

Financial Statements

Multiplied Media Corporation

December 31, 2007

Auditors' Report

To the Shareholders of
Multiplied Media Corporation

We have audited the balance sheets of **Multiplied Media Corporation** as at December 31, 2007 and 2006 and the statements of loss and comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Multiplied Media Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Calgary, Canada
April 8, 2008

Chartered Accountants

Multiplied Media Corporation

Balance Sheets

As at December 31

As at	2007 \$	2006 \$
ASSETS		
Current		
Cash	121,790	361,060
Short term investments <i>[note 3 and note 8]</i>	3,151,175	2,102,301
Accounts receivable	24,989	31,424
Goods and Services Taxes recoverable	64,696	152,651
Prepaid expenses and deposits	225,255	22,186
	3,587,905	2,669,622
Prepaid expenses and deposits	212,193	-
Property and equipment <i>[note 5]</i>	346,186	90,579
Deferred development costs <i>[note 6]</i>	2,353,266	1,485,266
Intangible assets <i>[note 7]</i>	111,069	44,828
	6,610,620	4,290,295
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable	638,534	547,538
Commitments <i>[note 13]</i>		
Shareholders' equity		
Share capital <i>[note 9]</i>	13,259,322	6,502,236
Compensation options and warrants	423,512	93,327
Contributed surplus <i>[note 11]</i>	237,709	-
Deficit	(7,948,457)	(2,852,806)
	5,972,086	3,742,757
	6,610,620	4,290,295

See accompanying notes

On behalf of the Board:

(signed) "Craig Bentham" _____

(signed) "Andrew Osis" _____

Multiplied Media Corporation
Statements of Loss and Comprehensive Loss and Deficit

Year ended December 31

	2007	2006
	\$	\$
REVENUE		
Sales	7,138	108,838
Interest income	120,327	6,353
Total Revenue	127,465	115,191
EXPENSES		
Salary and consulting fees	2,061,577	901,296
Stock based compensation <i>[note 10]</i>	223,704	63,444
Administration, occupancy and insurance	682,273	270,979
Advertising and marketing	1,496,953	11,867
Professional fees	313,949	77,524
Amortization of tangible assets	64,681	8,399
Amortization of deferred development costs and intangible assets	346,605	222,466
	5,189,742	1,555,975
Net loss and comprehensive loss for the year	(5,062,277)	(1,440,784)
Share repurchase adjustment <i>[note 9]</i>	(33,374)	-
Reverse takeover adjustment <i>[note 4]</i>	-	19,279
Deficit, beginning of the year	(2,852,806)	(1,431,301)
Deficit, end of the year	(7,948,457)	(2,852,806)
Net loss for the year per share <i>[note 12]</i>	(0.10)	(0.04)

See accompanying notes

Multiplied Media Corporation

Statements of Cash Flow

Year ended December 31

	2007 \$	2006 \$
OPERATING ACTIVITIES		
Net loss for the year	(5,062,277)	(1,440,784)
Items not requiring cash		
Accrual of interest income	-	(6,078)
Amortization	411,286	230,865
Stock based compensation <i>[note 10]</i>	223,704	63,444
	(4,427,287)	(1,152,553)
Changes in non-cash working capital		
Short term investments	(1,048,874)	(2,100,000)
Accounts receivable	6,435	(31,424)
Goods and Services Tax receivable	87,955	(80,265)
Loan receivable	-	22,524
Prepaid expenses and deposits	(415,262)	(18,627)
Accounts payable	90,996	205,666
	(1,278,750)	(2,002,126)
Cash flows used by operating activities	(5,706,037)	(3,154,679)
INVESTING ACTIVITIES		
Purchase of equipment	(320,289)	(94,064)
Expenditures on trademark and patents	(71,366)	(36,311)
Expenditures on deferred development costs	(1,195,475)	(1,059,137)
Cash flows used by investing activities	(1,587,130)	(1,189,512)
FINANCING ACTIVITIES		
Issuance of common shares and compensation options, net of issue costs of \$1,116,753 (2006 - \$340,750) <i>[note 9]</i>	7,109,147	3,607,927
Repurchase of common shares <i>[note 9]</i>	(55,250)	-
Cash receipt from reverse takeover <i>[note 4]</i>	-	814,473
Cash flows from financing activities	7,053,897	4,422,400
Increase (decrease) in cash	(239,270)	78,209
Cash, beginning of the year	361,060	282,851
Cash, end of the year	121,790	361,060

