

# **Reeltime Rentals, Inc.**

34233 Pacific Hwy S. Suite 128  
Federal Way, WA 98003

## **Unaudited Financial Statements For the Period Ended June 30, 2009**

The accompanying notes are an integral part of these financial statements

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Balance Sheets  
June 30, 2009

	June 30, 2009
<b>ASSETS</b>	
Current Assets	105,217
Cash	\$ 1,000
Cash - restricted	
	106,217
Accounts Receivable	393
Employee Advances	715
Related party receivables	95,015
Prepaid expenses	16,782
Total current assets	219,122
Fixed Assets - Net	25,391
Other Assets	
Deposits - noncurrent	230
Technology acquisition	28,500
Other	-
	-
<b>TOTAL ASSETS</b>	<b>\$ 273,243</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current Liabilities	
Bank overdraft	\$ 722
Accounts payable	385,289
Related party loans	359,035
Deferred compensation	150,830
Accrued liabilities	214,874
Total current liabilities	1,110,750
<b>TOTAL LIABILITIES</b>	1,110,750
Shareholders' Equity(Deficit)	
Common stock, no par value,	3,456,215
200,000,000 shares authorized, 199,899,999 shares	
issued and outstanding at December 31, 2008	
200,000,000 shares authorized, 167,694,586 shares	
issued and outstanding at December 31, 2007	
Stock subscription receivable	(135,140)
Paid-in-capital	148,436
Deficit accumulated during the development stage	(4,307,018)
<b>TOTAL SHAREHOLDERS' EQUITY(DEFICIT)</b>	<b>(837,507)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY(DEFICIT)</b>	<b>\$ 273,243</b>

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**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Statement of Operations

	For the Quarter Ending June 30, 2009	For the Period January 1, 2009 to June 30, 2009	From Inception (June 24, 2004) to June 30, 2009
Sales	\$ 18	\$ 252	\$ 31,635
Cost of Sales	(5,492)	(9,022)	(461,268)
Gross Profit (Loss)	(5,474)	(8,770)	(429,633)
Expenses			
General and administrative	(38,359)	(154,341)	(3,701,295)
Technical	(6,129)	(12,848)	(310,551)
Depreciation	(3,249)	(6,462)	(52,401)
	<u>(47,737)</u>	<u>(173,650)</u>	<u>(4,064,246)</u>
Other Income			
Technology transfer	-	-	149,582
Other income	-	-	37,280
	<u>-</u>	<u>-</u>	<u>186,862</u>
Net Loss	<u>\$ (53,211)</u>	<u>\$ (182,420)</u>	<u>\$ (4,307,018)</u>
Net Loss Per Common Share:			
Basic and fully diluted	\$0.00	\$0.00	
Weighted Average Number Of Common Shares:			
Basic and fully diluted	428,674,665	190,458,344	

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**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
STATEMENTS OF SHAREHOLDERS' EQUITY(DEFICIT)

