

REALITY RACING, INC.

(A Development Stage Company)

FINANCIAL STATEMENTS

(Unaudited)

DECEMBER 31, 2006

**REALITY RACING, INC.**  
**(A Development Stage Company)**

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REALITY RACING, INC.  
(A DEVELOPMENT STAGE COMPANY)  
**BALANCE SHEET**  
DECEMBER 31, 2006  
(UNAUDITED)

**ASSETS**

CURRENT ASSETS	
Cash	\$ 142,911
Accounts receivable	90,000
Prepaid expenses	2,014
Employee advances	1,118
Production costs	241,002
Prepaid consulting fees	<u>416,668</u>
Total Current Assets	893,713
PROPERTY & EQUIPMENT, NET	82,496
OTHER ASSETS	
Security deposits	<u>3,680</u>
TOTAL ASSETS	<u><u>\$ 979,889</u></u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

CURRENT LIABILITIES	
Accounts payable	\$ 35,792
Accrued officers' salaries and payroll taxes	181,071
Loans from stockholders	13,865
Deferred revenue	<u>200,000</u>
Total Current Liabilities	<u>430,728</u>
GUARANTEED WARRANTS	<u>1,000,000</u>
STOCKHOLDERS' EQUITY (DEFICIT)	
Common stock, \$.001 par value, 400,000,000 shares authorized, 121,282,816 shares issued and outstanding	121,283
Additional paid-in capital	1,746,209
Deficit accumulated during the development stage	<u>(2,318,331)</u>
Total Stockholders' Equity (Deficit)	<u>(450,839)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u><u>\$ 979,889</u></u>

Read accompanying Notes to Financial Statements.

REALITY RACING, INC.  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,		From Inception May 4, 2005 Through December 31,
	2006	2005	2006	2005 (Restated)	2006
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENSES					
Officers' Salaries	112,250	81,918	212,250	163,860	603,003
General and Administrative	396,780	108,420	819,176	318,859	1,583,551
Total Expenses	<u>509,030</u>	<u>190,338</u>	<u>1,031,426</u>	<u>482,719</u>	<u>2,186,554</u>
(LOSS) FROM OPERATIONS	(509,030)	(190,338)	(1,031,426)	(482,719)	(2,186,554)
OTHER INCOME (EXPENSES)					
Interest income	1,725		1,826	-	2,036
Gain on disposal of fixed assets	6,187		6,187		6,187
Acquisition costs	-		-	-	(140,000)
Total Other Income (Expense)	<u>7,912</u>	<u>-</u>	<u>8,013</u>	<u>-</u>	<u>(131,777)</u>
NET (LOSS)	<u>\$ (501,118)</u>	<u>\$ (190,338)</u>	<u>\$ (1,023,413)</u>	<u>\$ (482,719)</u>	<u>\$ (2,318,331)</u>
(LOSS) PER SHARE	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>127,461,077</u>	<u>121,433,496</u>	<u>128,175,398</u>	<u>118,469,912</u>	<u>122,178,127</u>

Read accompanying Notes to Financial Statements.

**REALITY RACING, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	6 Months Ended December 31, 2006	6 Months Ended December 31, 2005 (Restated)	Period From May 4, 2005 (Inception) Through December 31, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss)	\$ (1,023,413)	\$ (482,719)	(2,318,331)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:			
Depreciation	4,502	433	6,707
Amortization of prepaid consulting fees	499,999	-	583,332
Gain on disposition of fixed assets	(6,187)	-	(6,187)
Acquisition costs	-	-	140,000
Common stock issued for services	65,000	140,000	365,000
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(90,000)	-	(90,000)
Prepaid expenses	(1,151)	97	(2,014)
Employee advances	(1,118)	(1,233)	(1,118)
Accrued interest - note receivable	210	-	-
Security deposits	-	(670)	(3,680)
Increase (decrease) in:			
Accounts payable	13,207	10,983	35,792
Accrued officers' salary and payroll taxes	29,335	88,181	181,071
Deferred revenue	200,000	-	200,000
<b>NET CASH (USED IN) OPERATING ACTIVITIES</b>	<b><u>(309,616)</u></b>	<b><u>(244,928)</u></b>	<b><u>(909,428)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Increase in capitalized production costs	(194,073)	-	(241,002)
Purchase of property and equipment	(46,725)	(3,882)	(70,179)
Proceeds from disposition of property and equipment	31,135	-	31,135
Increase in note receivable - stockholder	-	-	(10,000)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b><u>(209,663)</u></b>	<b><u>(3,882)</u></b>	<b><u>(290,046)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds of note payable - stockholder	13,865	-	43,865
Proceeds from issuance of common stock	516,595	257,632	1,212,370
(Increase)decrease in note receivable - stockholder	10,000	(10,000)	10,000
Additional contributions by stockholder	-	-	76,150
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b><u>540,460</u></b>	<b><u>247,632</u></b>	<b><u>1,342,385</u></b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>21,181</b>	<b>(1,178)</b>	<b>142,911</b>
<b>CASH - BEGINNING</b>	<b>121,730</b>	<b>29,284</b>	<b>-</b>
<b>CASH - ENDING</b>	<b><u>\$ 142,911</u></b>	<b><u>\$ 28,106</u></b>	<b><u>\$ 142,911</u></b>

Read accompanying Notes to Financial Statements.

