IMAGE PROTECT INC.
UNAUDITED CONDENSED FINANCIAL STATEMENTS
MARCH 31, 2016

IMAGE PROTECT INC.
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IMAGE PROTECT INC.
CONDENSED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 303	$ 1,067
Accounts receivable, net	71,494	94,620
Prepaid expense and other current asset	-	25,000
Total Current Assets	71,797	120,687
OTHER ASSETS:		
Website development cost, net	12,809	15,371
TOTAL ASSETS	$ 84,606	$ 136,058
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 204,452	$ 170,421
Accounts payable and accrued liabilities - related party	215,854	204,298
Convertible notes payable, net of debt discount of $40,352 and $69,984, respectively	112,148	50,016
Loan payable	62,243	62,243
Derivative liabilities	346,990	453,520
Total Current Liabilities	941,687	940,498
LONG-TERM LIABILITY:		
Advances from related party	238,523	204,586
TOTAL LIABILITIES	1,180,210	1,145,084
STOCKHOLDERS' DEFICIT:		
Preferred stock ($0.01 par value; 5,000,000 shares authorized)		
Series C preferred stock - $0.01 par value; 1,500,000 shares authorized; 1,500,000 shares issued and outstanding at March 31, 2016 and December 31, 2015	15,000	15,000
Common stock, ($0.01 par value; 750,000,000 shares authorized; 63,675,740 shares issued and outstanding at March 31, 2016 and December 31, 2015	636,758	636,758
Additional paid-in capital	(807,740)	(807,740)
Accumulated deficit	(939,622)	(853,044)
TOTAL STOCKHOLDERS' DEFICIT	(1,095,604)	(1,009,026)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 84,606	$ 136,058

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

IMAGE PROTECT INC.
CONDENSED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2016	2015
	(Unaudited)	(Unaudited)
NET REVENUES		
Revenues from infringement protection and monitoring services	$ 34,295	$ 75,750
Revenues from infringement protection and monitoring services - related party	14,747	190,133
Total net revenues	49,042	265,883
COST AND OPERATING EXPENSES		
Direct cost of revenues	38,935	99,903
Direct cost of revenues - related party	5,116	42,939
General and administrative	154,402	63,458
TOTAL COST AND OPERATING EXPENSES	198,453	206,300
LOSS FROM OPERATIONS	(149,411)	59,583
OTHER EXPENSE		
Interest expense	(71,197)	(2,210)
Derivative expense	(75,042)	-
Gain from change in fair value of derivative liabilities	209,072	-
TOTAL OTHER EXPENSE, NET	62,833	(2,210)
Loss before provision for income taxes	(86,578)	57,373
Provision for income taxes	-	-
NET (LOSS) INCOME	$ (86,578)	$ 57,373
NET LOSS PER COMMON SHARE		
Basic and diluted	$ (0.00)	$ 0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and diluted	44,601,962	44,601,962

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

IMAGE PROTECT INC.
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Three Months Ended March 31, 2016 and Year Ended December 31, 2015
(Unaudited)

	Series C Preferred Stock		Common Stock		Additional		Total
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Deficit
Balance at December 31, 2014	-	-	44,601,962	446,020	(321,406)	(385,564)	(260,950)
Recapitalization of the Company	1,500,000	15,000	19,073,778	190,738	(486,334)	-	(280,596)
Net loss for the year ended December 31, 2015	-	-	-	-	-	(467,480)	(467,480)
Balance at December 31, 2015	1,500,000	15,000	63,675,740	636,758	(807,740)	(853,044)	(1,009,026)
Net loss for the three months ended March 31, 2016	-	-	-	-	-	(86,578)	(86,578)
Balance at March 31, 2016	1,500,000	$ 15,000	63,675,740	$ 636,758	$ (807,740)	$ (939,622)	$ (1,095,604)

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

IMAGE PROTECT INC.
CONDENSED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (86,578)	$ 57,373
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of website development costs	2,562	2,562
Amortization of prepaid expense	25,000	-
Amortization of debt discount	62,132	-
Bad debt expense	27,660	-
Derivative expense	75,042	-
Gain from change in fair value of derivative liabilities	(209,072)	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,534)	(46,708)
Accounts payable and accrued liabilities	34,031	2,288
Accounts payable and accrued liabilities - related party	11,556	42,939
Net cash (used in) provided by operating activities	(62,201)	58,454
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related party	43,437	52,501
Repayments to related party for advances	(9,500)	(105,274)
Net proceeds from issuance of convertible notes	27,500	-
Net cash provided by (used in) financing activities	61,437	(52,773)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(764)	5,681
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,067	14,079
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 303	$ 19,760
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 2,300	$ 2,210
Income taxes	$ -	$ -

