Interact – TV Incorporated

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

for the Fiscal Year Ended Ended December 31, 2012

COMPILATION REPORT

To the Board of Directors and Stockholder of
Interact TV Incorporated

We have compiled the accompanying consolidated unaudited balance sheets of Interact TV Inc. (the "Company") as of December 31, 2012, and the related consolidated unaudited statements of operations, changes in stockholders' equity and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Company's management. We conducted our compilation in accordance with the Statements of Standards for Accounting and Review Services generally accepted in the United States.

Louka Photos CPA
Glendale, CA

Interact - TV Incorporated

CONSOLIDATED BALANCE SHEET

As of December 31, 2012

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	715
Deferred tax asset		133,140
Total Current Assets		133,855
OTHER ASSETS		
Notes receiveable		24,348
TOTAL ASSETS	$	158,203

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Convertible notes	$	352,860
Accounts payable		442,400
Notes payable		9,200
Total Current Liabilities		804,460
TOTAL LIABILITIES		804,460
STOCKHOLDERS' EQUITY		
Common stock, par value $0.00001 per share; 30,000,000,000 shares authorized; 16,613,750,746 shares issued and outstanding	$	186,082
Preferred Stock, par value $0.00001 per share; 240,000,000 shares authorized; 23,554,070 shares issued and outstanding		247
Additional paid in capital		1,858,256
Retained earnings		(2,690,842)
TOTAL STOCKHOLDERS' EQUITY		(646,257)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	158,203

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

Interact - TV Incorporated

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2012

PUBLISHING REVENUE	$ 300,000
LICENSING REVENUE	$ 4,000
COST OF SALES	129,500
GROSS PROFIT	174,500
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,389,810
LOSS FROM OPERATIONS	(1,215,310)
OTHER INCOME (EXPENSE)	
Interest income	100
Consulting income	13,625
Rent income	300
Interest expense	(654)
Convertible note interest expense	(75,835)
TOTAL OTHER INCOME (EXPENSE)	(62,464)
NET LOSS	$ (1,277,774)

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

Interact-TV Incorporated

Statement of Cash Flows

for the year ended December 31, 2012

Cash Flows from Operating Expenses		
Cash Provided by Operating Activities	**323,150**	
Cash Used in Operating Activities	**(379,364)**	

Net Cash Used in Operating Activities		**(56,214)**
Cash Flows from Investing Activities		
Cash Provided by Investing Activities	**6,950**	
Cash Used in Investing Activities	**(31,298)**	

Net Cash Used in Investing Activities		**(24,348)**
Cash Flows from Financing Activities		
Cash Provided by Sale of Preferred Stock	**66,500**	
Cash Provided by Loans (Notes Payable)	**9,200**	

Net Cash Provided by Financing Activities		**75,700**

Net Change in Cash, 12 months ended December 31, 2012		**(4,862)**
Cash, January 1, 2012		**5,577**
Cash, December 31, 2012		**715**

Interact - TV Incorporated

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Year Ended December 31, 2012

	$0.00001 Par Value		Additional	
	Common Stock	Preferred Stock	Paid in Capital	Accumulated Deficit
BALANCE - January 1, 2012	16,613,750,746	23,056,570	$ 985,761	$ (1,413,068)
Issuance of preferred shares		497,500	872,495	
Net loss for the year ended 12/31/2012				(1,277,774)
BALANCE - December 31, 2012	16,613,750,746	23,554,070	1,858,256	(2,690,842)

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

NOTE 1 – Organization and Summary of Significant Accounting Policies

Business Activity

Interact-TV Incorporated (the "Company") is a Delaware corporation. The Company is a multi-faceted multi-media company with operations in both the music recording industry as well as music artist management. The Company has one wholly owned subsidiary; Viscount Media Trust, a California business trust. Viscount Media Trust, in turn has one wholly owned subsidiary: Viscount Records, Inc., a Delaware corporation, which in turn has one wholly owned subsidiary; Pocket Kid Records, a California business trust.

These statements are consolidated with its subsidiary and all subsidiaries thereunder as described above.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer's obligations due under normal trade terms. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change.