See accompanying notes

Multiplied Media Corporation

Notes to Financial Statements

Years Ended December 31, 2007 and 2006

1. DESCRIPTION OF OPERATIONS

Multiplied Media Corporation (TSXV: MMC) (the “Company”), formerly named as illumiCell Corporation, is an online search service provider with a unique proprietary family of products designed to help consumers and merchants connect in an easy, convenient manner. The Company is incorporated under the Alberta Business Corporations Act and is traded on the TSX Venture Exchange.

The continuation of the Company’s operations is dependent on the Company’s ability to achieve future profitable operations and to obtain additional financing. The Company is pursuing financing alternatives with investors. No agreements with investors have yet been reached and there can be no assurance that such agreements will be reached, nor that financing efforts will be successful. The value of the Company’s intangible assets and deferred development costs could become impaired should these efforts not be successful.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows. The Company’s accounting policies and its standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Chartered Accountants (“CICA”).

Changes in accounting policies

On January 1, 2007, the Company adopted the CICA Handbook Section 1530 “Comprehensive Income,” Section 3251 “Equity,” Section 3855 - “Financial Instruments - Recognition and Measurement,” Section 3861 “Financial Instruments - Disclosure and Presentation,” and Section 3865 “Hedges.” As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Company’s net loss or cash flows. The other effects of the implementation of the new standards are discussed below.

Comprehensive income

The new standards introduce comprehensive income, which consists of net loss and other comprehensive income (“OCI”). Upon adoption of Section 1530, the Company revised its “Statements of Loss and Deficit” to include the newly required statement of comprehensive income by creating a combined statement.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income. Currently, the Company has no OCI.

Financial instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in

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subsequent periods depends on whether the financial instrument has been classified as “held-for-trading,” “available-for-sale,” “held-to-maturity,” “loans and receivables” or “other financial liabilities,” as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in OCI. Financial assets “held-to-maturity,” “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Accounts receivable is designated as “loans and receivables.” Accounts payable are designated as “other liabilities.” Short term investments are designated as “held-for-trading”.

The adoption of the financial instruments standard had no impact on opening retained earnings.

Accounting change

As of January 1, 2007, the Company adopted revised CICA Handbook Section 1506 “Accounting Changes,” which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. There is no material impact to the Company’s financial statement as a result of implementing this new standard.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company.

New Accounting Pronouncements

As of January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862 “Financial Instruments - Disclosures” and Section 3863 “Financial Instruments – Presentation,” which will replace Section 3861 “Financial Instruments - Disclosure and Presentation.” The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

As of January 1, 2008, the Company will be required to adopt the new CICA Section 1535 “Capital Disclosures,” which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

The CICA issued the new accounting standard Section 3064 Goodwill and Intangible Assets which will replace Section 3062 Goodwill and Other Intangible Assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt it on January 1, 2009. The Company is in the process of evaluating the requirements of the new standards.

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The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

Measurement uncertainty

In preparing financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The amounts recorded relating to the fair value of stock options issued and the resulting income effect (note 10) are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions.

Revenue recognition

Revenue is recognized when services are provided to users, which is generally at the time when online queries are completed and when reasonable assurance exists regarding the measurement and collection of the consideration to be received.

Cash

Cash includes cash on hand and balances with banks, net of outstanding cheques.

Property and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Computer	3 years straight line
Furniture and equipment	5 years straight line
Leasehold improvement	straight line over the term of lease

The Company regularly reviews its property and equipment to eliminate obsolete items.