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

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Image Protect, Inc. (the "Company") (formerly Image Technology Laboratories, Inc.) was incorporated on December 5, 1997 and commenced operations on January 1, 1998. On December 1, 2015, the Company merged with Clear Art, Inc. ("Clear Arts"), in a transaction treated as a reverse acquisition, and the business of Clear Arts became the business of the Company. The Company has developed a web application that monitors the global Internet to seek and collect evidence for illegally used visual content. The web application crawls the internet to identify illegal use and sends notices to identified infringers or their hosting company (ISP).

On December 1, 2015, Clear Arts, Inc. (doing business as Image Protect), a private California corporation which is the historical business, entered into an Agreement and Plan of Merger (the "Merger Agreement") with the Company and all of the stockholders of Clear Arts (the "Clear Arts Shareholders") whereby the Company agreed to acquire all of the issued and outstanding capital stock of Clear Arts in exchange for 44,601,962 shares of the Company's common stock. On December 3, 2015, the merger was filed with the state of Delaware and Clear Arts merged with and into the Company and the separate corporate existence of Clear Art ceased and after the closing, the Company is the surviving entity pursuant to the Merger Agreement. The number of shares issued represented approximately 70.0% of the issued and outstanding common stock immediately after the consummation of the Merger Agreement. In addition, Mr. Jonathan Thomas who was the President and a stockholder of Clear Arts, was appointed to the Board of Directors and was engaged as President and COO of the Company. Mr. Jonathan Thomas received 37,733,000 shares out of the total 44,601,962 shares of the Company's common stock per the terms of the Merger Agreement.

As a result of the controlling financial interest of the former stockholders of Clear Arts, for financial statement reporting purposes, the business combination between the Company and Clear Arts has been treated as a reverse acquisition with Clear Arts deemed the accounting acquirer and the Company deemed the accounting acquiree under the acquisition method of accounting in accordance with FASB Accounting Standards Codification ("ASC") Section 805-10-55. The reverse acquisition is deemed a capital transaction and the net assets of Clear Arts (the accounting acquirer) are carried forward to the Company (the legal acquirer and the reporting entity) at their carrying value before the acquisition. The acquisition process utilizes the capital structure of the Company and the assets and liabilities of Clear Arts which are recorded at historical cost. The equity at closing is the historical equity of Clear Arts retroactively restated to reflect the number of shares issued by the Company in the transaction.

NOTE 2 – BASIS OF PRESENTATION, GOING CONCERN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements are unaudited, but in the opinion of management of the Company, contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position at March 31, 2016, and the results of operations and cash flows for the three months ended March 31, 2016. Certain information and footnote disclosures normally included in the unaudited financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these unaudited condensed financial statements are adequate to make the information presented therein not misleading.

Going concern

These unaudited financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business.

As reflected in the accompanying unaudited condensed financial statements, the Company had a net loss of $86,578 for the three months ended March 31, 2016 and net cash used in operations of $62,201 for the three months ended March 31, 2016 and an accumulated deficit, stockholders' deficit and working capital deficit of $939,622, $1,095,604 and $869,890, respectively, at March 31, 2016. These matters raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon achieving profitable operations and/or obtaining additional financing. The unaudited financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company plans on raising capital through the sale of equity or debt instruments to implement its business plan. There is no assurance these plans will be realized.

NOTE 2 – BASIS OF PRESENTATION, GOING CONCERN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the unaudited financial statements in conformity with generally accepted accounting principles 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 these estimates. Significant estimates during the three months ended March 31, 2016 and 2015 include the useful lives of website development cost, beneficial conversion of convertible notes payable, the valuation of derivative liabilities and the valuation of stock-based compensation.

Fair value of financial instruments and fair value measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company classifies assets and liabilities recorded at fair value under the fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The fair value measurements are classified under the following hierarchy:

- Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;
- Level 2—Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity that is significant to the fair value of assets or liabilities.

