

Unaudited Interim Financial Statements

**Multiplied Media Corporation**

September 30, 2007

**Multiplied Media Corporation**  
**Balance Sheets**  
(Unaudited)

As at	September 30, 2007	December 31, 2006
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	17,082	361,060
Short term investments <i>[note 5]</i>	5,565,000	2,102,301
Accounts receivable	47,925	31,424
Goods and services taxes recoverable	132,057	152,651
Prepaid expenses and deposits	79,202	22,186
	<u>5,841,266</u>	<u>2,669,622</u>
Property and equipment <i>[note 2]</i>	268,455	90,579
Deferred development costs <i>[note 3]</i>	2,215,832	1,485,266
Intangible assets <i>[note 4]</i>	75,477	44,828
	<u>8,401,030</u>	<u>4,290,295</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable	790,729	547,538
Commitments <i>[note 10]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 6]</i>	13,728,230	6,595,563
Contributed surplus <i>[note 8]</i>	166,286	-
Deficit	(6,284,215)	(2,852,806)
	<u>7,610,301</u>	<u>3,742,757</u>
	<u>8,401,030</u>	<u>4,290,295</u>

See accompanying notes

**Multiplied Media Corporation**  
**Statements of Loss and Comprehensive Loss and Deficit**  
(Unaudited)

	Three month period ended September 30		Nine month period ended September 30	
	2007	2006	2007	2006
<b>REVENUE</b>				
Sales	1,043	287	6,192	118,258
Interest income	48,661	-	69,430	275
<b>Total Revenue</b>	<b>49,704</b>	<b>287</b>	<b>75,622</b>	<b>118,533</b>
<b>EXPENSES</b>				
Salary and consulting fees <i>[note 11]</i>	515,063	261,534	1,491,012	574,383
Stock based compensation <i>[note 7]</i>	52,323	40,070	156,554	63,444
Administration, occupancy and insurance	147,896	63,500	459,309	180,261
Advertising and marketing	321,123	-	952,342	10,099
Professional fees	50,048	13,840	175,783	20,706
Amortization of tangible assets	16,029	2,148	36,641	3,746
Amortization of intangible assets	67,569	66,886	202,016	155,443
	1,170,051	447,978	3,473,657	1,008,082
<b>Net loss and comprehensive loss for the period <i>[note 9]</i></b>	<b>(1,120,347)</b>	<b>(447,691)</b>	<b>(3,398,035)</b>	<b>(889,549)</b>
Share repurchase adjustment <i>[note 6]</i>	-	-	(33,374)	-
Deficit, beginning of period	(5,163,868)	(1,873,159)	(2,852,806)	(1,431,301)
<b>Deficit, end of period</b>	<b>(6,284,215)</b>	<b>(2,320,850)</b>	<b>(6,284,215)</b>	<b>(2,320,850)</b>

*See accompanying notes*

**Multiplied Media Corporation**  
**Statements of Cash Flow**  
(Unaudited)

	Three month period ended September 30		Nine month period ended September 30	
	2007	2006	2007	2006
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(1,120,347)	(447,691)	(3,398,035)	(889,549)
Items not requiring cash				
Amortization	83,598	69,034	238,657	159,189
Stock based compensation <i>[note 7]</i>	52,323	40,070	156,554	63,444
	(984,426)	(338,587)	(3,002,824)	(666,916)
Changes in non-cash working capital				
Short term investments	(5,543,300)	-	(3,462,699)	-
Accounts receivable	(41,252)	117,255	(16,501)	(552)
Goods and services tax receivable	(69,766)	(28,419)	20,594	(30,640)
Loan receivable	-	881	-	22,524
Prepaid expenses	(4,874)	(19,325)	(57,016)	(23,135)
Accounts payable	(184,596)	78,984	21,473	59,016
	(5,843,788)	149,376	(3,494,149)	27,213
Cash flows provided (used ) by operating activities	(6,828,214)	(189,211)	(6,496,973)	(639,703)
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment	(154,216)	(29,052)	(214,517)	(36,439)
Expenditures on trademark and patents	(13,047)	(11,476)	(34,125)	(35,252)
Expenditures on deferred development costs	(174,965)	(194,328)	(697,656)	(758,563)
Cash flows used by investing activities	(342,228)	(234,856)	(946,298)	(830,254)
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares, net of issue costs <i>[note 6]</i>	7,154,543	312,417	7,154,543	1,197,417
Repurchase of common shares <i>[note 6]</i>	-	-	(55,250)	-
Cash flows from financing activities	7,154,543	312,417	7,099,293	1,197,417
<b>Increase (Decrease) in cash</b>	(15,899)	(111,650)	(343,978)	(272,540)
Cash, beginning of period	32,981	121,961	361,060	282,851
<b>Cash, end of period</b>	17,082	10,311	17,082	10,311

See accompanying notes

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

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### 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements, except as noted below. These unaudited interim financial statements do not include all of the disclosures required in annual financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006.