Research and development costs

Research costs are expensed in the year incurred. The Company expenses development costs in the year incurred, except when it is determined that the costs meet Canadian generally accepted accounting criteria

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Years Ended December 31, 2007 and 2006

for deferral and amortization. Amortization of development costs commences when development of a project is completed and sales of the related product have commenced. The costs are amortized on a straight-line basis based on the recoverability period of unamortized deferred development costs.

Stock options

The Company has adopted the Canadian accounting standard outlined in the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments." The section provides for the fair value method to record stock-based compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model.

Loss per share

Basic per share amounts are computed by dividing the net loss by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money options, plus unamortized stock-based compensation cost, would be used to buy back common shares at an average market price for the financial. Anti-dilutive options or instruments are not included in the calculation and all options and instruments are considered anti-dilutive when the Company is in a loss position.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized in the current year for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. Future income tax assets are limited to the amount that is more likely than not to be realized.

Trademarks and patents

The Company capitalizes all trademark and patent application costs and amortization is provided for on a straight-line basis over the expected life of 10 and 20 years respectively. The unamortized balance is charged to its operations if the Company does not obtain approval or the trademark or patent is abandoned.

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Financial instruments

a) Interest rate risk

As at December 31, 2007, the Company was exposed to changes in interest rates with respect to the short term investments. Short term investments consist of a number of cashable and non-redeemable GICs which mature between January and November, 2008 at an average annual interest rate of 4.42% per annum.

b) Fair value

The Company's financial instruments include cash, short term investments, accounts receivable, deposits, and accounts payable. The fair values of all financial instruments approximate their carrying values.

c) Credit risk

The Company's exposure to credit risk relates to accounts receivable and arises from the possibility that a counterparty does not fulfill its obligations. This is minimized through continuous evaluation of accounts receivable and recording an allowance for doubtful accounts as required.

3. SHORT TERM INVESTMENTS

Short term investments consist of one cashable and two non-redeemable GICs which mature between January 7 and November 3, 2008, earning interest from 3.40% to 4.45% per annum. (see note 8).

4. REVERSE TAKEOVER AND AMALGAMATION

On December 8, 2006, the Company completed an amalgamation with Z28 Capital Corp. ("Z28 Capital") and the amalgamated company continued operations as illumiCell Corporation ("Amalco"), subsequently renamed as Multiplied Media Corporation. As a result of the amalgamation, the Company became a Canadian Reporting Issuer, and its shares commenced trading on the TSX Venture Exchange on January 12, 2007.

The amalgamation has been accounted for as a reverse takeover transaction that does not constitute a business combination. Prior to amalgamation, Z28 Capital was a Capital Pool Company with net assets consisting primarily of cash. The costs incurred to execute the reverse takeover transaction amounted to \$255,733, including \$25,000 attributable to the fair value of common shares issued to the agent, Versant Partners Inc. under a Sponsorship Agreement. As a result of the amalgamation, share capital, net of transaction costs, and retained earnings of Z28 Capital, in the amount of \$596,461 and \$19,279 respectively, was charged to the share capital and deficit of Amalco. In addition, the Company acquired a cash balance of \$814,473 from Z28 Capital.

Under the terms of the transaction, each holder of Z28 Capital common shares ("Z28 shares") received one common share of the Amalco for every 2.11 of Z28 shares; and each holder of illumiCell common shares ("illumiCell Shares") received five common shares of the Amalco for every one illumiCell share. In addition, each holder of Z28 stock options also received one stock option of the amalgamated company in

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exchange for every 2.11 Z28 stock options held at an exercise price multiplied by 2.11, with no change to the expiry date.

Total number of common shares issued as a result of the amalgamation:

	Prior to amalgamation #	Post- amalgamation #
Z28 Capital Corp.		
Common Shares	8,121,994	3,849,287
illumiCell Corporation		
Common Shares	7,047,937	35,239,685

Total number of options converted as a result of the amalgamation:

	Prior to amalgamation		Post-amalgamation	
	Number of options #	Exercise Price \$	Number of options #	Exercise Price \$
Z28 Capital Corp.				
Common Shares	788,500	0.1500	373,696	0.3165

Because illumiCell Corporation was identified as the acquirer in the above transaction, these financial statements are a continuation of the Company.

