UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________ to _____________

Commission File Number: **000-55353**

RECALL STUDIOS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida	**26-4330545**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1115 Broadway, 12 th Floor, New York, NY	**10010**
(Address of Principal Executive Offices)	(Zip Code)

(212) 537-5775
(Registrant's Telephone Number, Including Area Code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[X]
Emerging growth company	[ ]		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

As of November 19, 2018, there were 214,807,200 shares of the registrant's common stock, par value $0.0001 per share, outstanding.

RECALL STUDIOS, INC.
INDEX

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this quarterly report on Form 10-Q. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this quarterly report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K, for the fiscal year ended December 31, 2017, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this quarterly report on Form 10-Q and in other reports that we file with the Securities and Exchange Commission (the “SEC”). You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report on Form 10-Q.

We file reports with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with, or furnish to, the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this quarterly report on Form 10-Q, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Recall Studios, Inc.
Condensed Consolidated Balance Sheets
(unaudited, in $ for 2018 and rounded to nearest thousand for 2017, except per share information)

		September 30, 2018		December 31, 2017
		(unaudited)		
ASSETS				
Current assets				
Cash	$	36,551	$	77,000
Prepaid expenses		685,200		-
Deposits and retainers		126,072		3,000
Total current assets		847,823		80,000
Property and equipment, net		76,987		6,000
Goodwill		81,267,181		-
Acquired and licensed technology, net		209,276,639		-
Total Assets	**$**	**291,468,630**	$	**86,000**
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities				
Accounts payable	$	2,324,117	$	112,000
Accrued expenses		5,774,685		-
Amounts owed to related parties		840,364		515,000
Deposit on future sale of equity		55,000		55,000
Note payable		2,700,000		-
Note payable - related party		65,000		-
Convertible notes payable, net of discount		137,131		152,000
Convertible notes payable - related party		484,365		484,000
Warrant liability		3,714,541		-
Derivative liability		2,393,891		1,867,000
Total current liabilities		18,489,094		3,185,000
Commitments and Contingencies		-		-
Stockholders' Equity (Deficit):				
Series A Preferred stock, par value $0.0001, 5,000,000 shares authorized 0 and 5,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017		-		1,000
Series B Preferred stock, par value $0.0001, 1,000,000 shares authorized 0 and 1,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017		-		-
Series C Preferred stock, par value $0.0001, 41,000,000 shares authorized 1,262,491 and 1,424,491 shares issued and outstanding as of September 30, 2018 and December 31, 2017		126		-
Series X Preferred stock, par value $0.0001, 1,000,000 shares authorized 1,000,000 and 0 shares issued and outstanding as of September 30, 2018 and December 31, 2017		100		-
Common stock, par value $0.0001, 300,000,000 shares authorized 214,557,207 and 79,797,533 shares issued and outstanding as of September 30, 2018 and December 31, 2017		21,456		8,000
Additional paid in capital		225,304,099		8,045,000
Shares to be issued		50,000		-
Non- controlling interest		65,899,442		-
Accumulated deficit		(18,295,687)		(11,153,000)
Total Stockholders' Equity (Deficit)		272,979,536		(3,099,000)
Total Liabilities and Stockholders' Equity (Deficit)	**$**	**291,468,630**	**$**	**86,000**

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

Recall Studios, Inc.
Condensed Consolidated Statements of Operations
(unaudited, in $ for 2018 and rounded to nearest thousand for 2017, except per share information)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	$ -	$ -	$ -	$ 41,000
Cost of goods sold	-	-	-	8,000
Gross Profit	-	-	-	33,000
Operating Expenses:				
Compensation	267,684	64,000	510,684	430,000
Stock based compensation	2,152,100	-	3,397,600	-
Professional services	35,000	-	35,000	-
General and administrative	470,961	162,000	862,461	325,000
Depreciation	2,890	-	2,890	-
Amortization - acquired and licensed technology	2,563,361	-	2,563,361	-
Total operating expenses	5,491,996	226,000	7,371,996	755,000
Loss from operations	(5,491,996)	(226,000)	(7,371,996)	(722,000)
Other Income (Expense)				
Interest expense	(207,177)	(32,000)	(502,177)	(44,000)
Amortization of debt discount	(424,256)	(51,000)	(1,228,256)	(51,000)
Other income (expense)	-	-	-	1,000
Financing costs	(190,830)	(231,000)	(2,532,830)	(231,000)
Change in fair value of warrant liability	617,996	-	617,996	-
Change in fair value of derivative liability	830,545	(268,000)	3,269,545	11,905,000
Total Other Income (Expense)	626,278	(582,000)	(375,722)	11,580,000
Income (Loss) From Continuing Operations	(4,865,718)	(808,000)	(7,747,718)	10,858,000
Income (Loss) From Discontinued Operations:	-	-	-	-
Loss from operations of discontinued business component	-	-	-	(68,000)
Gain from sale of discontinued business component	-	-	-	57,000
Total Income (Loss) From Discontinued Operations	-	-	-	(11,000)
Net Income (Loss) Before Income Taxes	(4,865,718)	(808,000)	(7,747,718)	10,847,000
Income Tax Expense	-	-	-	-
Net Income (Loss)	(4,865,718)	(808,000)	(7,747,718)	10,847,000
Loss attributable to non-controlling interest	(605,461)	-	(605,461)	-
Net Income (Loss) Attributable to Recall Studios, Inc.	$ (4,260,257)	$ (808,000)	$ (7,142,257)	$ 10,847,000
Net income (loss) from continuing operations per common share				
-Basic	$ (0.03)	$ (0.01)	$ (0.08)	$ 0.34
-Diluted	$ (0.03)	$ (0.01)	$ (0.08)	$ 0.27
Net income (loss) from discontinued operations per common share				
-Basic	$ -	$ -	$ -	$ (0.00)

-Diluted	$ -	$ -	$ -	$ -
Net income (loss)				
-Basic	$ (0.03)	$ (0.01)	$ (0.07)	$ 0.34
-Diluted	$ (0.03)	$ (0.01)	$ (0.07)	$ 0.27
Weighted average common shares outstanding				
-Basic	142,576,353	79,393,777	103,173,589	32,156,987
-Diluted	142,576,353	79,393,777	103,173,589	39,547,717

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

Recall Studios, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited, in $ for 2018 and rounded to nearest thousand for 2017, except per share information)

	For the Nine Months Ended	
	September 30, 2018	**September 30, 2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (7,747,718)	$ 10,847,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	2,890	-
Amortization of acquired and licensed technology	2,563,361	-
Amortization of original issue discount	26,456	-
Financing cost	2,532,830	231,000
Common stock issued for commitment fee	-	55,000
Common stock issued for services	3,397,600	410,000
Elimination of non-controlling interest of discontinued operations	-	189,000
Change in fair value of warrant liability	(617,996)	-
Change in fair value of derivative liability	(3,269,545)	(11,905,000)
Amortization of debt discount and debt issuance cost	1,228,256	51,000
Changes in operating liabilities		
Prepaid expenses and other current assets	(522,100)	(61,000)
Accounts payable	(71,043)	39,000
Accrued expenses	15,041	(16,000)
Net Cash Used in Operating Activities of Continuing Operations	(2,461,968)	(160,000)
Net Cash Used in Operating Activities of Discontinued Operations	-	(198,000)
Net Cash Used in Operating Activities	(2,461,968)	(358,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of note payable	-	270,000
Proceeds from issuance of convertible notes payable	1,327,050	-
Repayments of convertible notes payable	(1,251,531)	(40,000)
Proceeds from sale of common stock	2,346,000	152,000
Net Cash Provided by Financing Activities	2,421,519	382,000
Net Increase (Decrease) in Cash	(40,449)	24,000
Cash at Beginning of Period	77,000	77,000
Cash at End of Period	$ 36,551	$ 101,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 460,599	$ -
Income taxes paid	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock upon conversion of notes payable	$ 18,000	$ -
Issuance of common stock for commitment fee	$ 118,000	$ -
Issuance of Series X Preferred Stock issued upon acquisition of Evolution AI	$ 211,500,000	$ -
Minority share of losses of subsidiary	$ 605,461	$ -
Conversion of 39,087,500 shares of Series C Preferred stock into 79,175,000 shares of common stock	$ -	$ 8,000

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

Note 1 - Organization and Basis of Operations

Nature of Business

We are a market leader in the emerging virtual human likeness space, and the foremost developer of hyper-realistic digital humans – computer generated assets that appear to be human and can perform in live shows, virtual reality, augmented reality, holographic, 3D stereoscopic, web, mobile, interactive and artificial intelligence applications.

We believe that digital humans will be ubiquitous in society, culture and industry. In the last decade, hyper-realistic digital humans have performed in movies such as The Curious Case of Benjamin Button or on stage such as the virtual performance of a digital Tupac Shakur at the Coachella Valley Music Festival. We expect that, in years to come, digital humans will not only perform for audiences on stage and in film, but they will also represent individual consumers as digital likeness avatars, in realistic and fantasy form, appearing and interacting on the consumer's behalf in electronic and mobile communication, social media, video game, virtual reality, and augmented reality. The Company's long-term goal is to be the 'face' of artificial intelligence, to provide a human form to interactive artificially intelligent computer beings that will be common in society, providing useful information and services to people in diverse industries, such as education, health care, telecommunications, defense, transportation and entertainment.

Our leadership team is currently focused on applications of digital humans in entertainment. We believe the entertainment industry provides us with attractive near-term opportunities to put digital humans to work in proven performance-oriented business models, while also allowing us to use the visibility of our globally recognized celebrities to showcase our digital human technologies and their applications across other industries. Accordingly, our current business plan is to generate revenues from our digital human representations of three of the world's best-known late celebrities – Michael Jackson, Elvis Presley and Marilyn Monroe – in full length entertainment experiences, brand marketing events and digital products. The Company has a long-term agreement with Company shareholder, the Estate of Michael Jackson, to share in the revenues of any commercial use of the digital likeness of Michael Jackson. The Company is also in negotiations regarding the amendment and re-instatement of rights agreements relating to the intellectual property of two other Company shareholders, the Estate of Marilyn Monroe and Authentic Brands Group / Elvis Presley Enterprises.

We believe our specific business opportunity will be driven by the rapid evolution of the methods by which people access information and content through various forms of interactive electronic media. We believe that we are moving toward a world in which we will simply ask a computer a question and we will be given an answer, by a hyper-realistic digital human who possesses a universe of accurate and relevant information. Through our continued development of the world's most advanced human animation technology, and our collaboration with the larger community of artificial intelligence pioneers, we expect that we will do more than just put a face on 'AI.' We intend to build your most knowledgeable teacher, your most trusted advisor, and in a digital world that reveals more possibilities each day, maybe even your best friend.

Company History

Recall Studios, Inc. was incorporated under the laws of the State of Florida in February 2009 under the name York Entertainment, Inc. The Company changed its name to Brick Top Productions, Inc. in October 2010, and to Carolco Pictures, Inc. in January 2015, both names relating to the Company's then principal business of feature film entertainment. Effective November 29, 2017, the Company's corporate name was changed to Recall Studios, Inc., and its stock symbol was changed to "BTOP."

On August 8, 2018, the Company entered into an agreement to acquire 99.7% of Evolution AI Corporation (EAI), a private corporation incorporated in the State of Florida in November 2017. EAI owned approximately 58% of Pulse Evolution Corporation ("Pulse") (OTC Pink: PLFX), a corporation incorporated in the State of Nevada. The Company acquired its ownership interest in EAI by issuing Preferred X stock for a total consideration valued at $211,500,000.

The financial statements as of September 30, 2018 reflect the assets and liabilities acquired from EAI and Pulse, including Goodwill and the Non-Controlling interest arising from the business combination.