Property and Equipment

Property and equipment is stated at cost net of accumulated depreciation and amortization. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are expensed in the period incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in operations for the period.

The Company capitalizes leased equipment when the terms of the lease result in the transfer to the Company of substantially all of the benefits and risks of ownership of the equipment.

Depreciation and amortization of property and equipment are provided utilizing primarily the straight-line method over the estimated useful lives of the respective assets as follows:

Building and Improvements	39.5 years
Machinery and equipment	3 to 5 years
Furniture and fixtures	5 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvement utilizing the straight-line method. The Company presently has no property plant and equipment.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets to determine if they have been permanently impaired by adverse conditions that may affect the Company, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. As of December 31, 2012, no impairment of long-lived assets was deemed necessary.

Accounting for Derivative Instruments and Hedging Activities

The Company recognizes all derivative instruments as either assets or liabilities in the balance sheet at fair value, which is recorded through earnings. If a derivative is a qualifying hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the underlying assets or liabilities through earnings or recognized in accumulated comprehensive income until the underlying hedged item is recognized in earnings. The ineffective portion of a derivative's change in the fair value is to be immediately recognized in earnings.

The Company enters into convertible note contracts to fund the Company's operation. As of December 31, 2012, the Company had no derivative instruments. See footnote 2 for further discussion on convertible notes.

Revenue Recognition

Revenue is recognized when (i) persuasive evidence of an arrangement exists, a signed non-cancelable contract (ii) delivery has occurred and the music rights have been transferred to the licensee, who is able to use them, (iii) the fee is fixed or determinable and (iv), collectability of the sale is reasonably assured. All significant duties and obligations owed to the licensee are met.

Advertising Expenses

The Company expenses all advertising costs as incurred. Advertising expenses for the nine months ended September 30, 2012 was approximately $6,707, and was recorded as advertising expense in the selling, general and administrative expenses in the accompanying statements of operations.

Income Taxes

Management has concluded that there are no uncertain tax positions that would require recognition in the financial statements. If the Company were to incur an income tax liability from an uncertain tax position in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

Management's conclusions regarding uncertain tax positions may be subject to review and adjusted at a later date based upon ongoing analyses of tax laws, regulations, and interpretations thereof as well as other factors. Generally, federal, state, and local authorities may examine the tax returns for three years from the date of filing and the current and prior three years remain subject to examination as of December 31, 2012.

Deferred taxes represent the tax effects of differences between the financial reporting and tax basis of the Company's assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Income tax expense consists of the income tax within the period and the change during the period in deferred tax assets and liabilities.

Total accrued deferred tax assets as of December 31, 2012 was $133,140.

<u>Fair Value of Financial Instruments</u>

The Company utilizes a three-level hierarchy (the "Valuation Hierarchy") for fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The Company has no level 1 assets and liabilities as of December 31, 2012.

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The Company has no level 2 assets and liabilities as of December 31, 2012.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Company has no level 3 assets and liabilities as of December 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the accounts receivable and inventory allowances and deferred tax valuation allowance. Actual results could differ from those estimates.

NOTE 2 - Convertible notes payable

As of December 31, 2012, the Company had five convertible notes outstanding, as follows:

On September 1, 2009 Viscount Records, Inc., a wholly owned subsidiary of Viscount Media Trust (which in turn is a wholly owned subsidiary of the Company) issued a convertible note in the amount of $150,000 at an interest rate of 8 percent per annum to Viscount Productions Ltd in exchange for a recording artist contract. The contract was subsequently assigned to FMCOCO, Inc. (a related party, see note 3 below). As of December 31, 2012 the note had an estimated fair value of $194,021 including interest.

On November 25, 2009 the Company issued a convertible note payable to FMCOCO in the amount of $20,000 at an interest rate of 5 percent per annum. As of December 31, 2012 the note had an estimated fair value of $5,426 including interest.

On February 11, 2010 the Company issued a convertible note payable to FMCOCO in the amount of $60,000 at an interest rate of 8 percent per annum. As of December 31, 2012 the note had an estimated fair value of $75,191 including interest.

On April 1, 2010 the Company issued a convertible note payable to FMCOCO in the amount of $20,000 at an interest rate of 5 percent per annum. As of December 31, 2012 the note had an estimated fair value of $14,166 including interest.

