

# **Reeltime Rentals, Inc.**

2201 Sixth Avenue, Suite 1222  
Seattle, Washington 98121

## Financial Statements For The Period Ended June 30, 2007

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
**COMPARATIVE BALANCE SHEET**  
**JUNE 30, 2007**  
Unaudited

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current Assets		
Cash	\$ -	\$ 125,955
Notes Receivable Shareholders	136,443	182,387
Prepaid Expenses	62,985	72,921
Total current assets	199,428	381,263
Fixed Assets - Net	42,136	34,821
Other Assets		
Deposits - Noncurrent	230	230
Investments	25,000	25,000
Content Acquisition	191,667	-
Technology Acquisition	28,076	26,758
<b>TOTAL ASSETS</b>	<b>\$ 486,537</b>	<b>\$ 468,072</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 203,441	\$ 97,419
Shareholders Loans	61,640	-
Deferred Compensation	152,496	114,996
Total current liabilities	417,577	212,415
<b>TOTAL LIABILITIES</b>	417,577	212,415
Stockholders' Equity		
Common stock, no par value, 150,000,000 shares authorized, 130,833,333 shares issued and outstanding at March 31, 2007	2,163,379	1,923,379
150,000,000 shares authorized, 126,833,333 shares issued and outstanding at December 31, 2006		
Paid-in-Capital	64,643	31,337
Retained deficit	(2,159,062)	(1,699,059)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	68,960	255,657
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 486,537</b>	<b>\$ 468,072</b>

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
**COMPARATIVE STATEMENT OF OPERATIONS**  
Unaudited

	For The Quarter Ending June 30, 2007	For The Year To Date June 30, 2007	June 24, 2004 (inception) through December 31, 2006
Revenue			
Technology Transfer	\$ -	\$ -	\$ 149,582
Sales	1,834	3,227	5,057
Total Revenue	<u>1,834</u>	<u>3,227</u>	<u>154,639</u>
Cost of Sales	8,697	34,220	43,038
Gross Profit	(6,863)	(30,993)	111,601
Expenses			
General and Administrative	155,518	393,754	1,681,831
Technical	22,500	31,446	428,328
Depreciation	4,086	7,748	22,577
	<u>182,104</u>	<u>432,948</u>	<u>2,132,736</u>
Other (Income) Expenses	(1,959)	(3,938)	137,927
Net Loss	<u>\$ (187,008)</u>	<u>\$ (460,003)</u>	<u>\$ (2,159,062)</u>

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
Unaudited

	For The Quarter Ending June 30, 2007	For The Year To Date June 30, 2007	June 24, 2004 (inception) through March 31, 2007
Net Loss	\$ (187,008)	\$ (460,003)	\$ (2,159,062)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	4,086	7,748	22,577
Stock Based Compensation	16,653	33,307	64,644
Common stock issued for technology	-	-	3,000
Common stock issued for conversion of debt	-	-	75,000
Common stock issued for conversion of debt	-	-	62,500
Changes in assets and liabilities:			
(Incr) Decr in Notes Receivable Shareholders	14,142	45,943	(136,644)
(Incr) Decr in Prepaid Expenses	6,932	9,936	(62,985)
(Incr) Decr in Other Assets	(100,000)	(192,985)	(219,973)
Incr (Decr) in Accounts Payable	178,612	106,022	203,641
Incr (Decr) in Shareholder Loans	61,640	61,640	61,640
Incr (Decr) in Deferred Compensation	(189)	37,500	152,496
Total Adjustments	<u>181,876</u>	<u>109,111</u>	<u>225,896</u>
Net cash provided by (used in) operating activities	<u>(5,132)</u>	<u>(350,892)</u>	<u>(1,933,166)</u>
Cash flows from investing activities:			
Purchases of equipment	(3,064)	(15,063)	(64,713)
Investments	-	-	(25,000)
Sale of common stock	-	240,000	2,163,879
Common Stock Retired	-	-	(141,000)
Net cash provided by (used in) operating activities	<u>(3,064)</u>	<u>224,937</u>	<u>1,933,166</u>
Cash and cash equivalents, beginning of period	8,196	125,955	-
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
STATEMENT IN SHAREHOLDERS' EQUITY  
Unaudited