**REALITY RACING, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**(UNAUDITED)**

	6 Months Ended December 31, 2006	6 Months Ended December 31, 2005 (Restated)	Period From May 4, 2005 (Inception) Through December 31, 2006
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES (CONTINUED)</b>			
Issuance of 108,400,000 shares of common stock to founders for stock subscription receivable.	\$ -	\$ 108,400	\$ 108,400
Issuance of 5,200,000 shares of common stock for repayment of funds advanced for merger.	\$ -	\$ 140,000	\$ 140,000
Issuance of 6,480,000 shares of common stock for advertising, consulting and legal services rendered.	\$ -	\$ -	\$ 300,000
Issuance of 120,000 shares of common stock in partial payment of purchase of race car.	\$ -	\$ -	\$ 15,000
Issuance of 200,000 shares of common stock for purchase of pace car.	\$ -	\$ -	\$ 28,972
Issuance of warrants to purchase 1 million shares of common stock in payment of financial, business, investor and public relations advisory services pursuant to consulting agreement.	\$ -	\$ -	\$ 1,000,000
Issuance of 157,400 shares of common stock for repayment of loan from stockholder.	\$ 30,000	\$ -	\$ 30,000
Issuance of 1,040,000 shares of common stock for marketing and production services.	\$ 65,000	\$ -	\$ 65,000

Read accompanying Notes to Financial Statements.

**REALITY RACING, INC.**  
**(A Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 1. ORGANIZATION**

Reality Racing, Inc. ("Reality") was originally incorporated on May 4, 2005 under the laws of the State of Florida. On August 2, 2005, Reality acquired all the outstanding common shares of Yellowbubble.com ("Yellowbubble"), a non-reporting publicly traded Nevada corporation. For accounting purposes, the acquisition has been treated as a recapitalization of Reality. The historical financial statements prior to August 2, 2005 are those of Reality. As consideration, Reality paid \$140,000 in cash and issued 56,552 shares of common stock. The cash payment was expensed as an acquisition cost.

The company is in the process of producing original programming relating to stock car racing, with the intention of airing nationally in the United States. The company's headquarters is in Boca Raton, Florida.

The Company has no revenue to date. Since its inception, the Company has been dependent upon the receipt of capital investment or other financing to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's product development will be successfully completed or that it will be a commercial success.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying condensed financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended June 30, 2006. The results of operations and cash flows for the period are not necessarily indicative of the results of operations or cash flows that can be expected for the year ending June 30, 2007.

REALITY RACING, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Loss) Per Share

(Loss) per share is computed by dividing net (loss) for the year by the weighted average number of shares outstanding. The 1 million warrants issued (Note 3) were not included in loss per share as the effect was anti-dilutive.

Statement of Cash Flows

For purposes of this statement the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2006, the Company had no cash equivalents.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could vary from the estimates that were assumed in preparing the financial statements and the differences could be material.

Stock Split

Effective September 18, 2006, the Board of Directors approved a 4 for 1 stock split. As a result of the stock split, all share and per share data have been adjusted to give effect to the stock split.

Deferred Revenue

The Company has received payments for sponsorships of race cars for season one, which will be recognized as revenue when the program has aired on television.

**REALITY RACING, INC.**  
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**NOTE 3. RESTATEMENT**

As a result of the audit for the year ended June 30, 2006, an additional \$140,000 of consulting fees was expensed in conjunction with the acquisition of Yellowbubble(note 1). The statements for the six months ended December 31, 2005 presented in this report have been restated to reflect this audit adjustment.

**NOTE 4. LOANS FROM STOCKHOLDERS**

In December 2006, \$13,865 was advanced to the Company by a stockholder. The loan is non-interest bearing and is expected to be repaid within one year. The proceeds were used as partial payment on the purchase of racing vehicles to be used in the production of the television program.

**NOTE 5. CAPITAL STOCK**

**Common Stock**

The Company has 400,000,000 shares of \$.001 par value common stock authorized. Shareholders of common stock have one vote per share.

On August 1, 2005, the Company entered into a Stock Purchase Agreement for the sale, on a best efforts basis, of an aggregate of 40,000,000 shares of common stock for a purchase price equal to 15% of the bid price as quoted on the OTC Bulletin Board for the immediately preceding day, such sale being exempt from registration under Regulation S of the Securities Act of 1933. The Stock Purchase Agreement terminated on December 31, 2005. 3,202,092 common shares were sold for cash totaling \$186,367.

