASC Topic No. 505-50, *Equity-Based Payments to Non-Employees* ("ASC 505-50"). ASC 505-50 establishes that equity-based payment transactions with nonemployees shall be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of common stock issued for payments to nonemployees is measured at the market price on the date of grant. The fair value of equity instruments, other than common stock, is estimated using the Black-Scholes option valuation model. In general, we recognize the fair value of the equity instruments issued as deferred stock compensation and amortize the cost over the term of the contract.

We account for employee stock-based compensation in accordance with the guidance of FASB ASC Topic 718, *Compensation—Stock Compensation,* which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The fair value of the equity instrument is charged directly to compensation expense and credited to additional paid-in capital over the period during which services are rendered.

Recently Issued Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued, that might have a material impact on its financial position or results of operations.

NOTE 3 - SEGMENT INFORMATION

In accordance with ASC 280 "*Segment Reporting*", operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. Our chief decision maker, as defined under the FASB's guidance, is a combination of the Chief Executive Officer and the Chief Financial Officer.

In the quarter ended March 31, 2012, the Company formed a new subsidiary, Seven Arts Music, and acquired music assets from David Michery and purchased the stock of Big Jake Music. This was a new line of business for the Company, and therefore, for the year ended June 30, 2012, the Company had two reportable operating segments.

The pre and post production facility run by the Company's majority owned subsidiary, SAFELA, commenced operations in July 2012, and therefore for the year ended June 30, 2013 the Company had three reportable segments.

The tables below present the financial information for the reportable segments for the three months ended September 30, 2014 and 2013:

	Three months ended September 30, 2014			
	Film	Music	Production facility	Total
Revenue	$ 95,530	$ -	$ -	$ 95,530
Cost of Revenue	6,500	-	-	6,500
Gross profit/(loss)	89,030	-	-	89,030
Operating expenses	(134,366)	-	-	(134,366)
		-	-	
Loss from operations	$ (45,366)	$ -	$	$ (45,366)

	Three months ended September 30, 2013			
	Film	Music	Production facility	Total
Revenue	$ 96,996	$ 14,974	$ 3,765	$ 115,735
Cost of Revenue	(96,669)	(6,304)	1,000	(101,937)
Gross profit/(loss)	327	8,670	4,765	13,762
Operating expenses	(452,434)	-	(115,396)	(567,830)
Loss from operations	$ (452,107)	$ 8,670	$ (110,630)	$ (554,067)

Assets	September 30, 2014	June 30, 2014
Film assets	$ -	$ 6,500
Music assets	$ -	$ -
Post - production assets	$ -	$ 3,943,199

NOTE 3 – RELATED PARTY TRASACTIONS

As of June 30, 2014, $1,868,276 was owed to Mr. Peter Hoffman, the former CEO, for unpaid salary and unreimbursed expenses, as well as repayment of cash he advanced the Company. On July 18, 2014, as part of the Stock Purchase Agreement (Note 1), Mr. Hoffman relieved the Company of its obligation in return for a Convertible Note for $1,900,000. The difference of $31,724 was debited to additional paid in capital. The Note matures on September 30, 2015 is unsecured, non-interest bearing and is convertible into the Company's common stock at a price equal to the trading value on the date of conversion. Mr. Hoffman assigned 50% of his Convertible Note to Palm as part of the Loan Workout Agreement. As of September 30, 2014, the Company also owes Mr. Hoffman $287,418 for accrued legal services.

As of June 30, 2014, $217,000 was owed to Ms. Katrina Hoffman, for unpaid salary. On August 22, 2014, as part of the Stock Purchase Agreement (Note 1), Ms. Hoffman relieved the Company of part of this debt in return for a Convertible Note for $172,890. The Note matures on September 30, 2015 is unsecured, non-interest bearing and is convertible into the Company's common stock at a price equal to the trading value on the date of conversion. As of September 30, 2014, the Company owes Ms. Hoffman $44,110 for accrued compensation.

NOTE 4 – FILM COSTS

Film costs as of June 30, 2014 and June 30, 2013 are as follows:

	June 30, 2014	June 30, 2013
Released, net of accumulated amortization	$ —	$ 3,314,728
Completed and not released	—	—
In production	—	1,209,931
In development	6,500	3,844,027
	$ 6,500	$ 8,368,686

Amortization of film costs was $6,500 and $3,564,292 for the three months ended September 30, 2014 and the year ended June 30, 2014.