	Common Stock Shares	Amount	Deficit Accumulated During The Development Stage	Stock Subscriptions	Paid-in- Capital	Total Shareholders' Equity(Deficit)
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
Stock based compensation					2,711	2,711
Net subscriptions receivable				(278,901)		(278,901)
Net loss for year ending			(556,599)			(556,599)
Balance - December 31, 2004	78,100,000	\$ 834,479	\$ (556,599)	\$ (278,901)	\$ 2,711	\$ 1,690
Issuance of common stock - 504 offering	24,000,000	362,400				362,400
Issuance of common stock - services	6,250,000	62,500				62,500
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
Stock based compensation					24,426	24,426
Net subscriptions receivable				38,906		38,906
Net loss for year ending			(527,217)			(527,217)
Balance - December 31, 2005	112,850,000	\$ 1,344,379	\$ (1,083,816)	\$ (239,995)	\$ 27,137	\$ 47,705
Issuance of common stock - 504 offering	16,133,333	670,000				670,000
Issuance of common stock - services	2,000,000	50,000				50,000
Retirement of shares	(4,700,000)	(141,000)				(141,000)
Adjustment for consideration received		(173,774)				(173,774)
Stock based compensation					75,916	75,916
Net subscriptions receivable				131,395		131,395
Net loss for year ending			(587,959)			(587,959)
Balance - December 31, 2006	126,283,333	\$ 1,749,605	\$ (1,671,775)	\$ (108,600)	\$ 103,053	\$ 72,284
Issuance of common stock - 504 offering	38,000,000	640,000				640,000
Issuance of common stock - services	200,000	6,000				6,000
Conversion of debt into common stock	2,500,000	85,000				85,000
Sale of common stock - restricted	3,400,000	930,000				930,000
Retirement of shares	(2,688,747)	(435,451)				(435,451)
Stock based compensation					41,356	41,356
Net subscriptions receivable				(115,846)		(115,846)
Net loss for ending ending			(1,181,427)			(1,181,427)
Balance - December 31, 2007	167,694,586	\$ 2,975,154	\$ (2,853,201)	\$ (224,446)	\$ 144,409	\$ 41,915
Issuance of common stock - 504 offering	29,721,666	251,846				251,846
Issuance of common stock - services	-	-				-
Conversion of debt into common stock	3,718,059	80,887				80,887
Sale of common stock - restricted	6,000,000	48,000				48,000
Retirement of shares	(7,234,312)	(57,172)				(57,172)
Stock based compensation					4,027	4,027
Net subscriptions receivable				74,806		74,806
Net loss for year ending			(1,271,397)			(1,271,397)
Balance - December 31, 2008	199,899,999	\$ 3,298,715	\$ (4,124,598)	\$ (149,640)	\$ 148,436	\$ (827,088)

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**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
STATEMENTS OF SHAREHOLDERS' EQUITY(DEFICIT)

Issuance of common stock - 504 offering	13,223,333	7,500		7,500
Issuance of common stock - services	-	-		-
Conversion of debt into common stock	-	-		-
Sale of common stock - restricted	422,525,000	150,000		150,000
Retirement of shares	(37,305,000)	-		-
Stock based compensation			-	-
Net subscriptions receivable			14,500	14,500
Net loss for year ending			(165,690)	(165,690)
<b>Balance - June 30, 2009</b>	<b>598,343,332</b>	<b>\$ 3,456,215</b>	<b>\$ (4,290,288)</b>	<b>\$ (135,140) \$ 148,436 \$ (820,778)</b>

STATEMENTS OF SHAREHOLDERS' EQUITY(DEFICIT) QUARTERLY BREAKDOWN

	Common Stock		Deficit accumulated during the development stage	Stock Subscriptions	Paid-In- Capital	Total Stockholders' Deficit
	Shares	Amount				
Sale of Common Stock	9,025,000	\$ 7,500				\$ 7,500
Issuance of common stock- Services						\$ -
Conversion of debt into Common Stock						\$ -
Stock based compensation						\$ -
Net loss for quarter ending			\$ (129,209)			\$ (129,209)
<b>Balance - March 31, 2009</b>	<b>208,924,999</b>	<b>\$ 3,306,215</b>	<b>\$ (4,253,807)</b>	<b>\$ (149,640)</b>	<b>\$ 148,436</b>	<b>\$ (948,797)</b>
						\$ -
Sale of Common Stock	426,723,333	\$ 150,000				\$ 150,000
Conversion of debt into Common Stock						\$ -
Retirement of shares	(37,305,000)					\$ -
Net Subscriptions receivable				\$ 14,500		\$ 14,500
Net loss for quarter ending			\$ (36,481)			\$ (36,481)
<b>Balance - June 30, 2009</b>	<b>598,343,332</b>	<b>\$ 3,456,215</b>	<b>\$ (4,290,288)</b>	<b>\$ (135,140)</b>	<b>\$ 148,436</b>	<b>\$ (820,778)</b>