Going Concern

The Company's condensed consolidated financial statements have been prepared assuming that it will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business. As reflected in the condensed consolidated financial statements, the Company had an accumulated deficit of $18,295,687 at September 30, 2018 and incurred a net loss for the nine months ended September 30, 2018 of $7,142,257 and utilized net cash used in operating activities of $2,461,968. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year from the date that the financial statements are issued. In addition, the Company's independent public accounting firm in its audit report to the financial statements included in the 2017 Annual Report expressed substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management estimates that the current funds on hand and raising capital through proceeds from the sale of common stock subscriptions will be sufficient to continue operations through 2018. The ability of the Company to continue as a going concern is dependent on the Company's ability to execute its strategy and in its ability to raise additional funds. Management is currently seeking additional funds, primarily through the issuance of equity securities for cash to operate its business. Management is also monetizing the Company's intellectual property and seeks to increase operational revenues through its myriad applications which are available on various platforms. No assurance can be given that any future financing will be available, or operational revenues, or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case or equity financing.

Note 2 - Summary of Significant Accounting Policies

Reclassifications

The accompanying consolidated financial statements include certain reclassifications of amounts in the December 31, 2017 financial statements in order to conform to the September 30, 2018 presentation. There were no changes to total assets, total liabilities or total stockholders' equity.

Reverse Stock Split

In January 2017, the Company effected a 1-for-10,000 reverse stock split of the Company's common stock. All shares and per-share amounts have been retroactively restated as of the earliest periods presented to reflect the stock split.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. Those estimates and assumptions include depreciable lives of property and equipment, analysis of impairments of recorded goodwill, accruals for potential liabilities, assumptions made in valuing derivative liabilities and assumptions made in valuing stock instruments issued for services.

Principles of Consolidation

The Company's consolidated subsidiaries and/or entities are as follows:

Name of consolidated subsidiary or entity	State or other jurisdiction of incorporation or organization	Date of incorporation or formation (date of acquisition, if applicable)	Attributable interest
York Productions, LLC	The State of Florida	October 22, 2008 (June 1, 2010)	60%
York Productions II, LLC	The State of Florida	June 13, 2013	60%
Recall Studios, Inc.	The State of Nevada	March 30, 2016 (July 27, 2016)	100%
Evolution AI Corporation	The State of Florida	November 1, 2017(August 8, 2018)	99.7%
Pulse Evolution Corporation	The State of Nevada	May 13, 2013(August 8, 2018)	58%

The accompanying financial statements are consolidated and include the accounts of the Company and its majority owned subsidiaries. The consolidated accounts include 100% of the assets and liabilities of our majority owned subsidiaries, and the ownership interests of minority investors are recorded as a minority interest. All inter-company balances and transactions have been eliminated. York Productions, LLC and York Productions II, LLC are currently inactive. On June 15, 2017, Recall Studios, Inc. entered into a Purchase and Sale Agreement with Metropolitan Sound + Vision LLC, a South Carolina limited liability company. Pursuant to the Agreement, the Company agreed to sell to Metro all of the shares of common stock of S&G Holdings, Inc., a Tennessee corporation doing business as High Five Entertainment owned by the Company, which constitute 75% of the issued and outstanding shares of S&G. The assets, liabilities and results of operations of S&G have been reclassified to discontinued operations for financial statement presentation in 2017.

The assets, liabilities and results of operations of Evolution AI Corporation have been consolidated from the date of acquisition and included in financial statement presentation as of September 30, 2018. The accompanying consolidated financial statements also include the accounts of Pulse Evolution Corporation (Pulse), from the date of acquisition until September 30, 2018. Pulse accounts includes its wholly owned subsidiaries including Pulse Entertainment Corporation, The Kopp Initiative, LLC, Pulse Digital Human Labs, Pulse Japan and Pulse Biologic, After-August Inc, EPLS, all of which had no activity during the period ended. All significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

The Company follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification for disclosures about fair value of its financial instruments and to measure the fair value of its financial instruments. The FASB Accounting Standards Codification establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The three levels of the fair value hierarchy 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 unobservable inputs and not corroborated by market data.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

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. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The carrying amounts of the Company's financial assets and liabilities, such as cash, other assets, accounts payable and accrued payroll, approximate their fair values because of the short maturity of these instruments. The carrying values of notes payable and convertible notes approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

The carrying amount of the Company's derivative liability of $2,393,891 as of September 30, 2018 and $1,867,000 as of December 31, 2017 was based on Level 3 measurements. The carrying amount of the Company's warrant liability of $3,714,541 as of September 30, 2018 and $0 as of December 31, 2017 was also based on Level 3 measurements.

Non-Controlling Interest

Non-controlling interest represents the non-controlling interest holders' proportionate share of the equity of the Company's majority-owned subsidiaries. Non-controlling interest is adjusted for the non-controlling interest holders' proportionate share of the earnings or losses and other comprehensive income (loss) and the non-controlling interest continues to be attributed its share of losses even if that attribution results in a deficit non-controlling interest balance. All Non-controlling interest was eliminated as part of the sale of S&G Holdings, Inc., a Tennessee corporation doing business as High Five Entertainment in 2017. Non-Controlling interest as of September 30, 2018 reflects 42% of the common stock of Pulse Evolution Corporation that the Company did not own. Non-Controlling of Evolution AI Corporation of 0.3% was excluded as its impact was deemed insignificant to the financial statements as a whole.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of the related asset. Computers are depreciated over five years. Furniture and fixtures are depreciated over seven years. Impairment is reviewed on an annual basis and no impairment charge was necessary at September 30, 2018 or December 31, 2017.

Acquired & Licensed Technology

The Company acquired technology assets as a result of its acquisition of EAI and Pulse. Amortization is provided on a straight-line basis over the estimated useful life of 12 years of the related assets. Impairment is reviewed on an annual basis and no impairment charge was necessary at September 30, 2018

Revenue Recognition

The Company's Recall Studios subsidiary produces software applications for third-parties on a consulting basis. Effective January 1, 2018, the Company retroactively adopted the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers, which has no material impact on revenue reported on the years presented within these financial statements. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied.

The Company adopted ASC 606, Revenue from Contracts with Customers, which requires that upon revenue being generated, the Company will disaggregate revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by FASB ASC 718 where the value of the award is measured on the date of grant and recognized as compensation expense on the straight-line basis over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB ASC 718 where the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Options and warrants granted to non-employees are revalued each reporting period to determine the amount to be recorded as an expense in the respective period. As the options and warrants vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the then current value on the date of vesting. In certain circumstances where there are no future performance requirements by the non-employee, option and warrant grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's stock option and warrant grants are estimated using the Black-Scholes-Merton Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the stock options or warrants, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes-Merton Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes- Merton Option Pricing model could materially affect compensation expense recorded in future periods.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share reflects the potential dilution, using the treasury stock method that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company. In computing diluted income (loss) per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants may have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants.

For the nine months ended September 30, 2018, the dilutive impact of 239 warrants, Series C Preferred stock that can convert into 2,524,982 shares of common stock, Series X Preferred stock that can convert into 450,000,000 shares of common stock and notes that can convert into 5,276,810 shares of common stock have been excluded because their impact on the loss per share is anti-dilutive.

For the nine months ended September 30, 2017, the dilutive impact of a note payable that can convert into 13 shares of common stock and warrants exercisable into 239 shares of common stock have been excluded because their impact on the income per share is anti-dilutive. For the nine months ended September 30 2017, the calculation of diluted earnings per share included convertible Series B Preferred stock that can convert into 2,000,000 shares of common stock, convertible Series C Preferred stock that can convert into 2,848,982 shares of common stock, and notes that can convert into 2,541,748 shares of common stock.

The following table sets forth the computation of basic and diluted earnings per share:

	Nine months ended September 30,		Three months ended September 30,	
	2018	**2017**	**2018**	**2017**
Earnings per share – Basic				
Income (Loss) for the period	$ (7,142,257)	$ 10,847,000	$ (4,260,257)	$ (808,000)
Basic average common stock outstanding	103,173,589	32,156,987	142,576,353	79,393,777
Net earnings per share	$ (0.07)	$ 0.34	$ (0.03)	$ (0.01)

	Nine months ended September 30,		Three months ended September 30,	
	2018	**2017**	**2018**	**2017**
Earnings per share - Diluted				
Income (Loss) for the period	$ (7,142,257)	$ 10,847,000	$ (4,260,257)	$ (808,000)
Basic average common stock outstanding	103,173,589	32,156,987	142,576,353	79,393,777
Diluted effect from preferred stock and convertible notes	0	7,390,730	0	0
Diluted average common stock outstanding	103,173,589	39,547,717	142,576,353	79,393,777
Net earnings per share	$ (0.07)	$ 0.27	$ (0.03)	$ (0.01)

Derivative Financial Instruments

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a Black-Scholes-Merton models, when the number of shares issuable is fixed, and a Binomial Lattice model, when the number of shares issuable is variable, to value the derivative instruments at inception and on subsequent valuation dates through the September 30, 2018 reporting date.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities on issuance and in subsequent periods, is evaluated at the end of each reporting period.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014- 09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company has adopted ASU 2014-09 in the first quarter of 2018. The adoption of ASU 2014-09 is not expected to have a material impact on the Company's financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016- 02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of ASU 2016-02 on the Company's financial statements and disclosures.

On June 20, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 is intended to reduce cost and complexity and to improve financial reporting for share-based payments to nonemployees (for example, service providers, external legal counsel, suppliers, etc.). Under the new standard, companies will no longer be required to value non-employee awards differently from employee awards. Meaning that companies will value all equity classified awards at their grant date under ASC 718 and forgo revaluing the award after this date. The Company has chosen to early adopt this standard.

Effective January 1, 2018, the Company retroactively adopted the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers, which has no material impact on revenue reported on the years presented within these financial statements. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured.

There was no impact on the Company's financial statements as a result of adopting ASC 606 for the period ended September 30, 2018 and year ended December 2017.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statement presentation or disclosures.

Note 3 – Acquisition of Evolution AI and associated Goodwill on Business Combination

On August 8, 2018, the Company completed the acquisition of 99.7% of Evolution AI ("EAI") and 58% of Pulse Evolution (Pulse) for a purchase value consideration of $211,500,000, by issuing 1,000,000 Series X preferred shares that would be convertible into 450,000,000 shares of common stock with a traded market value of $0.47 per share. (Further details of the share exchange are outlined in Company filings in August 2018 & October 2018 and also within this 10-Q)

Upon acquisition, EAI became our wholly-owned subsidiary and Pulse became a majority owned subsidiary. The acquisition was accounted for as a business combination. This method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The Company engaged an independent 3 rd party firm to assess the fair value of the technology assets acquired from EAI and Pulse and the purchase price allocation and the resulting goodwill is summarized in the table below.

	Fair Value ($'000)	Useful-Life
Fair Value of Acquired and Licensed Technology	211,840	12 years
Fair Value of Other Net assets/(liabilities)	(15,102)	
Net Assets Acquired	**196,738**	
Non-Controlling Interest	(66,505)	
Goodwill	**81,267**	
Total Purchase Price	**211,500**	

Goodwill is primarily attributable to expected synergies from future growth, from potential monetization opportunities, from strategic sale or licensing opportunities, and from expansion of our service offerings in technology creating hyper-realistic digital humans – computer generated assets that appear to be human and can perform in live shows, virtual reality, augmented reality, holographic, 3D stereoscopic, web, mobile, interactive and artificial intelligence applications.

The Company lacks the time, staff and resources to be able to create and report proforma financial statements for its wholly owned subsidiary, Evolution AI and its majority owned subsidiary, Pulse Evolution Corporation, on a calendar year basis to produce such proforma financial statements, which would require significant time and expense to prepare. The Company has however disclosed the results of its acquisition of its wholly owned subsidiary, Evolution AI, along with audited financial statements as of December 31, 2017 and of its majority owned subsidiary, Pulse Evolution Corporation, along with the audited financial statements for the years ended June 30, 2018 and 2017 within the 8-K/A filed on October 25, 2018, which is incorporated herein by reference.