The Company reviews capitalized film costs for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable or at least once per year. Determination of recoverability is based on an estimate of future cash flows resulting from the use of the asset, and its eventual disposition. Measurement of an impairment loss for the assets is based on the fair value of the asset as estimated using a discounted cash flow model.

All Exploitation Costs (comprising of direct costs, including marketing, advertising, publicity, promotion, and other distribution expenses) incurred in connection with the distribution of a film) are expensed as incurred in accordance with ASC 720-926-25-3.

NOTE 5 – LOANS

Indebtedness as of June 30, 2014 consists of:

Lender	Balance	Interest Rate	Issuance Date	Maturity Date	
Film and Production Loans:					
120db Film Finance LLC	4,425				
Prodigy Schism Loan	367,375	10%	6/14/13	10/31/13	
Insurance Strategies Fund	103,583	10%			
Total Film and Production Loans	**$ 475,383**				
Convertible Notes:					
Trafalgar Capital	$ 728,585	9%	10/15/2008	8/31/2009	Conversion price is market price.
JMJ Financial	400,286	10%	6/29/2012	10/27/2012	Conversion is only on default and is the lower of $0.04 or 80% of the average of the three lowest trade prices in the 20 trading days prior to conversion.
GHP	143,244	18%	1/21/2011	4/30/2012	Conversion price is market price.
Tonaquint	369,077	8%	08/22/2012	7/2/13	The conversion price shall be the fixed conversion price of $0.04 subject to equitable adjustments for stock splits, stock dividends or rights offerings by the borrower.
Beaufort Ventures PLC	241,133	10%	7/31/2012	08/30/2012	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Beaufort Ventures PLC	182,713	10%	07/26/2012	02/25/2013	Conversion price is 35% of the

					previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Runway Investments, LTD	173,817	12%	11/1/12	09/30/2012	The conversion price will be the lower of the fixed conversion price of $0.20 or the variable conversion price which is equal to 75% of the average of the daily volume weighted average price (VWAP) as reported on NASDAQ or other exchange for the six trading days with the lowest VWAP in the 10 trading days preceding conversion.
Sendero Capital Ltd	330,548	12%	01/24/2012	09/30/2012	The conversion price will be the lower of the fixed conversion price of $0.20 or the variable conversion price which is equal to 75% of the average of the daily volume weighted average price (VWAP) as reported on NASDAQ or other exchange for the six trading days with the lowest VWAP in the 10 trading days preceding conversion.
Beaufort Ventures, PLC	91,500	10%	07/19/2012	07/19/2012	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Beaufort Ventures, PLC	61,000	10%	07/19/2012	07/19/2013	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Beaufort Ventures, PLC	30,322	10%	08/14/2012	2/8/13	Fixed conversion price of $0.02. If at any time after maturity date the share price in any 10 day trading period after the Maturity date and before conversion or payment is trading at below $0.03/share (as defined by 10 trading day VWAP) then there will be a one-time reset to 70% of the average of the VWAP during 10 such trading days.
Beaufort Ventures, PLC	88,828	12%	01/22/2013	07/22/2013	The conversion price shall be the fixed conversion price of $0.15 subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower. The conversion price will be reset to an amount equal to 25% of the lowest trading price for the 20 trading days immediately prior to

					the date of conversion if the Note is nor repaid on maturity.
CMS Capital	44,562	12%	12/15/2011	06/30/2012	The conversion price shall be the fixed conversion price of $0.15 subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower. The conversion price will be reset to an amount equal to 75% of the VWAP for the lowest three trading days in the 10 trading days immediately prior to the date of conversion if the Note is not settled within eight months of closing the loan.
Hanover Holdings LLC	265,928	10%	02/23/2012	04/23/2013	The conversion price shall be the fixed conversion price of $0.20 subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Borrower.
Beaufort Ventures PLC	61,735	12%	06/26/2012	06/26/2013	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Agua Alta (Cold Fusion)	127,189	12%	06/25/2012	06/25/2013	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Beaufort Ventures PLC	1,456	12%	11/30/2011	11/30/2013	Conversion price will be 75% of the closing price of the previous day to conversion.
Tripod Group, LLC	11,302	12%	1/2/2012	1/2/2013	The conversion price will be the lower of the fixed conversion price of $0.235 or the variable conversion price which is equal to 75% of the average of the daily volume weighted average price (VWAP) as reported on NASDAQ or other exchange for the six trading days with the lowest VWAP in the 10 trading days preceding conversion.
Beaufort Ventures, PLC	13,234	12%	6/4/2012	6/10/2012	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.
Old Capital Ltd	300,348	12%	05/31/2012	11/30/2012	Conversion price is 35% of the previous day's closing price unless the share price on the day of conversion has declined more than 5% from the previous day's close in which case it will be 35% reduction from the lowest price on the current trading day.