The accompanying notes are an integral part of these financial statements

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Statement of Cash Flows

	For the Quarter Ending June 30, 2009	For the Period from January 1, 2009 to June 30, 2009	From Inception (June 24, 2004) to June 30, 2009
Cash flows from operating activities:			
Net Loss	\$ (53,211)	\$ (182,420)	\$ (4,307,018)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock based compensation	-	-	148,436
Common stock issued for services	-	-	118,500
Depreciation	3,249	6,462	52,401
		-	
Changes in assets and liabilities:			
Receivables	(715)	(755)	(96,123)
Prepaid expenses	-	-	(16,782)
Deposits - noncurrent	-	-	(230)
Bank overdraft	(14,705)	(23,495)	723
Accounts payable	32,042	95,772	385,289
Deferred compensation	-	-	150,830
Accrued expenses	(5,638)	26,802	214,874
Total Adjustments	<u>14,232</u>	<u>104,785</u>	<u>957,917</u>
Net cash used in operating activities	<u>(38,979)</u>	<u>(77,635)</u>	<u>(3,349,100)</u>
Cash flows from investing activities:			
Purchase of Technology Asset	-	-	-
Purchases of fixed assets	-	-	(77,792)
Net cash used in investing activities	<u>-</u>	<u>-</u>	<u>(77,792)</u>
Cash flows from financing activities:			
Net proceeds from stock issuance	150,000	172,000	3,174,074
Related party loans	(6,000)	10,852	359,035
Net cash used in financing activities	<u>144,000</u>	<u>182,852</u>	<u>3,533,109</u>
Increase in cash and cash equivalents	105,021	105,217	106,217
Cash, beginning of period	1,196	1,000	-
Cash, end of period	<u>\$ 106,217</u>	<u>\$ 106,217</u>	<u>\$ 106,217</u>
Supplementary Information - Non-Cash Transactions:			
Common stock issued for conversion of debt	\$ -	\$ -	\$ 240,887
Common stock issued for technology acquisition	\$ -	\$ -	\$ 28,000

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**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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**NOTE 1: NATURE OF OPERATIONS**

Reeltime Rentals, Inc. (“Reeltime” or the “Company”) headquartered in Seattle, Washington was incorporated on June 24, 2004, under the laws of the State of Washington. The mission is to encompass the components of strategic alliances, corporate acquisitions, new TV shows, a central unique cross-marketing system (m-commerce), an exclusive resort, the Reeltime Entertainment Center, and a management team of highly skilled executives. The core of the business is to establish a platform for launching a worldwide webcasting of quality products and services and to commercialize the renting of movies and video programming in real-time to the living rooms of broadband customers worldwide. Reeltime’s customers will have access to thousands of DVD-quality full screen movies and television shows. Reeltime is poised to change the home entertainment industry by providing the public the next generation of online viewing technology with built-in capacity for unlimited growth. Through video-on-demand services, the company delivers full-screen DVD quality movie experiences to broadband customers nationwide while implementing security measures to combat the threat of piracy.

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.

**NOTE 2: BASIS OF PRESENTATION**

The Company generated its first revenue in September 2006. The revenues to date are minimal, \$31,635, and the Company has an accumulated deficit of \$-4,307,018. Therefore the Company has chosen to continue to report its activities as a “Development Stage Enterprise.”

In view of these conditions, the ability of the Company to continue as an ongoing is contingent upon the company achieving a profitable level of operations.

To meet these objectives, the Company continues to focus on expanding its website along with its online video rental library and its online store to generate sustainable revenue for its ongoing operations and expansion.

The company to date has acquired its first round of financing to allow for the continuation of its current operations.

**NOTE 3: SIGNIFICANT ACCOUNTING POLICIES**

***A. Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires us 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 amount of revenues and expenses during the reported period. 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.

***B. Accounting Basis***

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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These financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

**C. Cash**

At June 30, 2009, Cash consists of a checking account held by a financial institution and Cash – Restricted represents funds then held in the escrow account of the company’s general counsel, that were subsequently released to the Company. At December 31, 2008, Cash consists of a checking account held by a financial institution and Cash – Restricted represents funds then held in the escrow account of the company’s general counsel, that were subsequently released to the Company.

**D. Stock Subscription Receivable**

In connection with the sale of the Company’s common stock the company accepted promissory notes from the purchasers.

**E. Prepaid Expenses**

N/A

**F. Fixed Assets**

Fixed assets are stated at cost less accumulated depreciation. Assets are depreciated over three to five years depending on their estimated useful life. The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of the fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. Fixed assets at June 30 were comprised of the following:

	<u>2009</u>	<u>2008</u>
Computer Hardware & Software	\$ 76,792	\$ 76,792
Leasehold Improvements	<u>1,000</u>	<u>1,000</u>
	77,792	77,792
Accumulated Depreciation	<u>(52,401)</u>	<u>(45,939)</u>
	<u>\$ 25,391</u>	<u>\$ 31,853</u>

**G. Technology Acquisition**

In December 2007, the Company acquired a “World Wide Web” domain name, and all underlying technology developed on its behalf, and certain property rights associated with that certain domain name, in exchange for Common Stock of the Company valued at \$25,000.

