

ULTIMATE SPORTS, INC.

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-------------------|-------------------|
| <u>CURRENT ASSETS:</u> | | |
| Cash | \$ 7,577 | \$ 5,198 |
| Accounts receivable | 67,453 | 86,088 |
| Inventory | <u>325,590</u> | <u>204,226</u> |
| Total current assets | <u>400,620</u> | <u>295,512</u> |
| <u>FIXED ASSETS:</u> | | |
| Equipment and vehicles | 240,727 | 234,843 |
| Less accumulated depreciation | <u>(229,076)</u> | <u>(223,076)</u> |
| Cost less depreciation | <u>11,651</u> | <u>11,767</u> |
| <u>OTHER ASSETS:</u> | | |
| Loans to shareholders | <u>30,965</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 443,236</u> | <u>\$ 307,279</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|-------------------|-------------------|
| <u>CURRENT LIABILITIES:</u> | | |
| Accounts payable and accrued expense | \$ 170,677 | \$ 48,207 |
| Notes payable | 138,678 | 138,678 |
| Loans from shareholders | <u>-</u> | <u>2,147</u> |
| Total current liabilities | 309,355 | 189,032 |
| <u>LONG-TERM LIABILITIES:</u> | | |
| Notes payable | <u>190,776</u> | <u>212,372</u> |
| Total liabilities | 500,131 | 401,404 |
| <u>STOCKHOLDERS' EQUITY (DEFICIT):</u> | | |
| Common stock, no par value | | |
| 50,000,000 shares authorized, | | |
| 17,396,250 shares issued and outstanding | 777,687 | - |
| 13,896,250 shares issued and outstanding | - | 632,687 |
| Retained earnings (deficit) | <u>(854,582)</u> | <u>(726,812)</u> |
| Total stockholders' equity (deficit) | <u>(76,895)</u> | <u>(94,125)</u> |
| TOTAL LIABILITIES AND AND STOCKHOLDERS' EQUITY (DEFICIT) | <u>\$ 423,236</u> | <u>\$ 307,279</u> |

See Notes to Financial Statements

ULTIMATE SPORTS, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|---------------------|--------------------|
| <u>REVENUE:</u> | | |
| Sales | \$ 427,272 | \$ 396,461 |
| Less cost of sales | <u>252,647</u> | <u>310,665</u> |
| Gross profit | 174,625 | 85,796 |
| <u>EXPENSES:</u> | | |
| Interest expense | 3,926 | 5,847 |
| Office and administration | 64,823 | 63,982 |
| Selling expenses | 37,019 | 64,052 |
| Professional services | 172,727 | 14,850 |
| Rent | 17,900 | 22,760 |
| Depreciation | 6,000 | 6,000 |
| Salaries and related expenses | <u>-</u> | <u>1,152</u> |
| Total expenses | <u>302,395</u> | <u>178,643</u> |
| Net income (loss) for the periods | <u>\$ (127,770)</u> | <u>\$ (92,847)</u> |

See Notes to Financial Statements

ULTIMATE SPORTS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>Common Stock</u> | <u>Retained Earnings (Deficit)</u> | <u>Total Stockholders' Equity (Deficit)</u> |
|---|-------------------------|--|---|
| Balances, at January 1, 2009 | \$ 614,087 | \$ (633,965) | \$ (19,878) |
| Common stock issued as payment for services and to reduce debt | 18,600 | - | 18,600 |
| Net income (loss) | <u>-</u> | <u>(92,847)</u> | <u>(92,847)</u> |
| Balances, at December 31, 2009 | 632,687 | (726,812) | (94,125) |
| Common stock issued as payment for services | 145,000 | - | 145,000 |
| Net income (loss) | <u>-</u> | <u>(127,770)</u> | <u>(127,770)</u> |
| Balances, at December 31, 2010 | <u>\$ 777,687</u> | <u>\$ (854,582)</u> | <u>\$ (76,895)</u> |

See Notes to Financial Statements

ULTIMATE SPORTS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 2009

| | <u>2010</u> | <u>2009</u> |
|--|-----------------|-----------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| Net income (loss) for the periods | \$ (127,770) | \$ (92,847) |
| Adjustments to reconcile net income with net cash provided by (used in) operations: | | |
| Depreciation | 6,000 | 6,000 |
| Common stock issued for services | 165,000 | 14,850 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 18,635 | 17,999 |
| Inventory | (121,364) | 139,069 |
| Accounts payable and accrued expenses | 122,470 | (85,440) |
| | <u>62,971</u> | <u>(369)</u> |
| Net cash provided by (used in) operations | | |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| Purchases of fixed assets | <u>(5,884)</u> | <u>-</u> |
| Net cash used in investing activities | <u>(5,884)</u> | <u>-</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u> | | |
| Principal reductions in note payable | (21,596) | (45,277) |
| Loan (to)/from shareholders | <u>(33,112)</u> | <u>(8,108)</u> |
| Net cash provided by (used in) financing activities | <u>(54,708)</u> | <u>(53,385)</u> |
| Net increase (decrease) in cash | 2,379 | (53,754) |
| Cash, beginning of year | <u>5,198</u> | <u>58,952</u> |
| Cash, end of period | <u>\$ 7,577</u> | <u>\$ 5,198</u> |

See Notes to Financial Statements

ULTIMATE SPORTS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ultimate Sports, Inc. ("The Company") is an Indiana corporation organized on December 6, 1988. The Company is engaged in the business of designing and assembling snowmobile skis and related products. The Company has offices in West Lafayette, Indiana.

Accounting Year

The Company has elected a calendar accounting period beginning on January 1 and ending December 31 each year.

Method of Accounting

The financial statements of Ultimate Sports, Inc. have been prepared on the accrual basis of accounting. Under this method, certain revenues are recognized when earned and certain expenses and purchases of assets are recognized when the obligation incurred.

Management's 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 disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation account based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed under accelerated method with useful lives ranging from 5 to 7 years. Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Inventory

Inventory is composed principally of raw materials and is stated at the lower of cost or market. Substantially all inventory is pledged as collateral on bank loans.

Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed. Impairment is measured by comparing the carrying value to the estimated undiscounted future cash flows expected to result from use of the assets and their eventual disposition.

ULTIMATE SPORTS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Advertising Cost

Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received.

Financial Instruments

For most financial instruments, including cash, accounts receivable, accounts payable and accruals, management believes that the carrying amount approximates fair value, as the majority of these instruments are short-term in nature.

NOTE 2 - NOTES PAYABLE

The following is a summary of notes payable as of December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| The Farmers State Bank, A note payable in various monthly installments with interest at market rates. Secured by accounts receivable, inventory and equipment. | \$ 200,776 | \$ 222,372 |
| Ann Thomas, An unsecured note payable on demand without interest, note issued in April 2004 in exchange for 4,500,000 shares of the company's common stock | 45,000 | 45,000 |
| Davis, Sita & Company, PA, An unsecured convertible note payable issued in payment of accounting services, due on demand with interest at 12% per annum. | 20,000 | 20,000 |
| James Metheny, An unsecured note payable issued for cash on March 30, 2006, payable on demand with interest at 10% per annum | 50,000 | 50,000 |
| Line of credit loan from Sun Trust Credit, up to \$50,000, payable in varying monthly installments, with interest at prime rates The loan is unsecured. | <u>13,678</u> | <u>13,678</u> |
| Total | <u>\$ 329,454</u> | <u>\$ 351,050</u> |

ULTIMATE SPORTS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 3 – LOAN TO/FROM SHAREHOLDERS

The founding shareholder periodically advances funds to or from the Company. The loans are due on demand, without interest and are unsecured.