Note 4 – Property and Equipment

Property and equipment as of September 30, 2018 and December 31, 2017 consist of the following:

	September 30, 2018	**December 31, 2017**	Useful Life
	$	$	
Computers, software and other equipment	9,900	6,000	5 years
Furniture and fixtures	133,994	0	7 years
Total property and equipment	**143,894**	**6,000**	
Less: Accumulated depreciation	(66,907)	(0)	
Property and equipment, net	**76,987**	**6,000**	

Depreciation for the period ended September 30, 2018 and December 31, 2017 was $2,890 and $0, respectively.

Note 5 – Acquired & Licensed Technology

The Company acquired technology assets, that is used in the development of hyper-realistic digital humans – computer generated assets that appear to be human and can perform in live shows, virtual reality, augmented reality, holographic, 3D stereoscopic, web, mobile, interactive and artificial intelligence applications, that was recorded at fair-value assigned by an independent 3 rd party valuation firm, as a result of its acquisition of EAI and Pulse and as of September 30, 2018 consists of the following:

	September 30, 2018	December 31, 2017	Useful Life
	$	$	
Acquired and licensed technology	211,840,000	-	12 years
Less: Accumulated depreciation	(2,563,361)	-	
Acquired and Licensed Technology, net	**209,276,639**	-	

Amortization for the period ended September 30, 2018 and December 31, 2017 was $2,563,361 and $0, respectively.

Note 6 – Accrued Expenses

Accrued liabilities as of September 30, 2018 and December 31, 2017 consist of the following:

	September 30, 2018	**December 31, 2017**
	$	$
Payroll and payroll related liabilities	1,308,016	-
Accrued Interest	752,988	-
Employee Credit Card Expenses payable	895,176	-
Stock-options based compensation	967,800	-
Amount owed for legal and consulting services	974,196	-
Other expenses	876,509	-
Total Accrued Expenses	**5,774,685**	**-**

Note 7 – Amounts owed to Related Parties

Amounts owed to related parties as of September 30, 2018 and December 31, 2017 consist of the following:

	September 30, 2018	**December 31, 2017**
	$	$
Accrued Interest	158,891	141,000
Accrued Payroll	562,369	343,000
Advances	119,104	31,000
Total owed to related parties	**840,364**	**515,000**

Advances from Related Party

From time to time, the CEO of the Company and a shareholder/employee advanced funds to the Company for working capital purposes. Those advances are unsecured, non-interest bearing and due on demand. As of September 30, 2018, and December 31, 2017 outstanding advances from related party aggregated to $119,104 and $31,000, respectively.

Accrued Payroll

As of September 30, 2018, accrued payroll amounted to $562,369, which pertains to the accrued salary of Mr. Bafer, Chairman and Mr. Textor, Chief Executive Officer. As of December 31, 2017, accrued payroll amounted to $343,000, of which $310,000 pertains to the accrued salary of Mr. Bafer, Chief Executive Officer.

Legal Services

On June 29, 2016 Esposito Partners and the Company entered into an agreement, pursuant to which the Company engaged Esposito Partners to provide legal services to the Company. The Letter Agreement also provided that Frank Esposito, who is the Managing Member of Esposito Partners, would serve as the Chief Legal Officer, a member of the Company's board of directors and as secretary of the Company's board of directors. Pursuant to the agreement, the Company will pay $5,000 per month for the legal services provided. As of September 30, 2018, accrued legal expenses amounted to $50,000.

Note 8 – Notes Payable

The Company had the following notes payable as of September 30, 2018 and December 31, 2017, respectively.

After August Inc

In March 2016, Pulse, a majority owned subsidiary of the Company, acquired After August Inc., a developer of human animation technology. Pulse financed the acquisition of the technology valued at $16,879,500 using a combination of cash, notes and stock. Pulse paid $300,000 in cash to the principal shareholders of After August Inc., and issued common stock of 4,870,000 with a negotiated price of $2.85 per share plus a three year note of $2,700,000 bearing an interest-bearing coupon of 10% per annum, with a maturity date of October 1, 2018.

The cumulative accrued interest on the note is $743,876 and the principal amount of $2,700,000 on the note remains outstanding. The note is currently in default.

Related Party

As a result of the acquisition of EAI and Pulse, the Company has a note outstanding that accrued interest at 8% per annum for the principal amount of $65,000 as of September 30, 2018 from a related party. The note has three-month roll-over provisions and different maturity and repayment amounts if not fully paid by due date. The company has not accrued for additional liability in excess of the principal amount. The note is currently in default.

Note 9 – Warrant Liability

The FASB has issued authoritative guidance whereby instruments which do not have fixed settlement provisions are deemed to be derivative instruments. Certain warrants issued to investors and conversion features of notes payable did not have fixed settlement provisions because either their exercise prices will be lowered if the Company issues securities at lower prices in the future or the conversion price is variable. In addition, since the number of shares to be issued is not explicitly limited, the Company is unable to conclude that enough authorized and unissued shares are available to share settle the conversion option. In accordance with the FASB authoritative guidance, the conversion feature of the notes was separated from the host contract (i.e., the notes) and the fair value of the warrants have been recognized as a derivative and will be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

In January 2016, Pulse issued 36,678,028 warrants with anti-dilution provisions at an exercise price of $1 to XIX Entertainment, a company controlled by Mr. Simon Fuller, in connection with his leadership role in the Elvis project. The mark-to-market gain on the warrant since acquisition until September 30, 2018 is $617,996. The warrant liabilities were valued at September 30, 2018 using a Black-Scholes-Merton model with the following average assumptions:

Warrant Liability		**September 30, 2018**
Exercise Price	$	1.00
Stock Price	$	0.24
Discount applied		50%
Fair Value of Stock Price	$	0.12
Risk Free Rate		4%
Expected Life in Years		4.23
Expected dividend yield		0%
Expected volatility		184%
# of Warrants		36,678,028
Warrant Liability	**$**	**3,714,542**

	# of Warrants		Weighted Average Exercise Price	Weighted Average remaining contractual life
December 31, 2016	**-**		**-**	**-**
Granted	-		-	-
Exercised	-		-	-
December 31, 2017	**-**		**-**	**-**
Acquired via EAI/Pulse	36,678,028	$	1.00	4.37 years
Exercised	**-**		**-**	**-**
September 30, 2018	**36,678,028**	**$**	**1.00**	**4.23 years**

Note 10 – Convertible Notes Payable

On August 29, 2017, the Company issued a convertible promissory note to Crown Bridge Partners in the amount of $35,000. The note is due on August 29, 2018 and bears interest at 10% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 55% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $35,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess if the note principal of $32,000 that was expensed as a financing cost. On February 15, 2018 Crown Bridge converted $17,401 of the note payable into 130,000 shares of common stock. On February 22, 2018 the remaining note and all accrued interest was paid off and the remaining portion of the note discount was amortized.

On September 5, 2017, the Company issued a convertible promissory note to LG Capital Funding in the amount of $52,500. The note is due on September 5, 2018 and bears interest at 6% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 58% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $52,500 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $37,000 that was expensed as a financing cost. On March 2, 2018 the note plus accrued interest was paid as well as a prepayment penalty in the amount of $20,000 which was recognized as interest expense, and the remaining portion of the note discount was amortized.

On September 12, 2017, the Company issued a convertible promissory note to EMA Financial in the amount of $100,000. The note is due on September 5, 2018 and bears interest at 10% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 50% multiplied by the lowest trading price during the previous twenty-five (25) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $100,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $99,000 that was expensed as a financing cost. On March 1, 2018 the note plus accrued interest was paid as well as a prepayment penalty in the amount of $38,000 which was recognized as interest expense, and the remaining portion of the note discount was amortized.

On September 22, 2017, the Company issued a convertible promissory note to Essex Global Investment in the amount of $43,000. The note is due on September 22, 2018 and bears interest at 10% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 58% multiplied by the lowest trading price during the previous twenty-five (25) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $43,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $32,000 that was expensed as a financing cost. On March 12, 2018 the note plus accrued interest was paid as well as a prepayment penalty in the amount of $14,000 which was recognized as interest expense, and the remaining portion of the note discount was amortized.

On September 29, 2017, the Company issued a convertible promissory note to Labrys Fund in the amount of $110,000. The note is due on March 29, 2018 and bears interest at 12% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 50% multiplied by the lowest trading price during the previous twenty-five (25) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $110,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $232,000 that was expensed as a financing cost. On February 21, 2018 the note and all accrued interest was paid off and the remaining portion of the note discount was amortized.

On November 2, 2017, the Company issued a convertible promissory note to Auctus Fund in the amount of $52,750. The note is due on August 2, 2018 and bears interest at 12% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 50% multiplied by the lowest trading price during the previous twenty-five (25) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $52,750 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $50,000 that was expensed as a financing cost. On April 27, 2018 the note plus accrued interest was paid off and the remaining portion of the note discount was amortized.

On October 2, 2017, the Company issued a convertible promissory note to Power Up Lending Group in the amount of $50,000. The note is due on July 15, 2018 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 63% multiplied by the average of the three lowest trading price during the previous ten (10) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $50,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $77,000 that was expensed as a financing cost. On March 28, 2018 the note and all accrued interest was paid off and the remaining portion of the note discount was amortized.

On January 17, 2018, the Company issued a convertible promissory note to Power Up Lending Group, LLC in the amount of $53,000. The note is due on October 30, 2018 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 63% multiplied by the lowest trading price during the previous ten (10) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $53,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $28,000 that was expensed as a financing cost. On June 25, 2018 the note and all accrued interest was paid off and the remaining portion of the note discount was amortized.

On January 26, 2018, the Company issued a convertible promissory note to Adar Bays, LLC in the amount of $44,000. The note is due on January 16, 2018 and bears interest at 6% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 58% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded original issue discount of $4,000 and a note discount of $40,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $502,000 that was expensed as a financing cost. On May 29, 2018 the note plus accrued interest was paid as well as a prepayment penalty in the amount of $15,400 which was recognized as interest expense, and the remaining portion of the note discount was amortized.

On January 26, 2018, the Company issued a second convertible promissory note to Adar Bays, LLC in the amount of $44,000. The note is due on January 16, 2018 and bears interest at 6% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 58% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded original issue discount of $4,000 and a note discount of $40,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $502,000 that was expensed as a financing cost. On May 29, 2018 the note plus accrued interest was paid as well as a prepayment penalty in the amount of $15,400 which was recognized as interest expense, and the remaining portion of the note discount was amortized.

On February 2, 2018, the Company issued a convertible promissory note to Crown Bridge Partners in the amount of $17,500. The note is due on August 29, 2018 and bears interest at 10% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 55% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded original issuance of $1,750 and a note discount of $15,750 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $69,000 that was expensed as a financing cost. On May 29, 2018 the note plus accrued interest was paid as well as a prepayment penalty in the amount of $9,045 which was recognized as interest expense, and the remaining portion of the note discount was amortized.