Long-lived assets of the Company, including Technology Acquisition, are reviewed for impairment when changes in circumstances indicate their carrying value has become impaired, pursuant to guidance established in the Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” See discussion note, *O. Impairment of Long-Lived Assets*, below.

**H. Deferred Compensation**

N/A

**I. Revenue Recognition**



**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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Revenue is generated through pay per view, subscriptions of varying durations with monthly fees and product merchandising. 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.

**J. Advertising Costs**

N/A

**K. Stock-based Compensation**

N/A

**L. Income Taxes**

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and operating loss and tax credit carryforwards using enacted tax rates in effect for the year in which the differences and carryforwards are expected to reverse.

In July 2006, the FASB issued FIN No.48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No.48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a material impact on the Company's results of operations or financial position. As such, the Company has not recorded any liabilities for uncertain tax positions or any related interest and penalties. The acceptability of the 2006 and 2007 tax positions by the taxing authorities has not been determined.

**M. Earnings (Loss) Per Share ("EPS")**

Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares, including exchangeable shares but excluding unvested restricted stock, outstanding during the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average number of common and potential common shares outstanding during the period, which includes the additional dilution related to conversion of stock options and common stock purchase warrants.

**O. Impairment of Long-Lived Assets**

Long-lived assets of the Company are reviewed for impairment when changes in circumstances indicate their carrying value has become impaired, pursuant to guidance established in the SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management considers assets to be impaired if the carrying amount of an asset exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the asset will be written down to fair value, and a loss is recorded as the difference between the carrying value and the

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

***P. Fair Value of Financial Instruments***

The determination of fair value of financial instruments is made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The carrying value of cash and cash equivalents, accounts payable and accrued expenses approximates their fair value because of the short-term nature of these instruments. The Company places its cash with high credit quality financial institutions.

***Q. Recently Issued Accounting Standards***

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair-value measurements required under other accounting pronouncements. It does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (FSP 157-1), which excludes SFAS No. 13, "Accounting for Leases" and certain other accounting pronouncements that address fair value measurements under SFAS 13, from the scope of SFAS 157. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 "Effective Date of FASB Statement No. 157"(FSP 157-2), which provides a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company does not expect the application of SFAS No. 157 to have a material effect on the Company's financial statements.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 is effective immediately and will apply to the Company upon adoption of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to FASB No. 115." Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply more complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any of its existing financial assets or financial liabilities; therefore, this statement is did not have a material impact on the Company's financial statements.

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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In June 2008, the Emerging Issues Task Force (“EITF”) of the FASB issued EITF 03-06-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (EITF 03-06-1). EITF 03-06-1 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in SFAS No. 128, “Earnings per Share.” FSP EITF 03-06-1 did not have any impact on the Company’s financial statements.

In June 2007, the EITF of the FASB issued EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities” (EITF 07-3), which is effective for new contracts entered into for fiscal years beginning after December 15, 2007. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts will be recognized as an expense as the goods are delivered or the related services are performed. The Company does not expect the adoption of EITF 07-3 to have a material impact on the financial results of the Company.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51.” SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent’s ownership of a non-controlling interest, calculation, and disclosure of the consolidated net income attributable to the parent and the non-controlling interest, changes in a parent’s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained non-controlling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt SFAS 160 on September 1, 2009, the beginning of its fiscal year 2010. The Company does not expect the application of SFAS No. 160 to have a material effect on the financial statements.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations”, which establishes principles and requirements for the reporting entity in a business combination; including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company must adopt SFAS 141R on September 1, 2009, the beginning of its fiscal year 2010. The Company does not expect the application of SFAS 141R to have a material effect on the financial statements.

**NOTE 4. RELATED PARTY TRANSACTIONS**

N/A

**NOTE 5. INCOME TAXES**

As of June 30, 2009, the Company has estimated net operating losses carryforward for tax purposes of approximately \$4,307,018 (2008 – \$4,124,082) and will expire starting in 2024 through 2028. This amount may be applied against future federal taxable income. The Company evaluates its valuation allowance requirements on an annual basis based on projected future operations. When circumstances change and this causes a change in management’s judgment about the realizability of deferred tax assets, the impact of the change on the valuation allowance is generally reflected in current income.