Prior to the amalgamation, Z28 Capital completed a private placement to issue 6,625,000 Common Shares of Amalco at a price of \$0.40 each for gross proceeds of \$2,650,000. The subscription receipts were held in Escrow to be released to Amalco upon completion of the amalgamation. In connection with the private placement, the Company granted 662,500 compensation warrants (the "Compensation Warrants") to Versant Partners Inc. (the "agent") at an exercise price of \$0.40 each. The Compensation Warrants are convertible into Common Shares on a one-for-one basis. As at December 31, 2007, all the Compensation Warrants remain outstanding and expire between February 29, 2008 and April 4, 2008.

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Notes to Financial Statements

Years Ended December 31, 2007 and 2006

5. PROPERTY AND EQUIPMENT

	2007		
	Cost \$	Accumulated amortization \$	Net Book Value \$
Computer	329,911	(53,255)	276,656
Furniture and equipment	75,453	(14,718)	60,735
Leasehold improvement	16,263	(7,468)	8,795
	421,627	(75,441)	346,186

	2006		
	Cost \$	Accumulated amortization \$	Net Book Value \$
Computer	74,125	(8,312)	65,813
Furniture and equipment	19,847	(1,707)	18,140
Leasehold improvement	8,185	(1,559)	6,626
	102,157	(11,578)	90,579

6. DEFERRED DEVELOPMENT COSTS

The Company has certain projects that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and for which resources exist or are expected to be available to complete the project. During the year, development costs of \$1,209,480 (2006 - \$1,059,137) were deferred. The costs deferred are related to development of new systems for identified future markets. The Company records amortization in arriving at the carrying value of deferred development costs once a project is completed and sales of the related product have commenced. During the year, \$341,480 (2006 - \$220,600) was expensed as amortization of deferred development costs. Amounts incurred and amortized for deferred development costs are as follows:

	2007	2006
	\$	\$
Balance, beginning of year	1,485,266	646,729
Additions	1,209,480	1,059,137
Amortization	(341,480)	(220,600)
Balance, end of year	2,353,266	1,485,266

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Notes to Financial Statements

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Breakdown of deferred development cost additions are as follows:

	2007	2006
	\$	\$
Consulting	808,634	1,059,137
Salaries and stock based compensation directly related to development	400,846	-
Total	1,209,480	1,059,137

The recoverability of unamortized deferred development costs is evaluated based on projected future revenues net of associated costs. When such review indicates that estimated future cash flows associated with these deferred costs would not be sufficient to recover their carrying value, the excess of the carrying value over estimated recoverable amount will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

7. INTANGIBLE ASSETS

	2007		
	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Patents	62,538	(2,712)	59,826
Trademarks	55,880	(4,637)	51,243
	118,418	(7,349)	111,069

	2006		
	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Patents	25,989	(1,206)	24,783
Trademarks	21,063	(1,018)	20,045
	47,052	(2,224)	44,828

8. OPERATING LINE OF CREDIT

During 2007, the Company obtained a demand operating line of credit in the amount of \$50,000, collateralized by a cashable GIC in the amount of \$50,000. Interest is payable at Royal Bank of Canada prime rate per annum which is 6.00% at December 31, 2007. No amounts are drawn on this facility as at December 31, 2007.

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Notes to Financial Statements

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9. SHARE CAPITAL

Share Capital Authorized

Unlimited Common voting shares	No par value
Unlimited Preferred shares	No par value