WHC Capital	47,339	10%	05/20/2013	05/20/2014	The conversion price shall be equal to sixty five percent (65%) of the average price of the three (3) lowest closing Bid prices during the ten (10) trading days prior to date of such conversion.
Elegant Funding	51,563		4/30/2013	5/2/2013	
Elegant Funding	15,976	18%	6/5/2013	1/5/2014	Conversion price shall be 70% of the lowest closing bid price during the 10 trading days prior to conversion.
WHC Capital	33,050	21%	04/19/2013	04/18/2014	Conversion price shall be equal to seventy five percent (75%) of the average price of the three (3) lowest closing prices during the ten (10) trading days prior to date of such conversion.
WHC Capital	25,731	21%	05/20/2013	05/20/2014	Conversion price shall be equal to sixty five percent (65%) of the average price of the three (3) lowest closing prices during the ten (10) trading days prior to date of such conversion.
Tangiers	1,449	10%	05/31/2013	05/31/2014	Conversion price is 70% of the 10 day trading VWAP before conversion.
Tangiers $40,000 amended 6/13/2010	8,607	10%	6/10/2013		
Beaufort $10,000 Mpte - 10/1/2013	10,741	12%	10/1/2013	4/1/2014	
Isaac Cap Grp $200,000 10/21/13	28,012	12%	10/21/2013		
Firerock/Littlejohn $10,000 Aged Debt	2,332	18%	1/7/2013	6/30/2014	
Firerock/Barrasso $20,000 Aged Debt	22,132	18%	10/7/2013	6/30/2014	
Kanno Group Holdings Ltd	587,500	0%	7/18/2014	9/20/2015	Conversion price shall be equal to fifty percent (50%) of the close of trading the day prior to date of conversion.
Kanno Group Holdings II Ltd	1,912,120	0%	7/18/2014	9/20/2015	Conversion price shall be equal to fifty percent (50%) of the close of trading the day prior to date of conversion.
Hanover Holdings I, LLC	405,000	18%	7/31/2013	1/7/2014	Conversion Price is $0.2325, subject to adjustment per the terms of loan.
Magna Equities II, LLC	26,500	12%	9/2/2014	9/2/2015	Conversion price shall be equal to sixty three percent (63%) of the three (3) lowest closing prices prior to date of such conversion.
Hanover Holdings I, LLC	26,500	12%	7/22/2014	7/21/2015	Conversion price shall be equal to seventy percent (70%) of the three (3) lowest closing prices prior to date of such conversion.
	$ 6,871,359				

Palm Agreement

The Company entered into two senior financing loan and security agreements with Palm to finance the production costs of The Pool Boys, Autopsy and Nine Miles Down dated May 7, 2007 and December 17, 2007. These loans are secured by the revenues to be collected from these motion pictures. The revenues so far collected have been insufficient to repay the majority of these loans, primarily as result of management's decision to delay the release of these films, both of which have now been released