#### **Changes in accounting policies**

On January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (“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 Corporation’s net earnings 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 earnings and other comprehensive income (“OCI”). Upon adoption of Section 1530, the Corporation revised its “Statements of Loss and Comprehensive 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 Corporation 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 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.

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

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### 1. Significant Accounting Policies (Cont'd)

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 Corporation 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”.

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

#### Accounting change

As of January 1, 2007, the Corporation adopted revised CICA 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 Corporation’s financial statement as a result of implementing this new standard.

In addition, the Corporation 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 Corporation:

As of January 1, 2008, the Corporation 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 Corporation is assessing the impact on its financial statements.

As of January 1, 2008, the Corporation 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 Corporation is assessing the impact on its financial statements.

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The Corporation continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

### 1. Significant Accounting Policies (Cont'd)

#### Short term investments

Short term investments consist of two cashable and three non-redeemable GIC which mature between October 2, 2007 and August 17, 2008 earning interest from 3.65% to 4.5% per annum. (see note 5).

#### Financial instruments

##### a) Interest rate risk

As at September 30, 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 October 2, 2007 and August 17, 2008 at average annual interest rate of 4.41% 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.

### 2. PROPERTY AND EQUIPMENT

	September 30, 2007		
	Cost \$	Accumulated amortization \$	Net Book Value \$
Computer equipment	243,571	(32,219)	211,352
Leasehold improvement	16,263	(5,888)	10,375
Office furniture and equipment	56,840	(10,112)	46,728
	<b>316,674</b>	<b>(48,219)</b>	<b>268,455</b>
	Dec 31, 2006		
	Cost \$	Accumulated amortization \$	Net Book Value \$
Computer equipment	74,125	(8,312)	65,813
Leasehold improvement	8,185	(1,559)	6,626
Office furniture and equipment	19,847	(1,707)	18,140
	<b>102,157</b>	<b>(11,578)</b>	<b>90,579</b>

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

### 3. 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 resources exist or are expected to be available to complete the project. During the three and nine months periods ended September 30, 2007, development costs of \$406,415 and \$929,106, respectively, 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 three and nine month periods ended September 30, 2007, \$66,180 and \$198,540, respectively (September 30, 2006 – \$66,180 and \$154,420) was expensed as amortization of deferred development costs. Amounts incurred and amortized for deferred development costs are as follows:

	Nine month period ended Sep 30, 2007 \$	Year ended Dec 31, 2006 \$
Balance, beginning of the period	1,485,266	646,729
Additions	929,106	1,059,137
Amortization	(198,540)	(220,600)
<b>Balance, end of the period</b>	<b>2,215,832</b>	<b>1,485,266</b>

Breakdown of deferred development cost additions are as follows:

	Nine month period ended Sep 30, 2007 \$	Year ended Dec 31, 2006 \$
Consulting	682,146	1,059,137
Salaries and stock based compensation directly related to development	246,960	-
<b>Total</b>	<b>929,106</b>	<b>1,059,137</b>

The recoverability of unamortized deferred development costs are 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.

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

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### 4. INTANGIBLE ASSETS

	September 30, 2007		
	Cost \$	Accumulated amortization \$	Net Book Value \$
Patents	37,854	(2,238)	35,616
Trademarks	43,323	(3,462)	39,861
	<b>81,177</b>	<b>(5,700)</b>	<b>75,477</b>

  

	Dec 31, 2006		
	Cost \$	Accumulated amortization \$	Net Book Value \$
Patents	25,989	(1,206)	24,783
Trademarks	21,063	(1,018)	20,045
	<b>47,052</b>	<b>(2,224)</b>	<b>44,828</b>

### 5. OPERATING LINE OF CREDIT

The Company has 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 6.25% at September 30, 2007.