On February 12, 2018, the Company issued a convertible promissory note to Power Up Lending Group, LLC in the amount of $53,000. The note is due on October 30, 2018 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 63% multiplied by the lowest trading price during the previous ten (10) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $53,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $8,000 that was expensed as a financing cost. On June 25, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $18,550 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On February 21, 2018, the Company issued a convertible promissory note to One44 Capital, LLC in the amount of $94,500. The note is due on February 21, 2019 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 50% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $94,500 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess if the note principal of $93,000 that was expensed as a financing cost. On July 12, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $34,083 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On February 23, 2018, the Company issued a convertible promissory note to Crown Bridge Partners in the amount of $35,000. The note is due on August 29, 2018 and bears interest at 10% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 55% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded original issue discount of $3,500 and a note discount of $31,750 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $33,000 that was expensed as a financing cost. On June 5, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $12,250 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On February 22, 2018, the Company issued a convertible promissory note to Auctus Fund in the amount of $230,000. The note is due on November 22, 2018 and bears interest at 12% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 50% multiplied by the lowest trading price during the previous twenty-five (25) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $230,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $632,000 that was expensed as a financing cost. On August 22, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $73,015 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On February 23, 2018, the Company issued a convertible promissory note to LG Capital Funding in the amount of $110,250. The note is due on February 23, 2019 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 58% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded original issue discount of $5,250 and a note discount of $105,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $141,000 that was expensed as a financing cost. On August 17, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $39,974 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On March 29, 2018, the Company issued a convertible promissory note to One44 Capital, LLC in the amount of $94,500. The note is due on November 29, 2018 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 50% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $94,500 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $56,000 that was expensed as a financing cost. On September 12, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $34,286 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On March 23, 2018, the Company issued a convertible promissory note to Power Up Lending Group, LLC in the amount of $50,000. The note is due on December 30, 2018 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 63% multiplied by the lowest trading price during the previous ten (10) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $50,000 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $8,000 that was expensed as a financing cost. On June 25, 2018 the note and all accrued interest was paid as well as a prepayment penalty in the amount of $17,500 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On May 3, 2018, the Company issued a convertible promissory note to GS Capital in the amount of $56,000. The note is due on May 3, 2019 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 52% multiplied by the lowest trading price during the previous ten (10) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $54,800 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $54,000 that was expensed as a financing cost.

On May 31, 2018, the Company issued a convertible promissory note to Adar Bays, LLC in the amount of $275,625. The note is due on May 31, 2019 and bears interest at 6% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 53% multiplied by the lowest trading price during the previous twenty (20) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $262,500 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $151,000 that was expensed as a financing cost. On November 16, 2018, the Company paid the principal balance of $275,625 on this note and all accrued interest of $7,580 as well as a prepayment penalty in the amount of $96,469 which was recognized as interest expense and the remaining portion of the note discount was amortized.

On August 24, 2018, the Company issued a convertible promissory note to Power Up Lending Group, LLC in the amount of $202,500. The note is due on August 24, 2019 and bears interest at 8% per annum. The loan and any accrued interest may be converted into shares of the Company's common stock at a rate of 61% multiplied by the average for the three lowest traded price during the previous ten (10) day trading period ending on the latest complete trading day prior to the conversion date. Pursuant to current accounting guidelines, the Company recorded a note discount of $202,500 to account for the note's derivative liability. In addition, the Company recorded an amount of discount in excess of the note principal of $190,830 that was expensed as a financing cost.

As of September 30, 2018, outstanding principal balance of the notes payable amounted to $534,125. As of December 31, 2017, outstanding principal balance of the notes payable amounted to $443,250.

Note 11– Convertible Notes Payable to Related Parties

Chairman

In July 2015, the Company issued convertible promissory notes to Alex Bafer, Chairman, in exchange for the cancellation of previously issued promissory notes in the aggregate of $530,000 and accrued interest of $13,000 for a total of $543,000. The notes are unsecured, bear interest of 5% per annum, matured on October 1, 2015 and are convertible to shares of common stock at a conversion price equal to the lowest closing stock price during the 20 trading days prior to conversion with a 50% discount.

In October 2015, the notes matured and became past due. As a result, the stated interest of 5% increased to 22% pursuant to the term of the notes. In July 2016, the Company and Mr. Bafer agreed to extend the maturity date of these notes to August 1, 2017 and cure the default. There were no other terms changed and no additional compensation paid. As of September 30, 2018, and December 31, 2017, the total outstanding note balance amounted to $434,000 and $434,000, and accrued interest of $156,223 and $140,000, respectively. The notes are currently past due.

Shareholder

On December 28, 2016, the Company issued an unsecured convertible promissory note in the principal amount of $50,000 to a shareholder. The note bears interest at 3% per annum, is due on March 24, 2017, and is convertible into shares of common stock at a conversion price of $4,000 per share. The note is currently past due. As of September 30, 2018, and December 31, 2017, accrued interest of $2,666 and $1,000 is due, respectively.

Note 12- Derivative Liability

The FASB has issued authoritative guidance whereby instruments which do not have fixed settlement provisions are deemed to be derivative instruments. Certain warrants issued to investors and conversion features of notes payable did not have fixed settlement provisions because either their exercise prices will be lowered if the Company issues securities at lower prices in the future or the conversion price is variable. In addition, since the number of shares to be issued is not explicitly limited, the Company is unable to conclude that enough authorized and unissued shares are available to share settle the conversion option. In accordance with the FASB authoritative guidance, the conversion feature of the notes was separated from the host contract (i.e., the notes) and the fair value of the warrants have been recognized as a derivative and will be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liabilities were valued at the following dates using a Binomial Lattice Model with the following average assumptions:

	September 30, 2018	December 31, 2017
Stock Price	$ 0.48	$ .31
Risk free interest rate	2.19-2.59 %	0.84%
Expected Volatility	223%	476%
Expected life in years	0.50-0.92	0.25-0.79
Expected dividend yield	0%	0%
Fair Value – Note Conversion Feature	**2,393,891**	**1,867,000**
Total	**$ 2,393,891**	**$ 1,867,000**

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company uses the historical volatility of its common stock to estimate the future volatility for its common stock. The expected life of the derivative securities was determined by the remaining contractual life of the derivative instrument. For derivative instruments that already matured, the Company used the estimated life. The expected dividend yield was based on the fact that the Company has not paid dividends to its common stockholders in the past and does not expect to pay dividends to its common stockholders in the future.

During the nine months ended September 30, 2018, the Company recorded $3,796,132 in derivative liability as a result of conversion features from the issuance of new convertible notes payables (see Note 11). In addition, the Company recorded a gain of $3,269,545 to account for the change in fair value of the derivative liabilities related to the conversion features from December 31, 2017 to September 30, 2018. As of September 30, 2018, the derivative liability amounted to $2,393,891.

Note 13- Stockholders' Equity/ (Deficit)

Issuance of Common Stock for Cash

During the nine months ended September 30, 2018, the Company issued 10,722,333 shares of common stock for proceeds of $2,346,000. During the year ended December 31, 2017, the Company issued 978,750 shares of common stock for proceeds of $175,000.

Issuance of Common Stock for services

During the nine months ended September 30, 2018, the Company issued an aggregate of 4,250,000 shares of common stock valued at $3,397,600 to various shareholders for services. During the year ended December 31, 2017, the Company issued an aggregate of 501,000 shares of common stock valued at $410,000 to five shareholders for services.

Issuance of Common Stock for commitment fee

During the nine months ended September 30, 2018 pursuant securities purchase agreements with Auctus Fund, the Company issued 200,000 shares to Auctus as a commitment fee valued at $118,000.

In February 2018 pursuant the September 29, 2017 securities purchase agreement with Labrys Fund, LP, the Company issued 107,843 shares to Labrys as a commitment fee. These shares are returnable based upon meeting certain conditions by the Company.

Issuance of Common Stock for conversion of note payable

During the nine months ended September 30, 2018, the Company issued 130,000 shares of common stock upon the conversion of $18,000 principal of a convertible note payable.

Issuance of Common Stock for conversion of warrant

During the nine months ended September 30, 2018, the Company issued 153,430 shares of common stock upon the conversion of warrants.

Issuance of Common Stock Upon Conversion of Series A Preferred Stock

During the nine months ended September 30, 2018 the Company issued 109,000,000 shares of common stock upon the conversion of 5,000,000 shares of Series A Preferred Stock pursuant to the terms of the certificate of designation of the Series A Preferred Stock. There are no Series A Preferred Stock outstanding as of September 30, 2018.

Issuance of Common Stock Upon Conversion of Series B Preferred Stock

During the nine months ended September 30, 2018 the Company issued 2,000,000 shares of common stock upon the conversion of 1,000,000 shares of Series B Preferred Stock pursuant to the terms of the certificate of designation of the Series B Preferred Stock. There are no Series B Preferred Stock outstanding as of September 30, 2018.

Issuance of Common Stock Upon Conversion of Series C Preferred Stock

During the nine months ended September 30, 2018 the Company issued 324,000 shares of common stock upon the conversion of 162,000 shares of Series C Preferred Stock pursuant to the terms of the certificate of designation of the Series C Preferred Stock. There are 1,262,491 Series C Preferred Stock outstanding as of September 30, 2018.

During the year ended December 31, 2017, the Company issued 78,175,000 shares of common stock upon the conversion of 39,087,500 shares of Series C Preferred Stock pursuant to the terms of the certificate of designation of the Series C Preferred Stock.

Issuance of Series X Preferred Stock

During the nine months ended September 30, 2018 the Company issued 1,000,000 shares of Series X Preferred stock upon the acquisition of Evolution AI, which is convertible into an aggregate of 450,000,000 shares of common stock (see note 14). The Company does not yet have sufficient shares authorized to issue should all preferred shares be converted. As of September 30, 2018, the number of preferred shares convertible is 1,000,000 representing 100% of ownership of EAI.

Cancellation of Common Stock for commitment fee

In February 2018 pursuant the September 29, 2017 securities purchase agreement with Labrys Fund, LP, the Company issued 107,843 shares to Labrys as a commitment fee. During the nine months ended September 30, 2018 these shares were returned based upon the meeting of certain conditions by the Company.

Summary of the Company's Stock Warrant Activities

The following table summarizes information concerning outstanding and exercisable warrants as of September 30, 2018 and December 31, 2017:

	Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
December 31, 2016	295	$ 800	3.63
Granted	90,250	.50	5.00
Exercised	-	-	-
Forfeited/expired	(56)	10	.05
December 31, 2017	90,489	$ .50	4.71
Granted	-	-	-
Exercised	90,250	-	-
Forfeited/expired	-	-	-
September 30, 2018	239	$ .80	2.93

At September 30, 2018, the Company's outstanding and exercisable warrants had no intrinsic value as the exercise price of these warrants was greater than the market price at September 30, 2018.

Note 14 - Evolution AI Corporation Share Exchange Agreement

Series X Preferred Stock

On August 6, 2018, we amended our Articles of Incorporation as filed with the Secretary of State of the State of Florida to designate the Series X Convertible Preferred Stock, par value $0.0001 per share (the "Series X Preferred Stock"), as a series of preferred stock of the Company. 1,000,000 shares of Series X Preferred Stock are authorized.

Holders of shares of Series X Preferred Stock (each, a "Series X Holder") are entitled to receive dividends and distributions as and when paid on the shares of our common stock, on an as-converted basis, assuming that such shares of Series X Preferred Stock had been converted into shares of common stock, as described below, immediately prior to the payment of such dividend or distribution. Series X Holders are also entitled to vote on an as converted basis with the shares of our common stock, and voting with the common stock as one class, assuming that such shares of Series X Preferred Stock had been converted into shares of common stock immediately prior to the record date for such vote. The Series X Preferred Stock does not have any preferences in the event of any liquidation, dissolution or winding up of the Company, either voluntarily or involuntarily, a merger or consolidation of the Company wherein the Company is not the surviving entity, or a sale of all or substantially all of our assets (each, a "Liquidation Event"), but will participate with the common stock on any distributions made to the common stock in connection with any Liquidation Event on an as converted basis, assuming that such shares of Series X Preferred Stock had been converted into shares of common stock immediately prior to the payment of such dividend or distribution.

Shares of Series X Preferred Stock are not currently convertible into common stock, however each share of Series X Preferred Stock will automatically convert into shares of common stock upon the effectiveness of an amendment to our Articles of Incorporation following the date of the issuance of any shares of Series X Preferred Stock (the "Issuance Date") which effects a reverse stock split of our common stock or increases the authorized shares of our common stock, or a combination thereof, by an amount sufficient to enable the conversion of all issued and outstanding shares of Series X Preferred Stock. Each whole share of Series X Preferred Stock then issued and outstanding shall, automatically and without any further action of any Series X Holder, convert into 450 shares of our common stock, with any fractional shares of Series X Stock being converted into a proportionate number of shares of our common stock, and with any fractional shares of common stock issuable as a result of such conversion being rounded up to the next nearest whole share of common stock. No Series X Holder will have any right to voluntarily effect conversions of the Series X Preferred Stock.