The carrying amounts of the Company's financial assets and liabilities, such as cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses approximate their fair values because of the short maturity of these instruments.

The Company's convertible notes payable and loan payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar financial arrangements at March 31, 2016 and 2015.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

ASC 825-10 "*Financial Instruments*", allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

Fair Value of Financial Assets and Liabilities Measured on a Recurring Basis

Level 3 Financial Liabilities - Derivative Liability on Conversion Feature

The Company uses Level 3 of the fair value hierarchy to measure the fair value of the derivative liabilities and revalues its derivative liability on the conversion feature at every reporting period and recognizes gains or losses in the statements of operations that are attributable to the change in the fair value of the derivative liabilities.

NOTE 2 – BASIS OF PRESENTATION, GOING CONCERN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table presents the derivative financial instruments, measured and recorded at fair value on the Company's unaudited condensed balance sheets on a recurring basis, and their level within the fair value hierarchy as of March 31, 2016:

	Amount	Level 1	Level 2	Level 3
Derivative liability - Embedded conversion	$ 346,990	$ -	$ -	$ 346,990

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term highly liquid investments purchased with original maturities of three months or less. There were no cash equivalents at March 31, 2016 and December 31, 2015.

Accounts receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowance for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowance when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balance, the Company considers many factors, including the age of the balance, a customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. At March 31, 2016 and December 31, 2015, the Company recorded an allowance for doubtful accounts of $32,640 and $4,980, respectively.

Property, plant and equipment

Property and equipment are carried at cost. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition. The Company examines the possibility of decreases in the value of fixed assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets.

Revenue recognition

The Company follows ASC 605-10 "Revenue Recognition" and recognizes revenue when all the conditions for revenue recognition are met: (i) persuasive evidence of an arrangement exists, (ii) collection of the fee is probable, (iii) the sales price is fixed and determinable and (iv) services have been rendered.

Revenue is derived from subscription fees and the recovery of photo infringement settlement fees. The Company collects settlement fees for commercial and editorial uses from operating companies. The Company provides infringement protection and monitoring services to copyright owners under which copyright owners retain the Company to identify and collect settlement payments from Internet users who have infringed on their copyrights. Revenue is recognized when the Company collects a settlement fee or upon entering into a settlement agreement which acts as a waiver to the infringement against the copyright owner. The Company reports its revenue at gross amounts in accordance with ASC 605-45 "Principal Agent Considerations" because it is responsible for fulfillment of the service, has substantial latitude in setting price, assumes the credit risk and it is responsible for the payment of all obligations incurred for legal and debt collection fees.

Cost of Revenue

Cost of revenues mainly includes payments to copyright holders of a percentage of the revenue the Company collects in accordance with our agreements with the copyright owner. Cost of revenues also include expenses incurred in connection with the Company's copyrights enforcement activities, such as legal and debt collection fees.

Advertising

Advertising is expensed as incurred and is included in general and administrative expense. The Company incurred advertising expense for the three months ended March 31, 2016 and 2015 amounting $3,047 and $0, respectively.

NOTE 2 – BASIS OF PRESENTATION, GOING CONCERN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

Expenditures for research and product development costs are expensed as incurred. The Company did not incur any research and development during the three months ended March 31, 2016 and 2015.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the service period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

Derivative Liabilities

The Company follows the provisions of ASC Topic No. 815-40, "Derivatives and Hedging - Contracts in an Entity's Own Stock", for the embedded conversion options that were accounted for as derivative liabilities at the date of issuance and adjusted to fair value through earnings at each reporting date. In accordance with ASC 815, the Company has bifurcated the conversion feature of the convertible notes, along with any free-standing derivative instruments and recorded derivative liabilities on their issuance date. The Company uses the Black-Scholes model to value the derivative liabilities.

