

Reeltime Rentals, Inc.

2201 Sixth Avenue, Suite 1222
Seattle, Washington 98121

Financial Statements For The Period Ended December 31, 2007

REELTIME RENTALS, INC.
(A Development Stage Company)
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2007
Unaudited

	December 31, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash	\$ 217,565	\$ 125,955
Notes Receivable Shareholders	774,431	182,387
Prepaid Expenses	51,954	72,921
Total current assets	1,043,950	381,263
Fixed Assets - Net	34,644	34,821
Other Assets		
Deposits - Noncurrent	230	230
Investments	25,000	25,000
Content Acquisition	191,667	-
Technology Acquisition	53,076	26,758
TOTAL ASSETS	\$ 1,348,567	\$ 468,072
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 342,696	\$ 97,419
Shareholders Loans	8,532	-
Deferred Compensation	203,462	114,996
Total current liabilities	554,690	212,415
TOTAL LIABILITIES	554,690	212,415
Stockholders' Equity		
Common stock, no par value, 200,000,000 shares authorized, 170,183,333 shares issued and outstanding at December 31, 2007	3,578,379	1,923,379
150,000,000 shares authorized, 126,283,333 shares issued and outstanding at December 31, 2006		
Paid-in-Capital	118,978	31,337
Retained deficit	(2,903,480)	(1,699,059)
TOTAL SHAREHOLDERS' EQUITY	793,877	255,657
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,348,567	\$ 468,072

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

	For The Quarter Ending <u>December 31, 2007</u>	For The Year To Date <u>December 31, 2007</u>	June 24, 2004 (inception) through <u>December 31, 2007</u>
Revenue			
Technology Transfer	\$ -	\$ -	\$ 149,582
Sales	1,486	4,814	6,644
Total Revenue	<u>1,486</u>	<u>4,814</u>	<u>156,226</u>
Cost of Sales	9,230	153,461	162,279
Gross Profit	(7,744)	(148,647)	(6,053)
Expenses			
General and Administrative	351,451	993,417	2,281,494
Technical	22,500	76,446	473,328
Depreciation	4,536	16,562	31,391
	<u>378,487</u>	<u>1,086,425</u>	<u>2,786,213</u>
Other (Income) Expenses	(441)	(30,651)	111,214
Net Loss	<u>\$ (385,790)</u>	<u>\$ (1,204,421)</u>	<u>\$ (2,903,480)</u>

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

	For The Quarter Ending <u>December 31, 2007</u>	For The Year To Date <u>December 31, 2007</u>	June 24, 2004 (inception) through <u>December 31, 2007</u>
Net Loss	\$ (385,790)	\$ (1,204,421)	\$ (2,903,480)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	4,536	16,562	31,391
Stock Based Compensation	13,530	87,641	118,978
Common stock issued for technology	-	-	3,000
Common stock issued for conversion of debt	85,000	85,000	222,500
Changes in assets and liabilities:			
(Incr) Decr in Notes Receivable Shareholders	288,461	(592,044)	(774,631)
(Incr) Decr in Prepaid Expenses	4,028	20,967	(51,954)
(Incr) Decr in Other Assets	(25,000)	(217,985)	(244,973)
Incr (Decr) in Accounts Payable	20,779	245,277	342,896
Incr (Decr) in Shareholder Loans	(83,348)	8,532	8,532
Incr (Decr) in Deferred Compensation	7,371	88,466	203,462
Total Adjustments	<u>315,357</u>	<u>(257,584)</u>	<u>(140,799)</u>
Net cash provided by (used in) operating activities	<u>(70,433)</u>	<u>(1,462,005)</u>	<u>(3,044,279)</u>
Cash flows from investing activities:			
Purchases of equipment	(796)	(16,385)	(66,035)
Investments	-	-	(25,000)
Sale of common stock	270,000	1,570,000	3,493,879
Common Stock Retired	-	-	(141,000)
Net cash provided by (used in) operating activities	<u>269,204</u>	<u>1,553,615</u>	<u>3,261,844</u>
Cash and cash equivalents, beginning of period	18,794	125,955	-
Cash and cash equivalents, end of period	<u>\$ 217,565</u>	<u>\$ 217,565</u>	<u>\$ 217,565</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

continued on next page

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

	Common Stock		Deficit Accumulated During The Development Stage	Paid-in- Capital	Total Stockholders' Deficit
	Shares	Amount			
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
Sale of Common Stock	17,000,000	1,060,000			1,060,000
Stock based Compensation				40,805	40,805
Net loss for quarter ending			(358,628)		(358,628)
Balance - September 30, 2007	147,283,333	\$ 3,223,379	\$ (2,517,690)	\$ 105,448	\$ 811,137
Sale of Common Stock	20,400,000	270,000			270,000
Conversion of debt into common stock	2,500,000	85,000			85,000
Stock based Compensation				13,530	13,530
Net loss for quarter ending			(385,790)		(385,790)
Balance - December 31, 2007	170,183,333	\$ 3,578,379	\$ (2,903,480)	\$ 118,978	\$ 793,877

REELTIME RENTALS, INC
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 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 twelve month period and year to date December 31, 2007, and for the cumulative period June 24, 2004 (Inception) to December 31, 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 twelve month period and year to date December 31, 2007 and for the cumulative period June 24, 2004 (Inception) to December 31, 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, 2006 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, 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.

On September 4, 2007 the Company sold 17,000,000 shares of its common stock for notes receivable of \$1,060,000.

On October 16, 2007 the Company sold 14,000,000 shares of its common stock for notes receivable of \$140,000.

On October 31, 2007 the Company sold 400,000 shares of its common stock for \$10,000 in cash.

On November 29, 2007, the Company issued 2,500,000 shares of its common stock in settlement of \$85,000 of debt.

On December 11, 2007 the Company sold 6,000,000 shares of its common stock for notes receivable of \$120,000.

Management Certification of Financial Statements

I Barry Henthorn, CEO of the Company hereby certify that the financial statements dated December 31, 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 March 07, 2008