In the event of any forward or reverse split of the common stock following the Issuance Date, the conversion ratios as set forth above will be proportionately and equitably adjusted automatically. In the event that at any time or from time to time after the Issuance Date, the common stock issuable upon the conversion of the Series X Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, then and in each such event each Series X Holder will have the right upon conversion to receive the kind and amount of shares of stock and other securities, cash and property receivable upon such recapitalization, reclassification or other change, by holders of the number of shares of common stock which the Series X Holder would have received had it converted such shares immediately prior to such recapitalization, reclassification or other change, at the conversion ratio then in effect. If at any time or from time to time after the Issuance Date there is a capital reorganization of our common stock then, as a part of such reorganization, provisions shall be made so that the Series X Holders will be entitled to receive upon conversion of their shares of Series X Preferred Stock the number of shares of stock or other securities or property to which a holder of the number of shares of common stock deliverable upon conversion would have been entitled to receive had the Series X Holder converted such shares immediately prior to such capital reorganization, at the conversion ratio then in effect.

Shares of Series X Preferred Stock converted into common stock may not be reissued by the Company and no fractional shares or scrip representing fractional shares of common stock will be issued upon the conversion of the Series X Preferred Stock. As to any fraction of a share of common stock as to which a Series X Holder would otherwise be entitled upon such conversion, we will round such fractional share of common stock up to the next whole share of common stock.

The issuance of shares on conversion of the Series X Preferred Stock shall be made without charge to any Series X Holder for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such Series X Conversion Shares, which shall be paid by us.

Closing Share Exchange Agreement

On August 8, 2018, the Company entered into the Closing Share Exchange Agreement and Joinder (the “Closing Agreement”) dated August 8, 2018 by and among the Company, EAI and the shareholders of EAI (the “EAI Shareholders”), which operated to amend the Exchange Agreement in certain respects and to provide for the closing of the transactions contemplated therein.

Pursuant to the terms of the Closing Agreement, the Company agreed to acquire up to all of the issued and outstanding shares of common stock of EAI, representing 100% of EAI’s issued and outstanding shares of stock, from the EAI Shareholders in exchange for the issuance of one share of the Company’s Series X preferred stock (the “Series X Stock”) for each 31.645 shares of EAI common stock issued and outstanding, with any fractional shares of Series X Stock issuable therefore being rounded to the nearest whole shares of Series X Stock (the “Exchange”), such that an aggregate of 1,000,000 shares of Series X Stock shall be issued for 100% of the issued and outstanding shares of stock of EAI, with each whole share of Series X Stock originally being convertible into 450 shares of the Company’s common stock, resulting in an aggregate of 450,000,000 shares of Company common stock issuable upon conversion of all of the Series X Stock (prior to any adjustments as set forth in the Closing Agreement). As a result of the Exchange, EAI became a majority owned subsidiary of the Company. As of the closing date, the Company owned approximately 99.7% of EAI’s outstanding shares. The parties intend that the Exchange will qualify as a reorganization under the provisions of Section 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended. The Exchange closed on August 8, 2018.

Pursuant to the terms of the Closing Agreement, all but one of those EAI Shareholders that did not sign, and were not parties to, the Exchange Agreement became parties to the Closing Agreement upon execution of the Closing Agreement, as though original parties to the Exchange Agreement.

Following the closing of the Exchange, the Company intends to complete a reverse stock split of the Company’s common stock on such terms as determined by the Company’s board of directors. As of September 30, 2018, the Company’s board of directors had not yet determined the ratio for the reverse split.

In the Closing Agreement, the parties acknowledge and agree that the Company did not have, as of the closing date of the Exchange, sufficient shares of Company common stock authorized to enable conversion of all of the shares of Series X Stock issued in the Exchange. Following the closing, in the event that following the Reverse Split, the Company still does not have sufficient shares of common stock authorized so as to enable the conversion of all of the shares of Series X Stock to be issued hereunder, the Company will use its commercially reasonable efforts to effect an amendment of the Company's articles of incorporation to increase the authorized shares of common stock. The conversion of the Series X Stock into common stock will occur automatically upon such an authorized share increase.

Pursuant to the terms of the Closing Agreement, in any vote of the Company's shareholders required to effect the Reverse Split or an authorized share increase, the EAI Shareholders agreed to vote all shares of Company common stock and Series X Stock held by them "for" approval of the Reverse Split, the authorized share increase and any amendments of the Company's articles as required in connection therewith.

The Company also agreed to use its commercially reasonable efforts to register shares of the Company's common stock issued upon conversion of the Series X Stock upon completion of the authorized share increase in an amount not to exceed 30% of the total outstanding shares of stock, or such amount as the SEC requires in order to qualify as a re-sale registration, to be apportioned among the EAI Shareholders pro rata.

In the Closing Agreement, the parties agreed that immediately following the closing of the Exchange, Alexander Bafer, the Company's Chief Executive Officer and Chairman of the Board, would resign as Chief Executive Officer and be appointed as the Company's Executive Chairman of the Board. In addition, John Textor would be named as Chief Executive Officer and a member of the board of directors.

The Closing Agreement contains customary representations and warranties that the parties have made to each other.

Note 15 - Brick Top and Southfork Share Exchange Agreement

Effective August 8, 2018, the Company entered into a Share Exchange Agreement (the "BTH and SV Exchange Agreement") with Brick Top Holdings, Inc. a Florida corporation ("Brick Top") owned by Alexander Bafer and Southfork Ventures, Inc. a Florida corporation ("Southfork") owned by Chris Leone, the Company's Vice-President of Operations, pursuant to which the Company agreed to acquire up to all of the shares of Series A preferred stock of the Company held by Brick Top and Southfork, in exchange for the issuance of shares of Company common stock to Brick Top and Southfork. The closing of the share exchange contemplated by the BTH and SV Exchange Agreement occurred on August 8, 2018. On such date, the Company issued (i) 81,750,000 shares of Company common stock in exchange for receipt of 3,750,000 shares of Series A preferred shares from Brick Top, and (ii) 27,250,000 shares of Company common stock in exchange for receipt of 1,250,000 shares of Series A preferred shares from Southfork.

The BTH and SV Exchange Agreement contains customary representations and warranties that the parties have made to each other.

The information set forth above is qualified in its entirety by reference to the actual terms of the Closing Agreement, the Voting Agreement and the BTH and SV Share Exchange Agreement, each of which will be filed with the Securities and Exchange Commission (the "Commission") as required.

Executive Officer and Director Changes

Immediately following the closing of the Exchange on August 8, 2018, Mr. Bafer resigned as the Company's Chief Executive Officer and was appointed as the Company's Executive Chairman, an executive officer and director position. Also, on August 8, 2018, Mr. Textor was named as the Company's Chief Executive Officer and a member of the Company's board of directors. Accordingly, immediately following the closing of the Exchange, the executive officers of the Company were as follows:

Name	Title
John Textor	Chief Executive Officer
Alexander Bafer	Executive Chairman
Bradley Albert	President and Chief Creative Officer
Frank Esposito	Chief Legal Officer
Justin Morris	Chief Operating Officer

and the Company's board of directors consisted of the following individuals:

John Textor
Alexander Bafer (Chairman of the Board)
Bradley Albert
Frank Esposito
Justin Morris

Note 16- Commitments & Contingencies

Commitments and Contingencies

Except for income tax contingencies (commencing April 1, 2009), the Company records accruals for contingencies to the extent that management concludes that the occurrence is probable and that the related amounts of loss can be reasonably estimated.

The Company has a maximum contingent liability of approximately $1,000,000 associated with the termination clause on the employment contract of Mr. Textor and Mr. Bafer and approximately $400,000 associated with the termination clause on the employment contract of Mr. Gupta.

Litigation

The Company may be involved in certain legal proceedings that arise from time to time in the ordinary course of its business. Legal expenses associated with the contingency are expensed as incurred.

Note 17 – Discontinued Operations

On June 15, 2017, the Company entered into a Purchase and Sale Agreement with Metropolitan Sound + Vision LLC, a South Carolina limited liability company. Pursuant to the Agreement, the Company agreed to sell to Metro all of the shares of common stock of S&G Holdings, Inc., a Tennessee corporation doing business as High Five Entertainment owned by the Company, which constitute 75% of the issued and outstanding shares of S&G. Pursuant to current accounting guidelines, the business component is reported as a discontinued operation.

Pursuant to the Agreement, at the closing of the Transaction, the Company was to deliver to Metro 100% of the issued and outstanding shares of common stock of S&G owned by the Company, and Metro was required to pay for such stock as follows: An initial payment of $10,000 was required to be made at the closing, and thereafter, at the end of each fiscal quarter, beginning at the end the third fiscal quarter of 2017, Metro shall pay the Company 5% of gross revenues collected during the quarter by Metro via the exploitation of S&G's assets, up to a lifetime maximum of $590,000.

The Agreement requires Metro to use its best professional efforts to generate revenue from the exploitation of S&G's assets, and if the Company has not received a total of at least $265,000 of the $590,000 lifetime maximum purchase price from Metro before July 1, 2022, the Company has the right to repurchase the stock and assets of the S&G from Metro for $10,000.

The Company recognized a gain on the sale of S&G of $57,000 consisting of the assumption by the buyer of the net liabilities of S&G of $236,000 offsets by the elimination of the non-controlling interest of S&G of $189,000 and the purchase price consideration of $10,000. The remainder of the purchase price will be recognized when collectability can be determined.

Note 18 – Subsequent Events

On November 12, 2018, the Company entered into an employment agreement with Mr. Anand Gupta to join as Executive Vice-President and Chief Financial Officer. The Company has filed a form 8-K confirming the appointment.

The Company issued 250,000 shares of common stock valued at $50,000 to various stockholders. This amount was recorded as shares to be issued at September 30, 2018.

On November 16, 2018, the Company paid the May 31, 2018 convertible promissory note issued to Adar Bay LLC. The Company paid the principal balance of $275,625 and accrued interest of $7,580 as well as a prepayment penalty in the amount of $96,469 which was recognized as interest expense and the remaining portion of the note discount was amortized.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, references in this Quarterly Report on Form 10-Q to "we," "us," "our" and the "Company" are to Recall Studios, Inc. and its subsidiaries, unless the context requires otherwise. The following discussion and analysis by our management of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated interim financial statements and the accompanying related notes included in this Quarterly Report on Form 10-Q and our audited financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission.

Overview

We are a market leader in the emerging virtual human likeness space, and the foremost developer of hyper-realistic digital humans – computer generated assets that appear to be human and can perform in live shows, virtual reality, augmented reality, holographic, 3D stereoscopic, web, mobile, interactive and artificial intelligence applications.

We believe that digital humans will be ubiquitous in society, culture and industry. In the last decade, hyper-realistic digital humans have performed in movies such as The Curious Case of Benjamin Button or on stage such as the virtual performance of a digital Tupac Shakur at the Coachella Valley Music Festival. We expect that, in years to come, digital humans will not only perform for audiences on stage and in film, but they will also represent individual consumers as digital likeness avatars, in realistic and fantasy form, appearing and interacting on the consumer's behalf in electronic and mobile communication, social media, video game, virtual reality, and augmented reality. The Company's long-term goal is to be the 'face' of artificial intelligence, to provide a human form to interactive artificially intelligent computer beings that will be common in society, providing useful information and services to people in diverse industries, such as education, health care, telecommunications, defense, transportation and entertainment.