Income taxes

The Company accounts for income taxes pursuant to the provision of ASC 740-10, "Accounting for Income Taxes" which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of the ASC 740-10 related to Accounting for Uncertain Income Tax Position. When tax returns are filed, it is highly certain that some positions taken would be situated upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is most likely that not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25 Definition of Settlement, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax position considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely that not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

NOTE 2 – BASIS OF PRESENTATION, GOING CONCERN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Software development costs

The Company recognizes the costs associated with developing a website in accordance with ASC Topic 350–50 "Website Costs". Costs incurred to develop internal-use software, including website development costs, during the preliminary project stage are expensed as incurred. Internal-use software development costs are capitalized during the application development stage, which is after: (i) the preliminary project stage is completed; and (ii) management authorizes and commits to funding the project and it is probable the project will be completed and used to perform the function intended. Capitalization ceases at the point the software project is substantially complete and ready for its intended use, and after all substantial testing is completed. Upgrades and enhancements are capitalized if it is probable that those expenditures will result in additional functionality. Amortization is provided for on a straight-line basis over the expected useful life of three years of the internal-use software development costs and related upgrades and enhancements. When existing software is replaced with new software, the unamortized costs of the old software are expensed when the new software is ready for its intended use. The Company place its website into service in June 2014. The Company incurred software developments cost which consisted primarily of consulting fees of software programmers in the amount of approximately $16,000 and $47,000 during the three months ended March 31, 2016 and 2015, respectively and were included in general and administrative expenses as reflected in the unaudited condensed statements of operations. Amortization of website development cost amounted $2,562 and $2,562 during the three months ended March 31, 2016 and 2015, respectively.

Basic and diluted earnings per share

Net loss per common share is calculated in accordance with ASC Topic 260, "Earnings Per Share". Basic loss per share is computed by dividing net loss available to common stockholder, adjusted for preferred dividends, by the weighted average number of shares of Common Stock outstanding during the period. The computation of diluted net loss per share does not include anti-dilutive common stock equivalents in the weighted average shares outstanding. The Company's aggregate common stock equivalents at three months ended March 31, 2016 and 2015 included the following:

	March 31, 2016	March 31, 2015
Convertible notes payable	18,950,804	-
Total	18,950,804	-

Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners and stockholders of the Company, its management, members of the immediate families of principal owners and stockholders of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all related party transactions. All transactions are recorded at fair value of the goods or services exchanged.

Recent accounting pronouncements

Accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the unaudited condensed financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 3 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At three months ended March 31, 2016 and 2015, accounts payable and accrued liabilities consisted of the following:

	March 31, 2016 (Unaudited)	December 31, 2015 (Unaudited)
Trade accounts payable	$ 28,771	$ 11,418
Trade accounts payable - related party	189,573	189,573
Credit cards	82,331	79,742
Accrued professional and consulting fees	74,995	70,119
Accrued expenses - other	6,904	-
Accrued consulting fees – related party	16,100	9,000
Accrued interest	11,451	9,142
Accrued interest – related party	10,181	5,725
	$ 420,306	$ 374,719

NOTE 4 – LOAN PAYABLE

On December 1, 2015, following the closing of the Merger Agreement (see Note1), the Company assumed a working capital loan agreement with a financial institution for borrowings of up to $75,000. Outstanding borrowings bear interest monthly at 1% above the prime rate and is due on demand. The principal amount outstanding under this agreement was $62,243 at March 31, 2016 and December 31, 2015. Accrued interest as of March 31, 2016 and December 31, 2015, amounted to $9,010 and $8,312, respectively.

NOTE 5 – CONVERTIBLE NOTES PAYABLE

At three months ended March 31, 2016 and 2015, convertible notes payable consisted of the following:

	March 31, 2016 (Unaudited)	December 31, 2015 (Unaudited)
Principal amount	$ 152,500	$ 120,000
Less: unamortized debt discount	(40,352)	(69,984)
Convertible notes payable, net	$ 112,148	$ 50,016

On December 1, 2015, following the closing of the Merger Agreement (see Note 1), the Company assumed convertible notes payable for a total of $110,000 with a remaining balance of $77,064 of debt discount. These convertible notes payable as of March 31, 2016 consisted of the following:

- 5% Convertible Promissory Note in the principal amount for borrowings of up to $50,000. The 5% convertible promissory note and all accrued interest are due on April 15, 2016. The principal on this note shall bear interest at the rate of five percent (5%) per annum from the issuance date thereof until the note is paid. The note holder is entitled, at its option, at any time after the issuance of this note, to convert all or any lesser portion of the outstanding principal amount and accrued but unpaid interest into the Company's common stock at a conversion price for each share of common stock equal to a price which is 50% of the lowest trading price during forty (40) trading days, commencing on the first trading day following delivery and clearing of the conversion notice. In the event the price of the Company's common stock falls below $0.01 at any time after the issuance date, the conversion price for all conversions shall be automatically adjusted to the lesser of (i) $0.0001, or (ii) 50% of the lowest trading price during the valuation period. The Company assumed $10,000 of this convertible note on the date of merger. On December 15, 2015, the Company received additional proceeds in connection with this note of $10,000. In March 2016, the Company received additional proceeds in connection with this note of $2,500. The outstanding principal for this convertible note was $22,500, which represents the total proceeds received at March 31, 2016.