Issued and Outstanding

	2007		2006	
	Shares #	Amount \$	Shares #	Amount \$
Common shares:				
Balance, beginning of year	45,776,480	6,502,236	5,895,770	2,199,705
Repurchase of common shares (iii)	(154,029)	(21,876)		
Issuance for cash			540,000	1,015,000
Options exercised	-	-	612,167	182,416
Transfer from contributed surplus for options exercised	-	-	-	174,404
Conversion in connection with reverse takeover	-	-	(7,047,937)	-
Conversion in connection with reverse takeover	-	-	35,239,685	-
Issuance in connection with reverse takeover, net of transaction cost	-	-	3,849,295	596,461
Issuance for cash, net (i)	-	-	6,625,000	2,309,250
Issuance for cash, net (iv)	14,355,845	6,778,962		
Issuance to sponsor (ii)	-	-	62,500	25,000
Balance, end of year	59,978,296	13,259,322	45,776,480	6,502,236
Compensation warrants and options:				
Balance, beginning of year	662,500	93,327	-	-
Compensation warrants [note 10]	-	-	662,500	93,327
Compensation options [note 10]	1,435,585	330,185		
Balance, end of year	2,098,085	423,512	662,500	93,327

- (i) During October 2006, pursuant to a Subscription Receipt Agreement, the Company completed the issuance of 6,625,000 Common Shares at a price of \$0.40 each for gross proceeds of \$2,650,000 less total issuance costs of \$247,423 and fair value of Compensation Warrants of \$93,327.
- (ii) In connection with reverse takeover in 2006, the Company issued 62,500 common shares to Versant Partners Inc. As a result, share issue cost of \$25,000 was recognized in 2006.
- (iii) During January 2007, in connection with the reverse takeover in 2006, the Company repurchased 154,029 common shares for total cost of \$55,250. As a result, the average carrying value of \$21,876 was allocated as a reduction to share capital; and \$33,374 was charged to the deficit in 2007.
- (iv) During July 2007, the Company completed the issuance of 14,355,845 Common Shares and 1,435,585 Compensation Options at a price of \$0.55 each for gross proceeds of \$7,895,715 less total issuance costs of \$786,568 and fair value of Compensation Options of \$330,185 (see "Compensation Options" below).

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Notes to Financial Statements

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10. STOCK OPTIONS & WARRANTS

Stock Options

The Company has a stock option plan that permits the Board of Directors to grant to employees, officers, and directors options to purchase common shares from Treasury. Under the plan, the Board of Directors sets the exercise price and expiry date for each option grant. The options vest one-third each year and expire in 5 years from the date of grant. During the year ended December 31, 2007, the Company granted stock options to employees and directors of the Company to purchase 4,327,000 (2006 – Nil) common shares for prices ranging between \$0.25 and \$0.69 per share.

The fair value of stock options has been estimated on the date of grant by reference to the Black-Scholes option-pricing model. During the year, the Company recognized stock based compensation expense, net of cancellations, of \$223,704 (2006 – \$63,444) and capitalized \$14,005 (2006 – Nil) as deferred development costs, assuming that no common share dividend will be paid, an expected volatility between 75% and 85% (2006 – 50%), an expected life of three years, and a risk-free interest rate between 3.85% and 4.66% (2006 – 4.00%), equal to the interest rate of 3-year Government of Canada bond.

As at December 31, 2007, there were 4,700,698 stock options outstanding. A summary of the status of the Company's stock options during the years presented is as follows:

	2007		2006	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of year	373,698	0.32	571,667	0.25
Granted	4,772,000	0.40	40,500	0.33
Forfeited/cancelled	(445,000)	0.40	-	-
Exercised	-	-	(612,167)	0.30
Conversion in connection with reverse takeover [note 4]	-	-	373,698	0.32
Balance, end of year	4,700,698	0.40	373,698	0.32
Exercisable, end of year	373,698	0.32	373,698	0.32

Exercise Price \$	Number of Options Outstanding	Number of Options Exercisable	Remaining Life (Year)
0.25	325,000	-	4.89
0.32	373,698	373,698	1.32
0.39	400,000	-	4.78
0.40	3,202,000	-	4.10
0.55	370,000	-	4.37
0.69	30,000	-	4.49
	4,700,698	373,698	4.01

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Compensations Warrants

Pursuant to a Subscription Receipt Agreement completed in 2006, the Company granted 662,500 compensation warrants (the "Compensation Warrants") to agents at an exercise price of \$0.40 each. The Compensation Warrants are convertible into Common Voting Shares on a one-for-one basis. As at December 31, 2007, the Compensation Warrants remained outstanding and expire between February 29, 2008 and April 4, 2008.