In July, 2011 we entered into an amended financing agreement with Palm in order to refinance the existing indebtedness secured by our production and post-production facility in New Orleans, Louisiana under which Palm has acquired the existing credit facility of $3,700,000 plus accrued interest of our affiliate SAPLA for $1,000,000 of this amount plus a continent sum of $750,000 (contingent on receipt of at least $5,000,000 in cash proceeds from the tax credits to be earned by SAPLA) and advanced an additional $1,800,000 to complete renovation and construction of this facility. Palm's advance and interest at the rate of 15% per annum are due and payable within five years and are secured by the property at 807 Esplanade Avenue in New Orleans and Louisiana film infrastructure and historical rehabilitation credits, as well as Federal historical rehabilitation credits associated with the Property. Under this arrangement the group guaranteed the debt on the post production facility and Palm forgave a total of $4,458,624 of principal and interest on the two production loans as well as reduced the liability on the New Orleans production facility by $1,950,000 in exchange for the group guaranteeing the production facility debt. The reduction in principal and interest has been recognized in the year ended June 30, 2012 as Other Income (restated). Palm's advance and interest at the rate of 15% per annum are due and payable within five years and are secured by the property at 807 Esplanade Avenue in New Orleans and Louisiana film infrastructure and historical rehabilitation credits, as well as Federal historical rehabilitation credits associated with the Property and cross guaranteed the Company, its affiliates and former CEO, Peter Hoffman.

In June, 2012 as detailed in Note 7, the Esplanade debt was assumed by SAFELA in connection with a 30 year lease on the facility. SAFELA was in turn acquired by the Company.

The indebtedness has now been cancelled as a result of the Palm Workout Agreement. See Note 1.

SAP Plc ("PLC") borrowed £1,000,000 ($1,651,000) convertible debenture from Trafalgar Capital Special Investment Fund ("Trafalgar") that came due on June 30, 2009. We were unable to repay the debenture and as a result, we defaulted on a payment of £1,000,000 plus interest to Trafalgar Capital Special Investment Fund in June 2009.

On September 2, 2009, the Company's predecessor PLC repaid Trafalgar $1,000,000 as a partial payment against this loan, with the remaining balance subject to repayment in cash or convertible to the shares of common stock of the Group at the conversion terms as agreed between Trafalgar and the Group. On June 22, 2010 an amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010, and the Group agreed to issue 971 shares of common stock to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the shares of common stock. Subsequent to June 30, 2010, a further amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to March 31, 2011, and the Group agreed to issue 1,214 shares of common stock to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the 1,214 shares of common stock. There have been no subsequent extensions and the loan remains past due. Interest is being accrued accordingly.

On August 22, 2012, the Company entered into a purchase agreement for several convertible debentures (or "notes") with Tonaquint, Inc. ("Tonaquint"), in the principal amounts of $310,000, $255,000 and $125,000. The first convertible debenture under the agreement was issued on August 22, 2012 for $310,000, less a discount of $60,000 and $10,000 in expenses. On October 5, 2012, due to a delisting default, an amendment was entered into which called for one of the additional convertible debentures to be issued in the principle amount of $155,000 (less a $25,000 discount and $5,000 in fees) and the second in the principal amount of $125,000, to be issued in the future. The debt discounts have been immediately expensed, based upon the short term nature of the notes, and the insignificance of the amount as compared to the total Convertible Debenture amount and to interest expense over the term of the note.

The convertible debentures are convertible at $0.20, which is above the market value of the Company's common stock on issuance date, so there is no beneficial element recognized. As a condition of the amendment the outstanding balance of the first note was increased to $412,990 (to be reduced by $50,000 if the note is paid on its maturity date). The notes are payable on certain installment dates, to be satisfied by conversion of the installment amount, or cash, at the option of the Company (provided no equity failure conditions, as defined in the agreement, exist, in which cash the installment payment must be in cash.) As part of the amendment, Tonaquint entered into a Pledge Agreement with Peter Hoffman, for 140,000

post-split/7,000,000 pre-split shares of the Company's common stock as collateral against repayment of the note. In the event of a default on the notes the holder may transfer and sell the pledged shares and apply the proceeds against the outstanding amounts on the notes. (Note 3).

Convertible Debentures

The Company has evaluated its convertible notes for embedded derivative features and has determined that no derivative liability is necessary to recognize, as the varying conversion price is based on the trading value of the Company's stock, which is considered indexed to one's own stock, and therefore is fixed,. Convertible debts are all convertible to common stock at the option of the holder. The conversion features were evaluated for any beneficial aspect and determined that no beneficial conversion feature is necessary to recognize.

All notes bear interest at varying rates and convert at different times and at fixed or variable conversion prices according to the contract.

Substantially all of the convertible debentures issued were in exchange for existing loans or other debt of the Company, under assignment agreements between the original noteholder and the new noteholder. The exchanges were evaluated for any gains or losses to be recognized upon extinguishment of the original debt, and it was determined there were no gains or losses to be recognized.