In May, 2005, the Company issued a private placement offering for the sale, on a best efforts basis, of a maximum of 13,000,000 common shares in two rounds, such sale being exempt from registration under regulation D of the Securities Act of 1933. The first round was an offering for the sale of a maximum of 6,000,000 common shares at a price of \$.125 per share as determined by management with a minimum subscription amount of \$25,000 per subscriber. The second round was an offering for the sale of a maximum of 7,000,000 common shares at a price of \$.25 per share as determined by management with a minimum subscription amount of

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**NOTE 5. CAPITAL STOCK (CONTINUED)**

\$25,000 per subscriber. The minimum subscription amounts were not followed. The private placement offering terminated June 30, 2006 but was extended for an additional ninety days. As of September 30, 2006, 4,496,800 Round One common shares were sold for net cash totaling \$531,390 (\$.125 per share) and 800,000 common shares were sold for cash totaling \$50,000 (\$.0625 per share), and 1,090,000 Round Two shares were sold for cash totaling \$272,500 (\$.25 per share) Commissions paid in connection with the sale of these common shares totaled \$30,550.

In August 2005, as compensation for consulting fees provided by a company owned by a stockholder of the Company, the Company issued 5,200,000 shares of common stock valued at \$140,000 (\$.03 per share).

In August 2005, the Company issued 5,200,000 shares of common stock to a stockholder as repayment of funds advanced of \$140,000 in connection with the merger (\$.03 per share).

In March 2006, 120,000 common shares valued at \$15,000 (\$.125 per share) based upon recent cash offering prices were issued in partial payment for the purchase of a race car.

In June 2006, 200,000 common shares valued at \$28,972 (\$.14 per share) based upon recent cash offering prices were issued in payment for the purchase of a pace car.

In June 2006, as compensation for legal and advertising services rendered of \$10,000 and \$150,000, respectively, the Company issued 1,280,000 common shares valued at \$160,000 (\$.125 per share) based upon recent cash offering prices.

In December 2006, as compensation for marketing services and production services of \$5,000 and \$60,000 respectively, the Company issued 40,000 common shares valued at \$5,000 (\$.125 per share) and 1,000,000 shares valued at \$60,000 (\$.06 per share) based upon cash offering prices at the times the services were rendered and invoiced.

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**NOTE 5. CAPITAL STOCK (CONTINUED)**

In December 2006, under a Section 504 public offering in the state of Minnesota, 2,000,000 free trading shares were issued at \$.14 per share, of which the Company received \$.07 per share. As of December 31, 2006, an additional 11,000,000 shares were being held in escrow for future sales under the offering.

In December 2006, 12,000,000 shares were returned to treasury at par value pursuant to the resignation of a member of the Board of Directors.

As of December 31, 2006, 121,282,816 common shares were issued and outstanding.

**Warrants**

Effective June 1, 2006, the Company entered into a one year consulting agreement for financial, business, investor and public relations advisory services. As compensation, the Company issued vested warrants to purchase 1 million restricted common shares at par value over a five year term. The agreement contains several other provisions as follows:

Cashless exercise - if the fair market value is greater than the purchase price, the consultant may elect to receive shares equal to the value of the warrants.

Anti-dilution - for the term of the agreement plus one year, if the consultant's warrants are diluted below 10% of the issued and outstanding shares, the Company shall issue additional warrants to bring it back to 10%.

Maximum exercise - the consultant is limited to a maximum exercise of no more than 4.99% of the Company's outstanding common shares.

Warrant value - the value of the shares underlying the warrants shall remain in excess of \$1 million for the term of the agreement plus one year. If at any time the value falls below \$1 million, the Company shall issue additional warrants to bring it back to \$1 million.

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**NOTE 5. CAPITAL STOCK (CONTINUED)**

**Warrants (Continued)**

Registration rights - in the event that the consultant is unable to sell its shares pursuant to Rule 144 within thirty days after written demand made at least one year after the issuance date, the Company agrees to issue an additional 100,000 common shares or the cash equivalent of such shares.

Liquidated damages - in the event that the Company is unable to issue the common stock pursuant to a registration statement, the Company will pay a sum equal to the closing price of the common stock listed on the exchange where traded less the purchase price.

In accordance with SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, the consulting agreement is recorded at its guaranteed value of \$1,000,000 as of the date of the agreement. Prepaid consulting fees and guaranteed warrants (a liability) of \$1,000,000 have been recorded. Prepaid consulting fees are being amortized over the term of the consulting agreement of one year. For the six months ended December 31, 2006, \$499,999 was expensed. The guaranteed warrants account will be reversed when exercised or in the case of non-registration, when the liability is paid.

**NOTE 6. GOING CONCERN**

As reflected in the financial statements, the Company has an accumulated deficit of \$2,318,331 since inception. In addition, the Company has not yet generated any revenues from operations. These factors raise substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on its ability to raise additional capital. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.