NOTE 5 – CONVERTIBLE NOTES PAYABLE (continued)

- 2% Convertible Promissory Note in the principal amount of $50,000 in connection with a Consulting Agreement dated October 16, 2015 (see Note 7). The 2% convertible promissory note and all accrued interest were due on May 16, 2016. The principal on this note shall bear interest at the rate of two percent (2%) per annum from the issuance date thereof until the note is paid. The note holder is entitled, at its option, at any time after the issuance of this note, to convert all or any lesser portion of the outstanding principal amount and accrued but unpaid interest into the Company's common stock at a conversion price for each share of common stock equal to a price which is 87.5% of the lowest trading price during the forty (40) trading days, commencing on the first trading day following delivery and clearing of the conversion notice. Accordingly, the 2% convertible note was not considered to be conventional debt and the embedded conversion feature was required to be bifurcated from the debt host and accounted for as a derivative liability. The outstanding principal for this convertible loan was $50,000 at March 31, 2016.

- 5% Convertible Promissory Note in the principal amount of $50,000 in connection with a Securities Purchase Agreement dated October 16, 2015 (see Note 7). The 5% convertible promissory note and all accrued interest were due on April 16, 2016. The principal on this note shall bear interest at the rate of five percent (5%) per annum from the issuance date thereof until the note is paid. The note holder is entitled, at its option, at any time after the issuance of this note, to convert all or any lesser portion of the outstanding principal amount and accrued but unpaid interest into the Company's common stock at a conversion price for each share of common stock equal to a price which is 60% of the lowest trading price during the twenty (20) trading days, commencing on the first trading day following delivery and clearing of the conversion notice. The Company determined that the conversion feature of the 5% convertible promissory note represents an embedded derivative since the note is convertible into a variable number of shares. The outstanding principal for this convertible loan was $50,000 at March 31, 2016.

- 10% Convertible Promissory Note of $30,000 dated in March 2016, due in March 2017, with an unrelated entity. Under the terms of the note, the Company received $25,000 and was charged an original issue discount of $5,000. The original issue discount has been recorded as debt discount. This note may not be prepaid in whole or in part. Any amount of principal or interest on this note, which is not paid when due, shall bear interest at the rate of fifteen percent (15%) per annum from the due date thereof until the same is paid. At the option of the note holder, the Company may repay the note by issuing the Company's common stock based upon the conversion term equal to 30% of the lowest trading price during the 20 days prior to the date of the conversion notice. The note holder may exchange the notes as subscription payment toward purchase of shares offered for resale or other type of offering as defined in the convertible note agreement. In the event that note holder elects to exchange the note for purchase of shares from the qualified offering, said shares shall be issued free of restrictive legend and will be deemed qualified shares. At the time of conversion the Company will grant two registered shares for every dollar invested. The Company's exchanged shares shall be automatically registered in the offering. The outstanding principal for this convertible loan was $50,000 at March 31, 2016.

The Company evaluated whether or not the convertible promissory notes contain embedded conversion features, which meet the definition of derivatives under ASC 815 and related interpretations. The Company determined that the terms of the notes discussed above include variable conversion prices based on the closing trading prices of the Company's common stock which cause the embedded conversion options to be accounted for as derivative liabilities. In accordance with ASC 815, the Company has bifurcated the conversion feature of the convertible notes and recorded derivative liabilities on their issuance date and adjusted to fair value through earnings at each reporting date. The Company uses the Black-Scholes option pricing model to value the derivative liabilities.