Our leadership team is currently focused on applications of digital humans in entertainment. We believe the entertainment industry provides us with attractive near-term opportunities to put digital humans to work in proven performance-oriented business models, while also allowing us to use the visibility of our globally recognized celebrities to showcase our digital human technologies and their applications across other industries. Accordingly, our current business plan is to generate revenues from our digital human representations of three of the world's best-known late celebrities – Michael Jackson, Elvis Presley and Marilyn Monroe – in full length entertainment experiences, brand marketing events and digital products. The Company has a long-term agreement with Company shareholder, the Estate of Michael Jackson, to share in the revenues of any commercial use of the digital likeness of Michael Jackson. The Company is also in negotiations regarding the amendment and re-instatement of rights agreements relating to the intellectual property of two other Company shareholders, the Estate of Marilyn Monroe and Authentic Brands Group / Elvis Presley Enterprises.

We believe our specific business opportunity will be driven by the rapid evolution of the methods by which people access information and content through various forms of interactive electronic media. We believe that we are moving toward a world in which we will simply ask a computer a question and we will be given an answer, by a hyper-realistic digital human who possesses a universe of accurate and relevant information. Through our continued development of the world's most advanced human animation technology, and our collaboration with the larger community of artificial intelligence pioneers, we expect that we will do more than just put a face on 'AI.' We intend to build your most knowledgeable teacher, your most trusted advisor, and in a digital world that reveals more possibilities each day, maybe even your best friend.

Recent Developments

Series X Preferred Stock

On August 6, 2018, we amended our Articles of Incorporation as filed with the Secretary of State of the State of Florida to designate the Series X Convertible Preferred Stock, par value $0.0001 per share (the "Series X Preferred Stock"), as a series of preferred stock of the Company. 1,000,000 shares of Series X Preferred Stock are authorized.

Holders of shares of Series X Preferred Stock (each, a “Series X Holder”) are entitled to receive dividends and distributions as and when paid on the shares of our common stock, on an as-converted basis, assuming that such shares of Series X Preferred Stock had been converted into shares of common stock, as described below, immediately prior to the payment of such dividend or distribution. Series X Holders are also entitled to vote on an as converted basis with the shares of our common stock, and voting with the common stock as one class, assuming that such shares of Series X Preferred Stock had been converted into shares of common stock immediately prior to the record date for such vote. The Series X Preferred Stock does not have any preferences in the event of any liquidation, dissolution or winding up of the Company, either voluntarily or involuntarily, a merger or consolidation of the Company wherein the Company is not the surviving entity, or a sale of all or substantially all of our assets (each, a “Liquidation Event”), but will participate with the common stock on any distributions made to the common stock in connection with any Liquidation Event on an as converted basis, assuming that such shares of Series X Preferred Stock had been converted into shares of common stock immediately prior to the payment of such dividend or distribution.

Shares of Series X Preferred Stock are not currently convertible into common stock, however each share of Series X Preferred Stock will automatically convert into shares of common stock upon the effectiveness of an amendment to our Articles of Incorporation following the date of the issuance of any shares of Series X Preferred Stock (the “Issuance Date”) which effects a reverse stock split of our common stock or increases the authorized shares of our common stock, or a combination thereof, by an amount sufficient to enable the conversion of all issued and outstanding shares of Series X Preferred Stock. Each whole share of Series X Preferred Stock then issued and outstanding shall, automatically and without any further action of any Series X Holder, convert into 450 shares of our common stock, with any fractional shares of Series X Stock being converted into a proportionate number of shares of our common stock, and with any fractional shares of common stock issuable as a result of such conversion being rounded up to the next nearest whole share of common stock. No Series X Holder will have any right to voluntarily effect conversions of the Series X Preferred Stock.

In the event of any forward or reverse split of the common stock following the Issuance Date, the conversion ratios as set forth above will be proportionately and equitably adjusted automatically. In the event that at any time or from time to time after the Issuance Date, the common stock issuable upon the conversion of the Series X Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, then and in each such event each Series X Holder will have the right upon conversion to receive the kind and amount of shares of stock and other securities, cash and property receivable upon such recapitalization, reclassification or other change, by holders of the number of shares of common stock which the Series X Holder would have received had it converted such shares immediately prior to such recapitalization, reclassification or other change, at the conversion ratio then in effect. If at any time or from time to time after the Issuance Date there is a capital reorganization of our common stock then, as a part of such reorganization, provisions shall be made so that the Series X Holders will be entitled to receive upon conversion of their shares of Series X Preferred Stock the number of shares of stock or other securities or property to which a holder of the number of shares of common stock deliverable upon conversion would have been entitled to receive had the Series X Holder converted such shares immediately prior to such capital reorganization, at the conversion ratio then in effect.

Shares of Series X Preferred Stock converted into common stock may not be reissued by the Company and no fractional shares or scrip representing fractional shares of common stock will be issued upon the conversion of the Series X Preferred Stock. As to any fraction of a share of common stock as to which a Series X Holder would otherwise be entitled upon such conversion, we will round such fractional share of common stock up to the next whole share of common stock.

The issuance of shares on conversion of the Series X Preferred Stock shall be made without charge to any Series X Holder for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such Series X Conversion Shares, which shall be paid by us.

Closing Share Exchange Agreement

On August 8, 2018, the Company entered into the Closing Share Exchange Agreement and Joinder (the “Closing Agreement”) dated August 8, 2018 by and among the Company, EAI and the shareholders of EAI (the “EAI Shareholders”), which operated to amend the Exchange Agreement in certain respects and to provide for the closing of the transactions contemplated therein.

Pursuant to the terms of the Closing Agreement, the Company agreed to acquire up to all of the issued and outstanding shares of common stock of EAI, representing 100% of EAI’s issued and outstanding shares of stock, from the EAI Shareholders in exchange for the issuance of one share of the Company’s Series X preferred stock (the “Series X Stock”) for each 31.645 shares of EAI common stock issued and outstanding, with any fractional shares of Series X Stock issuable therefore being rounded to the nearest whole shares of Series X Stock (the “Exchange”), such that an aggregate of 1,000,000 shares of Series X Stock shall be issued for 100% of the issued and outstanding shares of stock of EAI, with each whole share of Series X Stock originally being convertible into 450 shares of the Company’s common stock, resulting in an aggregate of 450,000,000 shares of Company common stock issuable upon conversion of all of the Series X Stock (prior to any adjustments as set forth in the Closing Agreement). As a result of the Exchange, EAI became a majority owned subsidiary of the Company. As of the closing date, the Company owned approximately 99.7% of EAI’s outstanding shares. The parties intend that the Exchange will qualify as a reorganization under the provisions of Section 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended. The Exchange closed on August 8, 2018.

Pursuant to the terms of the Closing Agreement, all but one of those EAI Shareholders that did not sign, and were not parties to, the Exchange Agreement became parties to the Closing Agreement upon execution of the Closing Agreement, as though original parties to the Exchange Agreement.

Following the closing of the Exchange, the Company intends to complete a reverse stock split of the Company's common stock on such terms as determined by the Company's board of directors, with any resulting fractional shares to be rounded up the nearest whole share of common stock, and with the authorized shares of Company common stock not being adjusted (the "Reverse Split").

In the Closing Agreement, the parties acknowledge and agree that the Company did not have, as of the closing date of the Exchange, sufficient shares of Company common stock authorized to enable conversion of all of the shares of Series X Stock issued in the Exchange. Following the closing, in the event that following the Reverse Split, the Company still does not have sufficient shares of common stock authorized so as to enable the conversion of all of the shares of Series X Stock to be issued hereunder, the Company will use its commercially reasonable efforts to effect an amendment of the Company's articles of incorporation to increase the authorized shares of common stock. The conversion of the Series X Stock into common stock will occur automatically upon such an authorized share increase.

Pursuant to the terms of the Closing Agreement, in any vote of the Company's shareholders required to effect the Reverse Split or an authorized share increase, the EAI Shareholders agreed to vote all shares of Company common stock and Series X Stock held by them "for" approval of the Reverse Split, the authorized share increase and any amendments of the Company's articles as required in connection therewith.

The Company also agreed to use its commercially reasonable efforts to register shares of the Company's common stock issued upon conversion of the Series X Stock upon completion of the authorized share increase in an amount not to exceed 30% of the total outstanding shares of stock, or such amount as the SEC requires in order to qualify as a re-sale registration, to be apportioned among the EAI Shareholders pro rata.

In the Closing Agreement, the parties agreed that immediately following the closing of the Exchange, Alexander Bafer, the Company's Chief Executive Officer and Chairman of the Board, would resign as Chief Executive Officer and be appointed as the Company's Executive Chairman of the Board. In addition, John Textor would be named as Chief Executive Officer and a member of the board of directors.

The Closing Agreement contains customary representations and warranties that the parties have made to each other.

Voting Agreement

In connection with the closing of the Exchange, Messrs. Textor and Bafer entered into a Voting Agreement as of August 8, 2018 (the "Voting Agreement"), pursuant to which Messrs. Textor and Bafer agreed to vote all shares of the Company's capital stock held by them (the "Textor and Bafer Shares") as follows:

1. Size of the Company's Board. Messrs. Textor and Bafer agreed to vote their Textor and Bafer Shares to ensure that the size of the Company's board of directors remains at five directors unless or until Messrs. Textor and Bafer unanimously determine to increase the size of the board.

2. Board Composition. Messrs. Textor and Bafer agreed to vote their Textor and Bafer Shares to ensure, unless otherwise agreed in writing, that at each annual or special meeting of the shareholders or pursuant to any written consent of the shareholders, the following persons will be elected to the board: Mr. Bafer, Mr. Textor, Bradley Albert, Frank Esposito and Justin Morris.

3. Availability of Board Member; Expansion of Board. In the event that any person listed in #2 above is not available to serve as a director, Messrs. Textor and Bafer agreed to amend the Voting Agreement to replace such person(s) with replacement directors; provided, however, that if Mr. Bafer is the person who is unavailable, then Mr. Bafer will identify the replacement person alone, and if Mr. Textor is the person who is unavailable, then Mr. Textor will identify the replacement person alone. In addition, if the board size is increased, it will be increased to a total of seven directors, of whom Mr. Textor will have the right, but not the obligation, to name, with the advice and consent of Mr. Bafer, and Messrs. Bafer and Textor agree to vote their Textor and Bafer Shares for such additional persons.

4. Removal of Board Members. Messrs. Textor and Bafer agreed to vote their Textor and Bafer Shares to ensure that (a) no director elected pursuant to the terms of the Voting Agreement may be removed from office other than for cause unless such removal is director or approved by the agreement of Messrs. Textor and Bafer, and (b) any vacancies created by the resignation, removal of deal of any director elected pursuant to the terms of the Voting Agreement will be filled pursuant to the written agreement of Messrs. Textor and Bafer.

5. Increase Authorized Common Stock. Messrs. Textor and Bafer agreed to vote their Textor and Bafer Shares to increase the number of authorized shares of Company common stock from time to time to ensure that there will be sufficient shares of common stock available for conversion of all of the shares of Series X preferred shares outstanding at any given time.

Brick Top and Southfork Share Exchange Agreement

Effective August 8, 2018, the Company entered into a Share Exchange Agreement (the “BTH and SV Exchange Agreement”) with Brick Top Holdings, Inc. a Florida corporation (“Brick Top”) owned by Alexander Bafer and Southfork Ventures, Inc. a Florida corporation (“Southfork”) owned by Chris Leone, the Company’s Vice-President of Operations pursuant to which the Company agreed to acquire up to all of the shares of Series A preferred stock of the Company held by Brick Top and Southfork, in exchange for the issuance of shares of Company common stock to Brick Top and Southfork. The closing of the share exchange contemplated by the BTH and SV Exchange Agreement occurred on August 8, 2018. On such date, the Company issued (i) 81,750,000 shares of Company common stock in exchange for receipt of 3,750,000 shares of Series A preferred shares from Brick Top, and (ii) 27,250,000 shares of Company common stock in exchange for receipt of 1,250,000 shares of Series A preferred shares from Southfork.