NOTE 6 – COMMON STOCK TRANSACTIONS

On August 11, 2014. The Company issued 13,000,000 shares of common stock for services to a third party service provider. The shares were valued at $0.0009, the closing price on the date of issuance, for total non-cash expense of $11,700.

During the six months ended September 31, 2014, the Company issued the following shares of common stock for conversion of debt.

Issuance Date	Debt Holder		Amount of Debt Converted	Number of Shares Issued
7/2/2014	Tonaquint, Inc.	$	3,275	6,550,500
7/2/2014	Tripod Group, LLC		2,817	5,502,063
7/14/2014	Tangiers Investment Group, LLC		4,568	10,876,190
8/4/2014	Tonaquint, Inc.		6,125	12,250,000
8/7/2014	Isaac Capital Group, LLC		4,900	7,000,000
8/14/2014	Tangiers Investment Group, LLC		4,718	3,480,000
9/18/2014	Magna Equities II LLC		3,150	9,000,000
9/18/2014	FireRock Global Opportunities Fund, LP		1,960	7,000,000
9/22/2014	Beaufort Ventures PLC		898	8,980,000
9/23/2014	JMJ Financial		2,430	8,100,000
9/26/2014	Beaufort Ventures PLC		945	9,450,000
9/30/2014	Magna Equities II LLC		2,520	9,000,000
9/30/2014	JMJ Financial		2,448	10,200,000
9/30/2014	FireRock Global Opportunities Fund, LP		1,680	7,000,000
9/30/2014	Isaac Capital Group, LLC		3,480	8,700,000
		$	45,914	133,088,753

NOTE 7 – NON-CONTROLLING INTEREST

The Company's subsidiary SAFELA is owned 60 % by the Company and 40% by Palm. Accordingly, the subsidiary is included in the consolidated financial position and results of operations of the Company, with recognition of the non-controlling interest separately in the Statement of Operations and from the equity of the Company's shareholders on the balance sheet.

The activity of the non-controlling interest as of September 30, 2014 is as follows:

Non-controlling interest at June 30, 2014	$ (1,138,471)
Non-controlling interest's proportionate share of Net loss for the three months ended September 30, 2014	689,112
Non-controlling interest at September 30, 2014	$ (449,359)

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Fireworks Litigation

The Company obtained summary judgment on February 10, 2011 in an action in Ontario Superior Court, Canada, against CanWest Entertainment and two of its affiliates ("CanWest") confirming the Company's ownership of five motion pictures Rules of Engagement, An American Rhapsody, Who Is Cletis Tout, Onegin, and The Believer, (the "Copyrights"). CineVisions v. Fireworks International, No. 03-CV-247553 CM2. The Company has filed on September 7, 2011, an action in the High Court of England and Wales on September 7, 2011 against Content Media Corporation ("Content") and Paramount Picture Corp. ("Paramount") to recover the Copyrights and substantial damages for the use of the copyrighted works after their purported acquisition from CanWest. Seven Arts Filmed Entertainment v. Content Media Corp. No. HC11CO3046. The Company may incur up to $200,000 in legal expenses to pursue this claim but expects to recover those fees from Content. The Company's motion for summary judgment against Content in the United Kingdom was denied on March 18, 2013, but the dismissal did not consider the merits of the Company's claims, only that Content was not bound by the Canadian judgment. The Company has also filed on May 27, 2011 an action in United States District Court in Los Angeles, California against Paramount Pictures for infringement of the Copyrights. Seven Arts Filmed Entertainment v. Paramount Pictures Corp. No. CV 11-04603. This action was dismissed on October 3, 2012 by the District Court based on a claimed application of the statute of limitation and the judgment was affirmed on appeal to the Ninth Circuit No, 11-56759, on November 6, 2013.

Arrowhead Target Fund

Seven Arts Future Flow I ("SFF"), a limited liability company owned by SAP Inc., a company previously controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. ("Arrowhead") of approximately $8,300,000 (the "Arrowhead Loan"). SFF secured the Arrowhead Loan with liens on 12 motion pictures. The Company's only liability is to repay the Arrowhead Loan from the proceeds of the film assets pledged against the Arrowhead Loan. The Company is not required to repay the Arrowhead Loan from any of its other assets or revenues. SAE's subsidiary, SAFE, Ltd. was the collateral agent of the film assets.