# Multiplied Media Corporation

## Notes to Financial Statements

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(Unaudited)

### 6. SHARE CAPITAL

#### Authorized

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

#### Issued and Outstanding

Common shares:	September 30, 2007		December 31, 2006	
	Shares #	Amount \$	Shares #	Amount \$
<b>Balance, beginning of period</b>	<b>45,776,480</b>	<b>6,502,236</b>	<b>5,895,770</b>	<b>2,199,705</b>
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	6,824,358		
Issuance to sponsor (ii)	-	-	62,500	25,000
<b>Balance, end of period</b>	<b>59,978,296</b>	<b>13,304,718</b>	<b>45,776,480</b>	<b>6,502,236</b>
Compensation warrants	662,500	93,327	662,500	93,327
Compensation options	1,435,585	330,185		
<b>Total share capital</b>	<b>62,076,381</b>	<b>13,728,230</b>	<b>46,438,980</b>	<b>6,595,563</b>

- (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 at a price of \$0.55 each for gross proceeds of \$7,895,715 less total issuance costs of \$741,172 and fair value of Compensation Options of \$330,185 (see "Compensation Options" below).

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

### 7. 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 in 3 years and expire in 5 years from the date of grant. During the three month and nine periods ended September 30, 2007, the Company granted stock options to employees and directors of the Company to purchase nil and 4,047,000 common shares, respectively, for prices ranging between \$0.40 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 three month and nine month periods ended September 30, 2007, the Company recognized stock based compensation expense, net of cancellations, of \$52,323 and \$156,554 respectively (2006 – \$40,070 and \$63,444), 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 4.09% and 4.66% (2006 – 4.00%), equal to the interest rate of 3-year Government of Canada bond.

As at September 30, 2007, there were 4,075,697 stock options outstanding. A summary of the status of the Company's stock options during the period presented are as follows:

	Nine months ended			
	September 30, 2007		September 30, 2006	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	373,697	0.32	571,667	0.25
Granted	4,047,000	0.42	40,500	0.33
Forfeited/cancelled	(345,000)	0.40	-	-
Exercised	-	-	(612,167)	0.30
Balance, end of period	4,075,697	0.41	0	-
Exercisable, end of period	373,697	0.32	0	-

#### 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 September 30, 2007, the Compensation Warrants remained outstanding and expire between February 29, 2008 and April 4, 2008.

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

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### 7. Stock Options and Warrants (Cont'd)

#### Compensation Options

Pursuant to an agency agreement for issuance of 14,355,845 Common Shares in July 2007 (note 6), the Company granted 1,435,585 compensation options (the "Compensation Options") to 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 September 30, 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% (2006 – Nil), expected life of 18 months, and a risk-free interest rate 4.69% (2006 – Nil).

### 8. 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:

	Nine months ended September 30, 2007	Year ended December 31, 2006
<b>Balance, beginning of period</b>	-	<b>110,960</b>
Stock-based compensation recognition of fair value of stock options granted, net of cancellations <i>[note 7]</i>	166,286	63,444
Transfer from contributed surplus for stock options exercised	-	(174,404)
<b>Balance, end of period</b>	<b>166,286</b>	-

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2007  
(Unaudited)

### 9. LOSS PER SHARE

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Numerator for basic loss per share	\$ (1,120,347)	\$ (447,691)	\$ (3,398,035)	\$ (889,549)
Denominator for basic loss per share:				
Weighted average number of common shares	48,328,881	33,561,185	48,270,163	31,567,845
Loss per share				
Basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.03)

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 share conversion in connection with the reverse takeover in December 2006.

### 10. COMMITMENTS

The Company has entered into an agreement to lease premises in Calgary, Alberta, Canada. The lease expires in May, 2008 with remaining total minimum lease payments of \$43,625.

During 2007, the Company has entered into an agreement to lease premises in Barrie, Ontario. The lease expires in February, 2012 with total minimum lease payments of \$113,940.

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

Remainder of 2007	22,207
2008	51,542
2009	25,340
2010	26,403
2011 & 2012	32,073
<b>Total</b>	<b>157,565</b>

**Multiplied Media Corporation**  
**Notes to Financial Statements**

September 30, 2007  
(Unaudited)

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**11. COMPARATIVE FIGURES**

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