The fair value of Compensation Warrants has been estimated at \$93,327, using the Black-Scholes option pricing model, assuming that no common share dividend will be paid, an expected volatility of 70.34%, expected life of 18 months, and a risk-free interest rate of 4.03%.

Compensation Options

Pursuant to an agency agreement for issuance of 14,355,845 Common Shares in July 2007 (note 9), the Company granted 1,435,585 compensation options (the "Compensation Options") to the agent, at an exercise price of \$0.55 each. The Compensation Options are convertible into Common Voting Shares on a one-for-one basis. As at December 31, 2007, the Compensation Options remain outstanding and expire on January 24, 2009.

The fair value of Compensation Options has been estimated at \$330,185, using the Black-Scholes option pricing model, assuming that no common share dividend will be paid, an expected volatility of 85%, expected life of 18 months, and a risk-free interest rate of 4.69%.

11. CONTRIBUTED SURPLUS

For stock options granted, the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over 3 years from the date of grant as an increase to stock based compensation expense and contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. A summary of changes of contributed surplus is:

	2007	2006
Balance, beginning of year	-	110,960
Stock-based compensation recognition of fair value of stock options granted, net of cancellations <i>[note 10]</i>	223,704	63,444
Stock-based compensation directly related to development <i>[note 6]</i>	14,005	-
Transfer from contributed surplus for stock options exercised	-	(174,404)
Balance, end of period	237,709	-

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12. LOSS PER SHARE

The following table sets forth the computation of basic net loss per share:

	2007	2006
Numerator for basic net loss per share	\$ (5,062,277)	\$ (1,440,784)
Denominator for basic net loss per share:		
Weighted average number of common shares	51,800,445	32,847,274
Net loss per share		
Basic	\$ (0.10)	\$ (0.04)

Diluted earning per share is not presented as the stock options and compensation warrants are anti-dilutive.

The weighted average number of common shares was adjusted to reflect the share conversion in connection with the reverse takeover in December 2006.

13. COMMITMENTS

The Company has entered into agreements to lease premises in Calgary, Alberta. The leases expire in May 2008 and 2013 with remaining total minimum lease payments of \$746,076.

During 2007, the Company has entered into agreements to lease premises in Thornton, Ontario. The leases expire in February, 2012 and 2013 with total minimum lease payments of \$181,326.

The following is a schedule by fiscal year of future minimum lease payments:

2008	158,633
2009	175,637
2010	185,288
2011	192,662
2012 & after	215,182
Total	927,402

14. INCOME TAXES

Non-capital loss

The Company has non-capital losses available of \$7,199,703 (2006 - \$2,423,998). These losses are available to reduce income tax in future years. The benefit from these losses has not been recognized in the accompanying financial statements.

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Notes to Financial Statements

Years Ended December 31, 2007 and 2006

Income tax expense reconciliation

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' losses before income taxes. These differences result from the following items:

	2007	2006
Expected income tax recovery at 32.12% (2005 – 32.49%)	(1,626,003)	(468,111)
Increase (decrease) resulting from:		
Non-deductible stock-based compensation costs	71,854	20,613
Other items	7,765	4,449
Income tax rate adjustments	477,116	(140,636)
Change in valuation allowance	1,069,268	583,685
Income tax expense	-	-

Temporary differences

Future income tax assets and liabilities are recognized for temporary difference between the carrying amount of the assets and liabilities for accounting and tax purposes. The tax effects of deductible temporary differences that give rise to the Company's future tax assets are as follows:

	2007	2006
Non-capital losses carried forward	1,799,926	702,959
Share issuance costs	355,659	196,758
Capital and other assets	166,776	74,187
	2,322,361	973,904
Less: Valuation allowance	(2,322,361)	(973,904)
Net future tax asset	-	-

15. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the current year presentation.