The note issued during the three months ended March 31, 2016 were discounted in the amount of $32,500 (which includes $5,000 of original issue discount) based on the valuations and the Company recognized an initial derivative expense of $75,042 upon initial recording of the derivative liabilities. The total debt discount from the valuation of the derivatives are being amortized over the terms of the note. These derivative liabilities are then revalued on each reporting date. The gain resulting from the decrease in fair value of these convertible instruments was $209,072 for the three months ended March 31, 2016. At March 31, 2016, the Company had recorded derivative liability of $346,990.

NOTE 6 – STOCKHOLDERS' DEFICIT

During the three months ended March 31, 2016, the fair value of the derivative liabilities were estimated using the Black-Scholes pricing model with the following assumptions:

Dividend rate	0
Term (in years)	0.04 to 0.93 years
Volatility	256% to 270%
Risk-free interest rate	0.18% to 0.59%

For the three months ended March 31, 2016, amortization of debt discounts related to these convertible notes amounted to $62,132, which has been included in interest expense on the accompanying statements of operations. Accrued interest related to these convertible notes amounted to $2,441 and $830 at three months ended March 31, 2016 and December 31, 2015, respectively.

Preferred stock

The Company is authorized to issue 5,000,000 shares of its $0.01 par value preferred stock, of which, 1,500 shares are designated as Series B Convertible Preferred Stock, and 1,500,000 shares are designated as Series C Preferred Stock. At March 31, 2016, 1,500,000 and none shares of Series C Preferred Stock were issued and outstanding.

Each shares of the Series C Preferred Stock entitles the holder to 1 vote on all matters submitted to a vote of the Company's stockholders. The holders of the Series C Preferred Stock do not have any conversion rights and redemption provision.

Common stock

The Company is authorized to issue 750,000,000 shares of its $0.01 par value common stock. As of March 31, 2016, 63,675,740 shares of common stock were issued and outstanding, respectively.

Immediately prior to the consummation of the Merger Agreement on December 1, 2015, the Company had 19,073,778 common shares issued and outstanding.

Upon consummation of the Merger Agreement on December 1, 2015, the Company issued 44,601,962 shares of its common stock for the acquisition of 100% of the issued and outstanding capital stock of Clear Arts (see Note 1).

Options

As of March 31, 2016, the Company had no options issued and outstanding since the Company did not grant any options under the Company's option plan.

Warrants

As of March 31, 2016, the Company had no warrants issued and outstanding.

NOTE 7 – CONCENTRATIONS AND COMMITMENTS

Concentrations

Concentration of credit risk

The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts through March 31, 2016. There were no balances in excess of FDIC insured levels as of March 31, 2016.

NOTE 7 – CONCENTRATIONS AND COMMITMENTS (continued)

Customers

During the three months ended March 31, 2016, revenues generated from the services rendered to two copyright owners represented approximately 58% of the Company's net revenues. 30% of the 58% were generated from one copyright owner who is a related party. During the three months ended March 31, 2015, revenues generated from the services rendered to one copyright owner who is a related party represented approximately 72% of the Company's net revenues (see Note 8).

As of March 31, 2016 and December 31, 2015, the Company had accounts receivable from various copyright infringers related to service agreements with two copyright owners representing approximately 81% of accounts receivable and three copyright owners representing approximately 100% of accounts receivable, respectively.

Commitments

Consulting agreements

In September 2015, the Company entered into a consulting agreement with Seaside Advisors LLC, an affiliated company managed by the CEO of the Company. Pursuant to the consulting agreement, the consultant shall provide strategic planning, business development, and consulting services relating to potential acquisition and mergers. The Company pays fees of $5,000 per month as compensation for the services per the terms of agreement. Additionally, the Company pays reimbursement for out of pocket expenses subject to the Company's approval. The term of the agreement is for 12 months unless otherwise extended by both parties. Accrued consulting fees to such related party consultant as of March 31, 2016 and December 31, 2015, were approximately $16,100 and $9,000, respectively, and were reflected as accounts payable and accrued liabilities – related party in the accompanying unaudited condensed balance sheets.

On October 16, 2015, the Company entered into consulting agreement with a third party consultant to serve as a business advisor to the Company. The consultant shall provide services such as introduction of potential acquisition target, assistance in acquisition and merger process and other business advisory related services. In consideration for such services, the Company paid $50,000 fee through the issuance of a 2% convertible promissory note (see Note 5). The term of the agreement was for 5 months unless otherwise extended by both parties.