	Common Stock		Deficit Accumulated During The Development Stage	Paid-in- Capital	Total Stockholders' Deficit
	Shares	Amount			
Balance - June 1, 2004	-	\$ -	\$ -	\$ -	\$ -
Issuance of common stock - founders	8,100,000	810	-	-	810
Issuance of common stock - acquisition of technology	30,000,000	3,000	-	-	3,000
Issuance of common stock - 504 offering	40,000,000	830,669	-	-	830,669
Net loss for year ending	-	-	(552,714)	-	(552,714)
Balance - December 31, 2004	78,100,000	\$ 834,479	\$ (552,714)	\$ -	\$ 281,765
Issuance of common stock - 504 offering	14,000,000	162,400	-	-	162,400
Net loss for quarter ending			(385,999)		(385,999)
Balance - March 31, 2005	92,100,000	\$ 996,879	\$ (938,713)	\$ -	\$ 58,166
Net loss for quarter ending			(129,782)		(129,782)
Balance - June 30, 2005	92,100,000	\$ 996,879	\$ (1,068,495)	\$ -	\$ (71,616)
Net income for quarter ending			34,036		34,036
Balance - September 30, 2005	92,100,000	\$ 996,879	\$ (1,034,459)	\$ -	\$ (37,580)
Issuance of common stock - 504 offering	16,250,000	262,500	-	-	262,500
Conversion of debt into common stock	1,500,000	75,000	-	-	75,000
Sale of common stock - restricted	3,000,000	10,000	-	-	10,000
Net income for quarter ending			(21,019)		(21,019)
Balance - December 31, 2005	112,850,000	\$ 1,344,379	\$ (1,055,478)	\$ -	\$ 288,901
Net loss for quarter ending			(41,077)		(41,077)
Balance - March 31, 2006	112,850,000	\$ 1,344,379	\$ (1,096,555)	\$ -	\$ 247,824
Net loss for quarter ending			(38,737)		(38,737)
Balance - June 30, 2006	112,850,000	\$ 1,344,379	\$ (1,135,292)	\$ -	\$ 209,087
Issuance of common stock - 504 offering	9,333,333	245,000	-	-	245,000
Retirement of Shares	(4,700,000)	(141,000)			(141,000)
Stock based Compensation				14,684	14,684
Net loss for quarter ending			(320,810)		(320,810)
Balance - September 30, 2006	117,483,333	\$ 1,448,379	\$ (1,456,102)	\$ 14,684	\$ 6,961
Issuance of common stock - 504 offering	3,800,000	225,000			225,000
Sale of Common Stock	5,000,000	250,000			250,000
Stock based Compensation				16,653	16,653
Net loss for quarter ending			(242,957)		(242,957)
Balance - December 31, 2006	126,283,333	\$ 1,923,379	\$ (1,699,059)	\$ 31,337	\$ 255,657
Sale of Common Stock	4,000,000	240,000			240,000
Stock based Compensation				16,653	16,653
Net loss for quarter ending			(272,995)		(272,995)
Balance - March 31, 2007	130,283,333	\$ 2,163,379	\$ (1,972,054)	\$ 47,990	\$ 239,315
Stock based Compensation				16,653	16,653
Net loss for quarter ending			(187,008)		(187,008)
Balance - June 30, 2007	130,283,333	\$ 2,163,379	\$ (2,159,062)	\$ 64,643	\$ 68,960

**REELTIME RENTALS, INC**  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 1: Organization and Significant Accounting Policies**

***Nature of Operations***

Reeltime Rentals, Inc. headquartered in Seattle, Washington was incorporated on June 24, 2004, under the laws of the State of Washington, to commercialize the renting of movies and video programming in real-time to the living rooms of broadband customers worldwide. Reeltime's customers have access to hundreds (soon to be thousands) of DVD-quality full screen movies and television shows. Reeltime offers a unique and convenient approach to renting movies at home or elsewhere, which we call "Point, Click, and Watch." Reeltime utilizes cutting edge technology by implementing a proprietary new media rental delivery system that streams high quality video content direct to consumers, while taking measures to combat the threat of piracy. The system adds convenience and simplicity to the entertainment experience.

Reeltime's vision in the marketplace is to lead the technological revolution that allows customers to choose from a full library of diverse programming, providing customers access to an extensive selection of media and video entertainment through any broadband connection.

