

Reeltime Rentals, Inc.
2201 Sixth Avenue, Suite 1222
Seattle, Washington 98121

Financial Statements
For The Period Ended September 30, 2006

REELTIME RENTALS, INC.
(A Development Stage Company)
BALANCE SHEET
SEPTEMBER 30, 2006
Unaudited

ASSETS

Current Assets	
Cash	\$ 485
Accounts Receivable	18,760
Notes Receivable	-
Notes Receivable Shareholders	39,185
Prepaid Expenses	<u>74,995</u>
Total current assets	133,425
Fixed Assets - Net	16,133
Other Assets	
Deposits - Noncurrent	24,084
Investments	25,000
Technology Acquisition	230
TOTAL ASSETS	<u>\$ 198,872</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable	\$ 188,274
Accrued Payroll	2,406
Deferred Revenue	<u>1,231</u>
Total current liabilities	191,911
TOTAL LIABILITIES	191,911
Stockholders' Equity	
Common stock, no par value, 150,000,000 shares authorized, 117,483,333 shares issued and outstanding	1,448,379
Paid-in-Capital	14,684
Retained deficit	<u>(1,456,102)</u>
TOTAL SHAREHOLDERS' EQUITY	6,961
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 198,872</u>

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

	For The Quarter Ending September 30, 2006	For The Nine Months Ended September 30, 2006	June 24, 2004 (inception) through September 30, 2006
Revenue			
Technology Transfer	\$ -	\$ -	\$ 149,582
Sales	214	214	214
Total Revenue	<u>214</u>	<u>214</u>	<u>149,796</u>
Cost of Sales	2,752	2,752	2,752
Gross Profit	(2,538)	(2,538)	147,044
Expenses			
General and Administrative	142,523	170,633	1,065,338
Technical	29,940	79,349	385,951
Depreciation	1,934	4,234	8,401
	<u>174,397</u>	<u>254,216</u>	<u>1,459,690</u>
Other (Income) Expenses	<u>143,875</u>	<u>143,875</u>	<u>143,457</u>
Net Loss	<u>\$ (320,810)</u>	<u>\$ (400,629)</u>	<u>\$ (1,456,103)</u>

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

	<u>For The Quarter Ending September 30, 2006</u>	<u>For The Nine Months Ended September 30, 2006</u>	<u>June 24, 2004 (inception) through September 30, 2006</u>
Net Loss	\$ (320,810)	\$ (400,626)	\$ (1,456,104)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	1,934	4,234	8,402
Stock Based Compensation	14,684	14,684	14,684
Common stock issued for technology	0	0	3,000
Common stock issued for conversion of debt	0	0	75,000
Common stock issued for conversion of debt	0	0	62,500
Changes in assets and liabilities:			
(Incr) Decr in Accounts Receivable	(6,334)	(14,500)	(18,760)
(Incr) Decr in Notes Receivable	118,000	118,000	0
(Incr) Decr in Notes Receivable Shareholders	166,874	200,810	(39,185)
(Incr) Decr in Prepaid Expenses	(74,995)	(74,995)	(74,995)
(Incr) Decr in Other Assets	(3,570)	(8,336)	(24,314)
Incr (Decr) in Accounts Payable	34,337	90,609	190,681
Incr (Decr) in deferred Revenue	1,231	1,231	1,231
Total Adjustments	<u>252,161</u>	<u>331,737</u>	<u>198,244</u>
Net cash provided by (used in) operating activities	<u>(68,649)</u>	<u>(68,889)</u>	<u>(1,257,860)</u>
Cash flows from investing activities:			
Purchases of equipment	(10,466)	(11,259)	(24,534)
Investments	(25,000)	(25,000)	(25,000)
Sale of common stock	245,000	245,000	1,448,879
Common Stock Retired	(141,000)	(141,000)	(141,000)
Net cash provided by (used in) operating activities	<u>68,534</u>	<u>67,741</u>	<u>1,258,345</u>
Cash and cash equivalents, beginning of period	600	1,633	0
Cash and cash equivalents, end of period	<u>\$ 485</u>	<u>\$ 485</u>	<u>\$ 485</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

REELTIME RENTALS, INC
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

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. 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 three-month period and year to date ended September 30, 2006, and for the cumulative period June 24, 2004 (Inception) to September 30, 2006 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 three-month period and nine months ended September 30, 2006, and for the cumulative period June 24, 2004 (Inception) to September 30, 2006 are not necessarily comparable to the results for the years ending December 31, 2004 and 2005.

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 15th, 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 20th, 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.

Management Certification of Financial Statements

The officers of the Company hereby certify that the financial statements dated September 30, 2006 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 November 9, 2006