**REELTIME RENTALS, INC.**  
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Notes to Financial Statements

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The tax effects of temporary differences that give rise to the Company's deferred tax asset (liability) are as follows:

	<u>2009</u>	<u>2008</u>
Tax loss carryforwards	\$ 1,507,456	\$ 1,443,429
Valuation allowance	(1,507,456)	(1,443,429)
	<u>\$ -</u>	<u>\$ -</u>

**NOTE 6: COMMON STOCK, OPTIONS AND WARRANTS**

**A. Common Stock**

The Stockholders' Equity section of the Company contains the following class of Common Stock (no par value) as of December 31:

2009

650,000,000 shares authorized, 598,343,332 shares issued and outstanding and 16,811,313 subscriptions for shares outstanding

2008

200,000,000 shares authorized, 199,899,999 shares issued and outstanding and 16,811,313 subscriptions for shares outstanding

**B. Common Stock Options**

2009

-0- common stock options were outstanding

2008

1,300,000 common stock options were outstanding

**C. Common Stock Warrants**

2009

666,667 common stock warrants were outstanding

2008

-0- common stock warrants were outstanding

**NOTE 7: SUBSEQUENT EVENTS**

**A. Equity**

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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- On May 4, 2009 the Company authorizes the increase in common shares to 650M and 50M Preferred, to clear up an over-issuance of equity by previous management and to fulfill its obligation to CEC for its equity position in Reeltime.
- On May 6, 2009, the State of Washington approves the increase in the common shares to 650,000,000 and 50,000,000 preferred shares.
- On May 18, 2009 Reeltime under its agreement obligation, issued 422,500,000 restricted shares of common stock to Challenge Entertainment Corporation.

**B. Agreements**

- On December 31, 2008, the Company signed a definitive Joint Venture Agreement to establish a joint venture with Jagran Prakashan Limited (NYSE: JAGRAN.NS), one of the largest media companies in India and publisher of the most widely read newspaper in the world, Dainik Jagran. The Joint Venture will develop a mainstream media portal, in partnership with the world's largest Indian movie libraries, for streaming movies over the internet using subscription, pay-per-view, download-to-own and advertising supported models. Reeltime would be a 50% equity holder within the JV. In order to consummate the agreement, a cash infusion of \$250,000/each will need to occur from both parties. At present due to the financial position of the company current management has not made a definitive decision to move forward with the transaction.
- On April 1, 2009, Reeltime's Board of Directors found that it had 2 options available. One was to become Insolvent the other was to find an investor that would allow the company to move forward therefore it was in the Company's best interest to enter into an agreement with Challenge Entertainment Corporation (CEC). CEC will supply services, cash and/or arrange for financing with a value of \$2,000,000.00. It is agreed that CEC will receive 422,500,000 shares from the Company representing 65% of all common shares. The cash will be used to provide capital for business operations and to provide capital for current and future Joint Ventures. Services to be provided include, marketing and new revenue models, such as Reelstore, Reelclub and 20 New online television stations and the expansion of its professional staff. In addition to these elements, CEC will be providing operating support for the company, including management support, original television programs and access to public broadcasting.

**C. Stock Options**

- On October 10, 2008, the Company entered into Common Stock Option agreements with 2 individuals as an Exercise Price of \$0.05 per share. For a total of 1,300,000 shares. This amount is divided as follows:
  - o Carl Killough      \$50,000/.05=1,000,000 Shares
  - o Harold Patton      \$15,000/.05=300,000 Shares

Each of these options has an expiration date of October 10, 2011.

**D. Warrants**

- In February 2009, the Company entered into Common Stock Purchase Warrant agreements with 4 individuals as an Exercise Price of \$0.015 per share. For a total of 666,667 shares. This amount is divided as follows:
  - o Glen Dileo      \$2500/.015=166,667 Shares
  - o Mark Cramer      \$1000/.015=66,667 Shares
  - o Louis Rufino      \$2500/.015=166,667 Shares
  - o Mark Priebe      \$4,000/.015=266,667 Shares

**REELTIME RENTALS, INC.**  
(A Development Stage Company)  
Notes to Financial Statements

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Each of these warrants has an expiration date of February 18, 2014.