The Company generated its first revenue in September 2006. The revenues are minimal due to the fact that the Company has not advertised or marketed its services during the current beta launch. Therefore the Company has chosen to continue to report its activities as a "Development Stage Enterprise." Accordingly, the Company's activities have been accounted for as those of a "Development Stage Enterprise" as set forth in Financial Accounting Standards Board Statement No. 7 ("SFAS 7"). Among the disclosures required by SFAS 7 are that the Company's financial statements be identified as those of a development stage company, and that the financial statements disclose activity since the date of the Company's inception.

The year end of the Company is December 31.

***Unaudited Interim Financial Information***

The information presented for the six month period and year to date June 30, 2007, and for the cumulative period June 24, 2004 (Inception) to June 30, 2007 has not been audited. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the information set forth therein. The results of operations for the six month period and year to date June 30, 2007 and for the cumulative period June 24, 2004 (Inception) to June 30, 2007 are not necessarily comparable to the results for the years ending December 31, 2004, 2005 and 2006.

***Use of Estimates***

The preparation of interim condensed financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the fair values non-marketable securities, fair values of acquired intangible assets, useful lives of intangible assets and property and equipment, fair values of options to purchase our common stock, and income taxes, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

### ***Revenue Recognition***

Revenue is generated through pay per view and subscriptions of varying durations with monthly fees. Revenue is recognized in the period that it is earned. Prepaid subscriptions are accounted for as deferred revenue until the period for which the subscription is paid.

### ***Stock-based Compensation***

Effective July 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

SFAS 123R requires the use of a valuation model to calculate the fair value of stock-based awards. We have elected to use the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair value of stock-based awards on the dates of grant, consistent with that used for pro forma disclosures under SFAS No. 123, Accounting for Stock-Based Compensation.

### ***Income Taxes***

As a Development Stage Enterprise, the Company has recorded no accrued income taxes or deferred taxes to date on the inception to date loss including any related to stock based compensation.

### ***Notes Receivable***

A note receivable from Grid Network Systems, Inc., for \$188,000 was settled for cash, common stock of Grid Network Systems, Inc., and prepaid services.

### ***Investments***

As discussed above, the Company acquired 62,500 shares of common stock of Grid Network Systems, Inc., for \$25,000 in partial settlement of Grid Network Systems, Inc., note receivable. The Company believes this amount reflects the fair market value of this investment.

### **Note 2: Stockholders' Equity**

On July 3, 2006 the Company sold 7,000,000 shares of its common stock at \$0.025 per share under a 504 offering in return for notes receivable of \$125,000 and services of \$50,000.

On July 3, 2006 the Company sold 2,333,333 shares of common stock at \$0.03 per share under a 504 offering for \$46,000 cash and \$24,000 of services. In conjunction with this 2,333,333 warrants were issued to purchase shares of common stock at \$0.10 per share exercisable until July 3, 2016.

On July 28, 2006 the Company issued 833,333 warrants to an existing shareholder to purchase shares of common stock at \$0.10 per share exercisable until July 3, 2016.

On August 15<sup>th</sup>, the Company retired 4,700,000 of the July 3, 2006 offering through the forgiveness of \$143,189 in notes receivable recorded as other expense.

On July 20<sup>th</sup>, 2006 the Board amended the 2004 Combined Incentive and Nonqualified Stock Option Plan to authorize and reserve 27,000,000 shares of common stock for issuance or sale under the plan. On the same date the Company granted 26,600,000 options to eight key individuals at average trading price of the shares on the 20 days preceding the date of grant to purchase common stock. The options vest 25% immediately and the remainder ratably over thirty-six months.

On October 1, 2006 the Company sold 3,800,000 shares of its common stock at \$0.0592 per share under a 504 offering in return for cash of \$119,000, services of \$6,000 and notes receivable of \$100,000.

On November 29, 2006 the Company sold 5,000,000 shares of its common stock for \$250,000 in cash.

On February 28, 2007 the Company sold 4,000,000 shares of its common stock for \$240,000 in cash.



**Management Certification of Financial Statements**

I Barry Henthorn, CEO of the Company hereby certify that the financial statements dated June 30, 2007 that are filed herewith and any notes thereto, present fairly, in all material respects, the financial position, results of operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied.

Dated this January 9, 2008