The BTH and SV Exchange Agreement contains customary representations and warranties that the parties have made to each other.

The information set forth above is qualified in its entirety by reference to the actual terms of the Closing Agreement, the Voting Agreement and the BTH and SV Share Exchange Agreement, each of which will be filed with the Securities and Exchange Commission (the “Commission”) as required.

Executive Officer and Director Changes

Immediately following the closing of the Exchange on August 8, 2018, Mr. Bafer resigned as the Company’s Chief Executive Officer and was appointed as the Company’s Executive Chairman, an executive officer and director position. Also, on August 8, 2018, Mr. Textor was named as the Company’s Chief Executive Officer and a member of the Company’s board of directors. Accordingly, immediately following the closing of the Exchange, the executive officers of the Company were as follows:

Name	Title
John Textor	Chief Executive Officer
Alexander Bafer	Executive Chairman
Bradley Albert	President and Chief Creative Officer
Frank Esposito	Chief Legal Officer
Justin Morris	Chief Operating Officer

and the Company's board of directors consisted of the following individuals:

John Textor
Alexander Bafer (Chairman of the Board)
Bradley Albert
Frank Esposito
Justin Morris

Textor Employment Agreement

In connection with the closing of the Exchange, the Company entered into an employment agreement as of August 8, 2018 with Mr. Textor (the "Textor Employment Agreement"). Pursuant to the terms of the Textor Employment Agreement, the Company agreed to employ Mr. Textor as the Company's Chief Executive Officer. The term of the Textor Employment Agreement begins as of August 8, 2018 and continues until termination of employment as set forth in the Textor Employment Agreement. In exchange for Mr. Textor's services as Chief Executive Officer, the Company agreed to pay Mr. Textor an annual base salary of $500,000, subject to annual increases as determined in the sole discretion of the Compensation Committee or the full Board if no Compensation Committee exists. In addition, Mr. Textor is also eligible to receive equity awards, and an annual target bonus payment equal, as a percentage of his base salary, to that received by all other C-suite executives, subject to a minimum bonus of $100,000 per year. Subject to the minimum bonus, the bonus will be determined based on the achievement of certain performance objectives of the Company as established by the Compensation Committee.

The Company may terminate Mr. Textor's employment at any time for Cause (as hereinafter defined) or without Cause. Mr. Textor may resign at any time, either with Good Reason (as hereinafter defined) or without Good Reason. In the event of Mr. Textor's death or total disability during the term of the Textor Employment Agreement, Mr. Textor's employment will terminate on the date of death or total disability.

Upon termination of Mr. Textor's employment by the Company, whether with Cause or without Cause, or by Mr. Textor with Good Reason or without Good Reason:

(a) The Company will pay Mr. Textor his base salary and benefits (then owed, or accrued and owed in the future, but in all events and without increasing Mr. Textor's rights under any other provision of the Textor Employment Agreement, excluding any bonus payments not yet paid) through the date of termination;

(b) The Company will pay Mr. Textor accrued by unpaid bonus and benefits (then owed or accrued) through the date of termination; and

(c) The Company will pay Mr. Textor any unreimbursed expenses incurred by Mr. Textor pursuant to the terms of the Textor Employment Agreement.

Upon termination of Mr. Textor's employment by the Company without Cause, or by Mr. Textor with Good Reason, in addition to the payments set forth in (a) through (c) above, the Company will pay Mr. Textor (i) an amount equal to his base salary (other than bonus) as determined as of the date of termination, and (ii) any unvested incentive awards then held by Mr. Textor will immediately vest in full.

Upon termination of Mr. Textor's employment by the Company with Cause, or by Mr. Textor without Good Reason, in addition to the payments set forth in (a) through (c) above, any unvested incentive awards then held by Mr. Textor will be immediately forfeited.

Pursuant to the terms of the Textor Employment Agreement, a termination for "Cause" means a termination based upon:

(i) A material violation by Mr. Textor of any material written rule or policy of the Company (A) for which violation any employee may be terminated pursuant to the written policies of the Company reasonably applicable to an executive employee, and (B) which Mr. Textor fails to correct within 10 days after he receives written notice from the Board of such violation;

(ii) Misconduct by Mr. Textor to the material and demonstrable detriment of the Company; or

(iii) Mr. Textor's conviction (by a court of competent jurisdiction, not subject to further appeal) of, or pleading guilty to, a felony.

As used in the Textor Employment Agreement, Good Reason means the occurrence, without Mr. Textor's express written consent, of any of the following:

(1) A significant diminution by the Company of Mr. Textor's role with the Company or a significant detrimental change in the nature and/or scope of Mr. Textor's status with the Company (including a diminution in title);

(2) A reduction in base salary or target or maximum bonus, other than as part of an across the board reduction in salaries of management personnel (including all vice presidents and positions above) of less than 20%;

(3) At any time following a change of control of the Company, a material diminution by the Company of compensation and benefits (taken as a whole) provided to Mr. Textor immediately prior to a Change of Control;

(4) The relocation of Mr. Textor's principal executive office to a location more than 50 miles further from Mr. Textor's principal residence than Mr. Textor's principal executive office immediately prior to such relocation, or any requirement that Mr. Textor be based anywhere other than Mr. Textor's principal executive office; or

(5) Any other material breach by the Company of any of the terms and conditions of the Textor Employment Agreement.

The Textor Employment Agreement contains covenants regarding Mr. Textor's non-competition and non- solicitation of employees for 12 months.

Bafer Termination and Release Agreement

Concurrent with the closing of the Exchange, the Company and Mr. Bafer entered into that certain Termination and Release Agreement dated as of August 8, 2018 (the "Bafer Termination Agreement"). In connection with the Exchange and as provided in the Closing Agreement, Mr. Bafer resigned his position as Chief Executive Officer on August 8, 2018. Pursuant to the terms of the Bafer Termination Agreement, the employment agreement dated as of July 25, 2016 between the Company and Mr. Bafer (the "2016 Bafer Agreement") was terminated effective immediately in connection with Mr. Bafer's resignation; provided, however, that (i) the provisions of Article 4 and Article 6 (other than Sections 6.7 and 6.8) remain in full force and effect, and (ii) the parties agreed that the Company owes Mr. Bafer certain past due payments pursuant to the 2016 Bafer Agreement and other instruments between the parties, which amounts remain owed to Mr. Bafer until paid. The Bafer Termination Agreement contains customary representations and warranties that the Company and Mr. Bafer have made to each other.

Bafer Executive Chairman Agreement

Concurrent with the closing of the Exchange, the Company entered into an Agreement for Executive Chairman of Board of Directors effective August 8, 2018 ("Bafer Executive Chairman Agreement"). The Bafer Executive Chairman Agreement has a term of one year from August 8, 2018 and will continue thereafter for as long as Mr. Bafer is elected as Chairman of the Board. In exchange for Mr. Bafer's services as Chairman of the Board, the Company agreed to pay Mr. Bafer an annual base salary of $500,000, subject to annual increases as determined in the sole discretion of the Compensation Committee or the full Board if no Compensation Committee exists. In addition, Mr. Bafer is also eligible to receive equity awards, and an annual target bonus payment equal, as a percentage of his base salary, to that received by all other C-suite executives, subject to a minimum bonus of $100,000 per year. Subject to the minimum bonus, the bonus will be determined based on the achievement of certain performance objectives of the Company as established by the Compensation Committee.

Mr. Bafer may be removed as Chairman by the majority vote of the Company's stockholders. The parties agree, however, that if the Bafer Executive Chairman Agreement is terminated at any time, whether by majority vote of the Company's shareholders or otherwise, Mr. Bafer will be entitled to a lump sum payment equal to the then current base salary.

Termination of Bafer Employment Agreement

Concurrent with the closing of the Exchange and Mr. Bafer's resignation as Chief Executive Officer, the 2016 Bafer Agreement was terminated effective immediately, except as set forth in the Bafer Termination Agreement.

Anand Gupta Employment Agreement

On November 12, 2018, Anand Gupta was appointed as the Chief Financial Officer and Executive Vice President Finance of Recall Studios, Inc. (the "Company"), effective immediately.

Mr. Gupta, age 49, has a Big 4 audit background and has extensive financial experience with complex multinational corporations. During his career within the media and entertainment industry, Mr. Gupta has served as the Executive Vice President, Finance and Business Operations at Al Jazeera America, which was a 24x7 cable news network; as Vice-President, Business Planning and Operations at HBO, a premium pay-tv cable channel; as Vice-President, Financial Planning at Warner Bros., a filmed entertainment company; and as the Head of Finance and Business Development at Eidos Interactive, a former leading publisher of video games. Mr. Gupta also worked in public accounting as a member of the audit and assurance practice of KPMG LLP in the U.S. and U.K. and BDO UK LLP in the U.K.

Mr. Gupta is an alumnus of Harvard Business School (Senior Executive Leadership Program) and Wharton Business School (MBA) and holds dual professional membership of the American Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales.

In connection with Mr. Gupta's appointment as Chief Financial Officer and Executive Vice President Finance of the Company, the Company and Mr. Gupta entered into an Employment Agreement ("Employment Agreement") effective November 12, 2018. Pursuant to the terms of the Employment Agreement, in exchange for Mr. Gupta's services as Chief Financial Officer and Executive Vice President Finance, the Company will pay Mr. Gupta (i) for an initial period of four months, a gross monthly salary of $12,500, plus the cost of his temporary accommodation, rental car, per diem, and business class airfare as required for Mr. Gupta to individually relocate from India to work at the Company's offices in Florida, and (ii) subsequently, subject to the Company successfully raising at least $10 million in fresh capital, an annual base salary of $400,000, subject to annual increases (but not decreases), as determined in the sole discretion of the Company's Chief Executive Officer.

In addition, Mr. Gupta is eligible for an annual target bonus payment equal, as a percentage of base salary, to that received by all other C-Suite executives. The bonus will be determined based on the achievement of certain performance objectives of the Company as established by the Chief Executive Officer and communicated to Mr. Gupta in writing as soon as practicable after commencement of the year in respect of which the bonus is paid. The bonus may be greater or less than the target bonus, based on the level of achievement of the applicable performance objectives. Mr. Gupta will also be eligible to receive equity awards under the Company's incentive compensation plans and otherwise.

The Employment Agreement will terminate upon Mr. Gupta's death or total disability (as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended).

In addition, the Company may terminate Mr. Gupta's employment at any time for Cause (as hereinafter defined) or without Cause. Pursuant to the terms of the Employment Agreement, "Cause" means a termination based upon:

a material violation by Mr. Gupta Executive of any material written rule or policy of the Company (A) for which violation any employee may be terminated pursuant to the written policies of the Company reasonably applicable to an executive employee, and (B) which Mr. Gupta fails to correct within 10 days after Mr. Gupta receives written notice from the Company's Board of Directors of such violation;

(ii) misconduct by Mr. Gupta to the material and demonstrable detriment of the Company; or

(iii) Mr. Gupta's conviction (by a court of competent jurisdiction, not subject to further appeal) of, or pleading guilty to, a felony.

Mr. Gupta may resign from his employment under the Employment Agreement at any time either with Good Reason (as hereinafter defined) or without Good Reason. Pursuant to the terms of the Employment Agreement, “Good Reason” means the occurrence, without Mr. Gupta’s express written consent, of any of the following:

a significant diminution by the Company of Mr. Gupta’s role with the Company or a significant detrimental change in the nature and/or scope of Mr. Gupta’s status with the Company (including a diminution in title);

a reduction in Mr. Gupta’s base salary or target or maximum bonus, other than as part of an across the board reduction in salaries of management personnel (including all vice presidents and positions above) of less than 20%;

at any time following a Change of Control (as defined in the Employment Agreement), a material diminution by the Company of compensation and benefits (taken as a whole) provided to Mr. Gupta immediately prior to a Change of Control;

the relocation of Mr. Gupta’s principal executive office to a location more than 50 miles further from central business district of Jupiter, Florida, or any requirement that Mr. Gupta be based anywhere other than Mr. Gupta’s principal executive office, provided however that this relocation protection provision shall only apply if Mr. Gupta has fully relocated his immediately family to a Florida residence from his existing residence in India; or

any other material breach by the Company of any of the terms and conditions of the Employment Agreement.