The Arrowhead Loan became due in February 2009 and SFF has not paid the outstanding principle and interest due thereon. Arrowhead has the right to foreclose on the pledged film assets, but has not done so at the present time. SFF has received a default notice to this effect and as a result Arrowhead is now collecting directly all sums receivable by the Company with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures with the result that the Company no longer controls the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of the Company's rights to the twelve motion pictures and related loss of revenues in amounts that are difficult to predict. Arrowhead filed an action on September 22, 2010 in New York Supreme Court, New York, New York, Arrowhead Target Fund v. Hoffman No. 657481/2010, which seeks recovery from the Company of the monies which the Company has retained under its interpretation of the relevant agreements with Arrowhead. In addition, Arrowhead makes substantial additional claims against the Company, Mr. Hoffman and SAP Inc. regarding claimed breaches of the terms of the operative agreements, including failure to properly account, failure to turn over materials, failure to remit monies collected, and similar matters. The claims against the Company for these breaches of warranties for damages are $8,300,000 although Arrowhead states no basis for this amount.

The Company had moved to dismiss the action against all defendants other than Seven Arts Future Flows I LLC, which is not part of the Company. On August 9, 2011, the New York Supreme Court granted the Company's motion and dismissed all defendants except Seven Arts Filmed Entertainment Limited in its capacity as a collateral agent, which is not a material

element of Arrowhead claim. The Company continues to believe that Arrowhead's claims against the Company are without substantial merit.

Arrowhead has purported to amend its claim against the Company and the other defendants. The Company has moved for dismissal of these claims on the same grounds. A former counsel for SAFE and Mr. Hoffman failed to appear at a hearing and the Court orally entered default against SAFE and Mr. Hoffman on October 7, 2013, both of whom have moved to vacate the order for the motion to dismiss based on lack of personal jurisdiction on the merits which motion is currently pending. The Company continues to believe that Arrowhead's claims against the Company are without merit and will vigorously defend. The maximum contingent liability for this claim is approximately $1,250,000.

Arrowhead Capital Partners – ACG Loan

PLC, SAP and SAFE, and several special purpose companies formed by SAP were named as defendants in an action by Arrowhead Capital Partners Ltd filed in the Supreme Court of New York County of New York State served on May 24, 2010, seeking to collect $1,000,000 plus interest (the "ACG Loan") due to Arrowhead Consulting Group LLC ("ACG") as well as foreclosure on the collateral granted as part of the Cheyne Loan described above in Note 13 under "Production Loans". Arrowhead Capital Finance v. Seven Arts Pictures, No. 601199/10. The ACG Loan is fully subordinated to repayment of the Cheyne Loan, which has not been repaid, and a subsidiary of the Company has been assigned all Cheyne's rights under the subordination provision of the Cheyne Loan. ACG and the Company filed our motion for summary judgment which resulted in summary judgment in favor of ACG against SAFE, SAP and the special purpose companies. That summary judgment was affirmed on appeal to the New York Court of Appeals. Arrowhead has since filed on July 18, 2014 in New York Supreme Court claiming the Company is a "successor" of PLC or SAFE and liable for the summary judgment. The Company removed this action to Federal District Court for the Southern District of New York on August 14, 2014 and has filed a motion to dismiss for lack of personal jurisdiction. The Company has not accrued a loss contingency on this matter. Any claim against SAFE will be subject to the liquidation proceedings of SAFE under the law of the United Kingdom. The maximum contingent liability for this claim is approximately $2,500,000.

Litigation Regarding Louisiana Tax Credits

SAPLA, controlled by Mr. Hoffman's wife, filed legal action in the 19th District Court in Baton Rouge, Louisiana in August, 2013 to require the Louisiana Department of Economic Development to certify the tax credits due SAPLA, the proceeds of which had been assigned to the Company. This action is currently pending. SAPLA has filed a separate action against the Louisiana Department of Revenue to require it to recognize the transfer of the Louisiana historic rehabilitation credits approved in the Part 3 Approval discussed in Note 4 above. The Company has no further responsibility for legal fees to obtain this tax credit and there is no contingent liability to the Company for this litigation. On August 28, 2014, Palm Finance Corp. acquired SAPLA and took responsibility for this litigation. The Company has no further interests in these potential tax credits.