On February 28, 2012 the Company issued a convertible note payable to FMCOCO (the fifth convertible note held by FMCOCO) in the amount of $60,000 at an interest rate of 8 percent per annum. As of December 31, 2012 the note has an estimated fair value of $64,056 including interest.

All convertible notes have a conversion rate equal to one share of common stock of the Company in exchange for every $0.00001 of the total value of the note, including any accrued interest at the time of conversion.

NOTE 3 - Related Party Transactions

Stan Medley is the President and primary owner of FMCOCO, Inc., a Colorado corporation. As of December 31, 2012, FMCOCO is the holder of all five currently outstanding convertible notes issued by ITVI or its subsidiaries, with a total value of $352,860. In addition, FMCOCO owns 100,000 shares of the Preferred Stock, Series A of ITVI. FMCOCO also has been retained by Pocket Kid Records to provide promotion services for a fee of $5,000 per month. Pocket Kid Records is a California business trust which is owned, through two intermediary subsidiaries, by ITVI, and which has as its sole trustee ITVI.

Stan Medley is also the President of Fordee Management Company, which has a joint venture agreement with Pocket Kid Records, a subsidiary of ITVI, to co-produce the first album of Pocket Kid recording artist Dead Sara and in exchange, receive half of any proceeds due Pocket Kid as a result of any licensing, publishing or other fees related to the album or proceeds from the sale of such album, as well as receive re-imbursement of all expenses paid in producing the album. Stan Medley's son Steve Medley is a director of the Company (ITVI).

Steve Medley is one of the four directors of ITVI. He is also the sole trustee of SM CA Trust, a California business trust, which owns 2,000,000 shares of the Preferred Stock, Series A of ITVI (out of a total of 2,244,000 shares of Series A outstanding), which amounts to 71.3% voting control of the entire company (ITVI), as well as 20,000,000 shares of Preferred Stock, Series B (out of a total of 20,814,070 shares of Series B outstanding). Steve is the son of Stan Medley, president and primary owner of FMCOCO.

NOTE 4 - Commitments and Contingencies

Legal Matters

The Company, including all of its subsidiaries, is not aware of, nor involved or engaged in any pending, threatened or current legal proceedings.

NOTE 5 - Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company places cash deposits and temporary cash investments with various financial institutions. At times, cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits.

NOTE 6 – Issuance of Preferred Shares

Series D

The Company issued 83,500 shares of Preferred Stock, Series D in a private placement offering at $1 per share during the year ended December 31, 2012. The aforementioned amount consisted of $66,500 cash received by the company during the private placement, and $17,000 worth of services renederd in the year ended December 31, 2011 which were properly accrued for at December 31, 2011. See Note 7 Share Based Compensation for additional disclosure and Note 8 for disclosure of subsequent share issuance.

Series E

The Company currently has a total of 414,000 shares of Preferred Stock, Series E issued and outstanding, all of which were issued in the year ended December 31, 2012. These shares, priced nominally at $1 per share, were all issued for services rendered, including 50,000 shares issued to Alan Brown in exchange for his services as an officer and director of the Company (see Note 7).

NOTE 7 – Share-Based Compensation

The Company accounts for stock-based compensation pursuant to ASC 718, “Share-Based Payment,” which requires measurement of compensation cost for all stock awards at fair value on the date of grant and recognition of compensation, net of estimated forfeitures, over the requisite service period for awards expected to vest. The Company recognized $789,000 of pre-tax stock-based compensation during the year ended December 31, 2012, of which $50,000 of the share based compensation was awarded to Alan Brown for director compensation. The Company utilized the value of the services rendered to estimate the value of the share based awards, as that provided the clearest evidence of the value of the respective awards.

NOTE 8 – Subsequent Events

Management has evaluated subsequent events to determine if events or transactions occurring through March 31, 2012, the date these financial statements were available for publication, required potential adjustment to or disclosure in the accompanying financial statements. There is one such subsequent event to disclose. On January 9, 2013, 5,000 shares of Preferred Stock Series D were sold to a non-affiliate for $5,000 cash.