Securities purchase agreements

On October 16, 2015, the Company entered into a Securities Purchase Agreement with a third party investor for the purchase of $1,000,000 worth of shares of common stock. Upon execution of this agreement, the Company shall pay to the investor a commitment fee of $50,000 through the issuance of a 5% convertible promissory note (see Note 5) and $50,000 worth of restricted shares of common stock (the "Commitment Shares") which is calculated by dividing $50,000 by 90% of the lowest trading price of the common stock during the 10 days prior to the execution of this agreement. As of March 31, 2016, the Company has not issued the Commitment Shares and consequently, the Company recorded $55,556 which represents the value of the Commitment Shares in accrued expenses at March 31, 2016. Such investor is also a party in a consulting agreement dated on October 16, 2015 as discussed above.

NOTE 8 – RELATED PARTY TRANSACTIONS

Advances from related party

During year 2014, the Company's President and COO, Mr. Jonathan Thomas, provided advances to the Company for working capital purposes for a total of $94,947 and the Company repaid $50,587. During year 2015, the Company's President and COO provided advances to the Company for working capital purposes for a total of $148,262 and the Company repaid $156,535. In September 2015, the Company issued an 8% unsecured promissory note to Mr. Thomas for the unpaid balance of the advances which shall be due on September 1, 2017. The note shall bear interest at the rate of eight percent (8%) per annum. During the three months ended March 31, 2016, the Company's President and COO provided advances to the Company for working capital purposes for a total of $43,437 and the Company repaid $9,500. At March 31, 2016 and December 31, 2015, these advances from related party amounted to $238,523 and $204,586, respectively. Accrued interest due to the Company's COO totaling $10,181 and $5,725, at March 31, 2016 and December 31, 2015 respectively, and were reflected as accounts payable and accrued liabilities – related party in the accompanying unaudited condensed balance sheets.

NOTE 8 – RELATED PARTY TRANSACTIONS

Consulting agreements

In September 2015, the Company entered into a consulting agreement with Seaside Advisors LLC, an affiliated company managed by the CEO of the Company. Pursuant to the consulting agreement, the consultant shall provide strategic planning, business development, and consulting services relating to potential acquisition and mergers (see Note 7). Accrued consulting fees to such related party consultant as of March 31, 2016 and December 31, 2015, were approximately $16,100 and $9,000, respectively, and were reflected as accounts payable and accrued liabilities – related party in the accompanying unaudited condensed balance sheets.

Transaction with an affiliated company

From time to time the Company enters into transactions with Lived In Images, Inc. ("Lived In Images"), an affiliated company owned by the President and COO of the Company, including:

- Revenues generated from the services rendered to Lived In Images totaling approximately $14,747 and $190,133 during the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016 and December 31, 2015, the Company had accounts receivable from various copyright infringers related to a service agreement with Lived In Images representing accounts receivable of $71,597 and $75,100, respectively.

- The Company incurred copyright holder fees to Lived In Images totaling approximately $5,116 and $42,939 during the three months ended March 31, 2016 and 2015, respectively. Accounts payable to Lived In Images as of March 31, 2016 and December 31, 2015, were approximately $189,600 and were reflected as accounts payable and accrued liabilities – related party in the accompanying unaudited condensed balance sheets.

NOTE 9 – SUBSEQUENT EVENTS

In April 2016, the Company issued a 7% convertible promissory note payable of $35,000, due in February 25, 2017, with an unrelated entity. Under the terms of the note, the Company received $25,000. The Company was charged with legal fees of $2,500 in connection with the issuance of this note. This note may not be prepaid in whole or in part. Any amount of principal or interest on this note, which is not paid when due, shall bear interest at the rate of fifteen percent (15%) per annum from the due date thereof until the same is paid. At the option of the note holder, the Company may repay the note by issuing the Company's common stock based upon the conversion term equal to the average lowest trading price of the Company's common stock for the previous 10 days prior to the date of the conversion notice. The note holder may exchange the notes as subscription payment toward purchase of shares offered for resale or other type of offering as defined in the convertible note agreement. In the event that note holder elects to exchange the note for purchase of shares from the qualified offering, said shares shall be issued free of restrictive legend and will be deemed qualified shares. At the time of conversion the Company will grant two registered shares for every dollar invested.