Upon termination of Mr. Gupta’s employment by the Company, with Cause or without Cause, or by Mr. Gupta with or without Good Reason, or upon Mr. Gupta’s death or total disability:

the Company shall pay to Mr. Gupta the base salary and benefits through the date of termination;

the Company shall pay to Mr. Gupta accrued but unpaid bonus and benefits through the date of termination; and

the Company shall pay to Mr. Gupta any unreimbursed expenses incurred by Mr. Gupta.

Upon any termination of Mr. Gupta’s employment by the Company without Cause, or by Mr. Gupta with Good Reason, in addition to the payments and actions set forth above:

the Company shall pay to Mr. Gupta an amount equal to one month’s base salary (excluding bonus) as determined as of the date of termination, multiplied by the number of months of Mr. Gupta’s service under the Employment Agreement, up to a maximum benefit equal to one year’s base salary (excluding bonus); and

any unvested incentive awards then held by Mr. Gupta will immediately be vested in full.

Upon any termination of Mr. Gupta’s employment by the Company with Cause, or by Mr. Gupta without Good Reason, in addition to the payments and actions set forth above, any unvested incentive awards then held by Mr. Gupta will immediately be forfeited.

Mr. Gupta is subject to non-competition and non-solicitation clauses pursuant to the terms of the Employment Agreement.

Results of Operations for the three months ended September 30, 2018 and 2017

	Three Months Ended September 30,	
	2018	2017
Revenue	$ 0	$ 0
Cost of goods sold	$ 0	$ 0
Operating expenses	$ 5,491,996	$ 226,000
Income (loss) from continuing operations	$ (4,865,718)	$ (808,000)
Net loss attributed to non-controlling interest	$ (605,461)	$ 0
Net income (loss) from discontinued operations	$ 0	$ 0
Net income (loss)	$ (4,260,257)	$ (808,000)

Revenues for the three months ended September 30, 2018 and 2017 were $0 and $0, respectively.

Cost of goods sold for the three months ended September 30, 2018 and 2017 were $0 and $0, respectively.

Operating expenses for the three months ended September 30, 2018 totaled $5,491,996, compared to $226,000 for the three months ended September 30, 2017. The increase was primarily caused as a result of the Company's acquisition of EAI in August, 2018.

The increase of $5,265,996 is directly related to an increase in amortization of acquired technology of $2,347,065, increase in amortization of licensed technology of $216,296 and an increase of stock-based compensation of $2,152,100.

The Company realized loss from continuing operations of $4,865,718 for the three months ended September 30, 2018, compared to a loss from continuing operations of $808,000 for the three months ended September 30, 2017. The increase of $4,057,718 is primarily due to the increase in operating expenses resulting from the Company's acquisition of EAI in August 2018.

Results of Operations for the Nine Months Ended September 30, 2018 and 2017

	Nine months Ended September 30,			
	2018		**2017**	
Revenue	$	0	$	41,000
Cost of goods sold	$	0	$	8,000
Operating expenses	$	7,371,996	$	755,000
Income (loss) from continuing operations	$	(7,747,718)	$	10,858,000
Net loss attributed to non-controlling interest	$	(605,461)	$	0
Net loss from discontinued operations	$	0	$	(11,000)
Net income (loss)	$	(7,142,257)	$	10,847,000

Revenues for the nine months ended September 30, 2018 and 2017 were $0 and $41,000, respectively. The decrease of $41,000 is directly related the commercialization and sale of an iOS app in the nine months ended September 30, 2017.

Cost of goods sold for the nine months ended September 30, 2018 compared to the same period in 2017 decreased by $8,000. That was directly related the commercialization and sale of an iOS app in the nine months ended September 30, 2017.

Operating expenses for the nine months ended September 30, 2018 totaled $7,371,996, compared to $755,000 for the nine months ended September 30, 2017. The increase was primarily caused as a result of the Company's acquisition of EAI in August. The increase of $6,616,996 is largely as result of amortization of acquired and licensing technology, increased stock-based compensation and expenses due to professional services.

The Company realized a loss from continuing operations of $7,747,718 for the nine months ended September 30, 2018, compared to income from continuing operations of $10,858,000 for the nine months ended September 30, 2017. The decrease is primarily due to the change in fair value of derivatives associated with convertible notes outstanding, which amounted to a gain of $3,269,545 for the nine months ended September 30, 2018 as compared to a gain of $11,905,000 for the nine months ended September 30, 2017. This gain is offset by a charge to financing costs of $2,532,830 as well as amortization of debt discount of $1,228,256 in the nine months ended September 30, 2018.

Liquidity and Capital Resources

	Nine months Ended September 30, 2018		Nine months Ended September 30, 2017	
Net Cash Used in Operating Activities	$	(2,461,968)	$	(358,000)
Net Cash Provided by Investing Activities	$	-	$	-
Net Cash Provided by Financing Activities	$	2,421,519	$	382,000
Net Change in Cash	$	(40,449)	$	24,000

As of September 30, 2018, our total assets were $291,468,630 and our current liabilities were $18,489,094 and we had negative working capital of ($17,641,271). Our financial statements report net loss of $7,142,257 including non-cash gain of $3,887,541 for the change in fair value of derivative and warrant liabilities for the nine months ended September 30, 2017 as compared to net income of $10,847,000 including non-cash gain of $11,905,000 for the change in fair value of derivative liability for the nine months ended September 30, 2017.

We have incurred recurring losses from operations. The continuation of our company is dependent upon our company attaining and maintaining profitable operations and raising additional capital as needed. In this regard, we have raised additional capital through equity offerings and loan transactions, and, in the short term, will seek to raise additional capital in such manners to fund our operations. We do not currently have any third-party financing available in the form of loans, advances, or commitments. Our officers and shareholders have not made any written or oral agreement to provide us additional financing. There can be no assurance that we will be able to continue to raise capital on terms and conditions that are deemed acceptable to us.

Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations liquidity, capital expenditures or capital resources.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

As reflected in the accompanying consolidated financial statements, the Company had a stockholders' accumulated deficit of $18,295,687 at September 30, 2018, incurred a net loss of $7,142,257 and used cash in operating activities of $2,461,968 for the period then ended. These conditions raise substantial doubt about the Company's ability to continue as a going concern within one year from the date that the financial statements are issued.

The Company is attempting to produce sufficient revenue; however, the Company's cash position may not be sufficient to support its daily operations. While the Company believes in the viability of its strategy to produce sufficient revenue and in its ability to raise additional funds, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon its ability to further implement its business plan and generate sufficient revenues and in its ability to raise additional funds.

In addition, the Company's independent registered public accounting firm, in its report on the Company's December 31, 2017 consolidated financial statements, has raised substantial doubt about the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Critical Accounting Policies

We have identified the following policies below as critical to our business and results of operations. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the following paragraphs.

Derivative Financial Instruments. The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a probability weighted average Black-Scholes-Merton models, where the issuable number of shares being fixed, to value the derivative instruments at inception and on subsequent valuation dates through the September 30, 2018 reporting date. In the event that the issuable number of shares being variable over time, we use a Binomial Lattice Model, to value the derivative instruments at inception and on subsequent valuation dates through the September 30, 2018 reporting date. The classification of derivative instruments, including whether such instruments should be recorded as liabilities, is evaluated at the end of each reporting period.

Recently Issued Accounting Pronouncements

See Note 2 in the accompanying condensed consolidated financial statements for a discussion of recent accounting policies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and principal financial officer, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our management, including our Chief Executive Officer and principal financial officer, concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this Quarterly Report on Form 10-Q due to the Company’s limited resources and limited number of employees. To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of legal and outsourced accounting professionals. As we grow, we expect to increase our number of employees, which, we believe, will enable us to implement adequate segregation of duties within the internal control framework.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company may be involved in certain legal proceedings that arise from time to time in the ordinary course of its business. Except for income tax contingencies (commencing April 1, 2009), the Company records accruals for contingencies to the extent that management concludes that the occurrence is probable and that the related amounts of loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred.

Item 1A. Risk Factors

Not applicable for smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2018, the Company issued 3,770,333 shares of common stock for proceeds of $798,500.

The securities referenced above were issued solely to "accredited investors" in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act, as amended.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors since the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.

Item 6. Exhibits

Exhibit Number	Description
2.1	Closing Share Exchange Agreement and Joinder by and among Recall Studios, Inc., Evolution AI Corporation and the Shareholders of Evolution AI Corporation, dated as of August 8, 2018 (incorporated by reference to Exhibit 2.2 to the registrant's quarterly report on Form 10-Q for the period ended June 30, 2018).
3.1	Certificate of Designations of Preferences and Rights of Series X Convertible Preferred Stock of Recall Studios, Inc. (incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed with the Commission on August 6, 2018).
10.1	Voting Agreement by and among John Textor and Alexander Bafer, dated as of August 8, 2018 (incorporated by reference to Exhibit 10.1 to the registrant's quarterly report on Form 10-Q for the period ended June 30, 2018).
10.2	Employment Agreement by and between Recall Studios, Inc. and John Textor, dated as of August 8, 2018 (incorporated by reference to Exhibit 10.2 to the registrant's quarterly report on Form 10-Q for the period ended June 30, 2018).
10.3	Termination and Release Agreement by and between Recall Studios, Inc. and Alexander Bafer, dated as of August 8, 2018 (incorporated by reference to Exhibit 10.3 to the registrant's quarterly report on Form 10-Q for the period ended June 30, 2018).
10.4	Agreement for Executive Chairman of Board of Directors by and between Recall Studios, Inc. and Alexander Bafer, dated as of August 8, 2018 (incorporated by reference to Exhibit 10.4 to the registrant's quarterly report on Form 10-Q for the period ended June 30, 2018).
10.5	Share Exchange Agreement by and among Recall Studios, Inc., Brick Top Holdings, Inc. and Southfork Ventures, Inc., dated as of August 8, 2018 (incorporated by reference to Exhibit 10.5 to the registrant's quarterly report on Form 10-Q for the period ended June 30, 2018).
10.6	Employment Agreement by and between Recall Studios, Inc. and Anand Gupta, dated as of November 12, 2018 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed with the Commission on November 13, 2018).
31.1*	Section 302 Certificate of Chief Executive Officer
31.2*	Section 302 Certificate of Chief Financial Officer
32.1*	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer
101.INS*	XBRL INSTANCE DOCUMENT
101.SCH*	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL*	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF*	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB*	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE*	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RECALL STUDIOS, INC.

Date: November 19, 2018

By: */s/ John Textor*
John Textor
Chief Executive Officer (principal executive officer)

By: */s/ Anand Gupta*
Anand Gupta
Chief Financial Officer (principal financial officer and principal accounting officer)

Exhibit 31.1

CERTIFICATIONS

I, John Textor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Recall Studios, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

November 19, 2018

/s/ John Textor

John Textor
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATIONS

I, Anand Gupta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Recall Studios, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

November 19, 2018

/s/ Anand Gupta

Anand Gupta
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Recall Studios, Inc. (the "Company") for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission (the "Report"), I, John Textor, Chief Executive Officer of the Company, and I, Anand Gupta, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 19, 2018

/s/ John Textor
John Textor
Chief Executive Officer
(principal executive officer)

/s/ Anand Gupta
Anand Gupta
Chief Financial Officer
(principal financial officer)

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.