Parallel Action

On June 28, 2011, Seven Arts Pictures Plc. ("PLC") filed an action in the High Court of England against Parallel Media LLC ("Parallel") to collect sums due to PLC with respect to acquisition of distribution rights in Russia to four motion pictures and to confirm Parallel's obligations under both a signed and unsigned investment agreement with respect to the motion picture project Winter Queen. On the same day Parallel filed a petition to wind up and liquidate PLC in the Companies Courts of England based on its claim of repayment of $1,000,000 of investment made by Parallel in Winter Queen. PLC is no longer part of the Company.

On September 19, 2011, Parallel filed a new action against PLC and SAE in the Superior Court of California in Los Angeles, asserting the same claims as in the winding up petition and seeking to enjoin the proposed administration proceedings in England. Parallel Media v. Seven Arts Entertainment, No. SC114182. A request for a preliminary injunction was denied by the Superior Court. Parallel was permitted to pursue a claim in the Los Angeles Superior Court for alleging that the Asset Transfer Agreement dated July 1, 2011 between PLC and the Company ("ATA") was not for fair consideration. Parallel's motion for summary judgment has been denied. The Company believes that a favorable decision by the liquidator as discussed above will resolve this action in the Company's favor. The Company has not accrued for a loss contingency in this matter. The potential loss to the Company could be between $1 million and $1.75 million.

The liquidator has been advised in a letter from its counsel dated October 10, 2013, that the Company may be obligated to reimburse the liquidator for additional shares of the Company's common stock by reason of the reduction in the value of the Company's common stock issued to PLC pursuant to the ATA, from July 1, 2010 to August 31, 2011. The Company had

previously offered to the liquidator to make such an adjustment in the consideration paid pursuant to the ATA. The Company intends to negotiate an amicable resolution of this issue with the liquidator which counsel believes should resolve any claims by Parallel. The Company believes the maximum contingent liability for this claim is $750,000 of the Company's Series C Preferred Stock.

HMRC Investigation

On July 19, 2011 Officers of Her Majesty's Revenue & Customs ("HMRC") attended the offices of Seven Arts Pictures Plc. (the "Company") in London. Documents were retained appertaining to arrangements involving the subscription for shares in a number of companies which had lost value, resulting in subscribers making claims to tax relief.

The Company's participation in these transactions was limited to the Company's predecessor's transfer of rights to certain motion pictures to the investors in return for their investments in the production and release costs of those pictures and making available the provision of loans to fund a portion of those investments. The Company received no tax benefits from the transactions, which were made on arms-length terms. The Company believes that it is not a subject of the HMRC investigation.

In connection with the transactions, the Company did not make any representations or warranties to any party, including the investors, regarding any potential tax benefits related to the transactions. Prior to the closing of the transactions the investors obtained and made available to the Company, an opinion of prominent Queen's counsel, specializing in United Kingdom tax laws, that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws. The Company remains confident that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws.

HMRC has requested and completed interviews with three officers of PLC to discuss whether those officers were involved in the arrangements for subscription of shares in the relevant companies. PLC is fully cooperating with the investigation. PLC believes there is no basis for any claim of responsibility of any of its officers or employees. Based on facts currently known by PLC, there is no need for it to record a contingent liability in its financial statements in connection with the investigation or the related transactions.

Prodigy Distribution Actions. On June 25, 2014, Prodigy Distribution Inc., controlled by Jay Firestone, filed in United States District Court for the Central District of California a declaratory relief action against the Company and several other persons setting a declaration that it owns all distribution rights and copyright to the motion picture "Schism" currently distributed by the Company. No. 14-CV-04963. The Company has amended the complaint and believes it has meritorious defenses to the allegations thereof. There is no contingent liability for this action seeking on declaratory relief.

NOTE 9 – GOING CONCERN

The accompanying unaudited consolidated financial statements are prepared under a going concern basis in accordance with US generally accepted accounting principles ("GAAP") which contemplates the realization of assets and discharge of liabilities and commitments in the normal course of business. For the quarter ended June 30, 2014, the Company had an accumulated deficit of $39,767,633 and recorded a loss from operations of $45,336. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to return to profitability or to develop additional sources of financing or capital. The Company's financial statements do not include any adjustments that might result from the outcome of these uncertainties.