

Unaudited Interim Financial Statements

**Multiplied Media Corporation**

September 30, 2008

The accompanying interim financial statements have not been reviewed by the Company's external auditors.

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

As at	September 30, 2008 \$	December 31, 2007 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	18,811	121,790
Short term investments <i>[note 5]</i>	-	3,101,175
Restricted short term investments <i>[note 9]</i>	50,000	50,000
Accounts receivable	1,808	24,989
Goods and Services Taxes recoverable	16,368	64,696
Prepaid expenses and deposits	192,559	225,255
	279,546	3,587,905
Prepaid expenses and deposits	142,534	212,193
Property and equipment <i>[note 6]</i>	326,709	346,187
Deferred development costs <i>[note 7]</i>	2,029,448	2,353,266
Intangible assets <i>[note 8]</i>	222,908	111,069
	3,001,145	6,610,620
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable	660,916	638,534
Deferred revenue <i>[note 13]</i>	100,007	-
	760,923	638,534
Commitments <i>[note 15]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 10]</i>	13,673,765	13,259,322
Compensation options and warrants <i>[note 10 and note 11]</i>	330,185	423,512
Contributed surplus <i>[note 12]</i>	617,836	237,709
Deficit	(12,381,564)	(7,948,457)
	2,240,222	5,972,086
	3,001,145	6,610,620

*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	
	2008	2007	2008	2007
<b>REVENUE</b>				
Sales	40,140	1,043	54,454	6,192
Interest income	34,192	48,661	62,718	69,430
<b>Total Revenue</b>	<b>74,332</b>	<b>49,704</b>	<b>117,172</b>	<b>75,622</b>
<b>EXPENSES</b>				
Salary and consulting fees	558,973	515,063	2,060,219	1,491,012
Stock based compensation <i>[note 11]</i>	47,900	52,323	271,105	156,554
Administration, occupancy and insurance	211,598	147,896	754,696	459,309
Advertising and marketing	94,746	321,123	616,890	952,342
Professional fees	39,817	50,048	120,311	175,783
Amortization of tangible assets	39,537	16,029	116,713	36,641
Amortization of deferred development costs and intangible assets	218,981	67,569	686,433	202,016
Scientific Research and Experimental Development refund <i>[note 7]</i>	(76,088)	-	(76,088)	-
	1,135,464	1,170,051	4,550,279	3,473,657
<b>Net loss and comprehensive loss for the period</b>	<b>(1,061,132)</b>	<b>(1,120,347)</b>	<b>(4,433,107)</b>	<b>(3,398,035)</b>
Share repurchase adjustment <i>[note 10]</i>	-	-	-	(33,374)
Deficit, beginning of period	(11,320,432)	(5,163,868)	(7,948,457)	(2,852,806)
<b>Deficit, end of period</b>	<b>(12,381,564)</b>	<b>(6,284,215)</b>	<b>(12,381,564)</b>	<b>(6,284,215)</b>
<b>Net loss for the period per share <i>[note 14]</i></b>				

See accompanying notes

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

	Three month period ended		Nine month period ended	
	September 30		September 30	
	2008	2007	2008	2007
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(1,061,132)	(1,120,347)	(4,433,107)	(3,398,035)
Items not requiring cash				
Amortization	258,518	83,598	803,146	238,657
Stock based compensation <i>[note 11]</i>	47,900	52,323	271,105	156,554
	(754,714)	(984,426)	(3,358,856)	(3,002,824)
Changes in non-cash working capital				
Accounts receivable	1,540	(41,252)	23,181	(16,501)
Share subscription receivable	301,200	-	-	-
Goods and Services Tax receivable	57,831	(69,766)	48,328	20,594
Prepaid expenses and deposits	33,309	(4,874)	202,362	(57,016)
Accounts payable	36,224	(184,596)	22,382	21,473
	430,104	(300,488)	296,253	(31,450)
Cash flows used by operating activities	(324,610)	(1,284,914)	(3,062,603)	(3,034,274)
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment	(5,793)	(154,216)	(97,235)	(214,517)
Expenditures on trademark and patents	(2,600)	(13,047)	(122,336)	(34,125)
Expenditures on deferred development costs	(128,766)	(174,965)	(608,244)	(697,656)
Scientific Research and Experimental				
Development refunds <i>[note 7]</i>	271,821	-	271,821	-
Cash flows provided (used) by investing activities	134,662	(342,228)	(555,994)	(946,298)
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares, net of issue costs				
<i>[note 10]</i>	(9,557)	7,154,543	414,443	7,154,543
Repurchase of common shares <i>[note 10]</i>	-	-	-	(55,250)
Cash flows from (used by) financing activities	(9,557)	7,154,543	414,443	7,099,293
<b>Increase (decrease) in cash</b>	(199,505)	5,527,401	(3,204,154)	3,118,721
Cash and short term investments, beginning of the period	268,316	54,681	3,272,965	2,463,361
<b>Cash and short term investments, end of the period</b>	68,811	5,582,082	68,811	5,582,082

See accompanying notes

# Multiplied Media Corporation

## Notes to Financial Statements

September 30, 2008  
(Unaudited)

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### 1. SUMMARY OF 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, with the exception of the change in accounting policies described in Note 2. 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, 2007.

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. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008 the Company adopted the new CICA Handbook accounting requirements for Section 1535 "Capital Disclosures," Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation." In accordance with the transitional provisions for these new standards, these policies were adopted prospectively without restatement of prior periods.

#### Capital Disclosures

CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure about the Company's objectives, policies and processes for managing capital, which have been provided in Note 3.

#### Financial Instruments

CICA Handbook Section 3862 "Financial Instruments - Disclosure" and Section 3863 "Financial Instruments - Presentation" replace Section 3861 "Financial Instruments - Disclosure and Presentation" effective January 1, 2008 for the Company. Section 3862 requires the disclosure of information to allow users to evaluate the significance of the financial instruments on the entity's financial position and performance and the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The additional information to comply with these standards is disclosed in Note 4.

#### Future Accounting Changes

##### Section 3064 "Goodwill and Intangible Assets"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 will replace Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs." This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including

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internally generated intangible assets. This new section is effective for the Company beginning January 1, 2009. The Company is currently assessing the impact of adoption of this new accounting policy standard.

### International Financial Reporting Standards (IFRS)

In 2006 the Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transition period with adoption required effective January 1, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

### 3 CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's objectives in managing its capital is to safeguard the Company's assets and its' ability to continue as a going concern and to sustain future development of the business.

Management defines capital as the Company's shareholders' equity. The Company manages its capital structure and makes adjustments according to market conditions and the risk characteristics of the underlying assets. In addition, the management monitors the Company's ongoing capital requirements against unrestricted net working capital and assesses expected capital requirements for the fiscal period. In order to maintain or adjust the capital structure, the Company may adjust capital spending, issue new shares, sell assets or incur debt. The Company is not subject to externally imposed capital requirements. As at September 30, 2008, total managed capital is \$2,240,222 (December 31, 2007 - \$5,972,086).

### 4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The company is exposed to a number of different financial risks arising from normal course business exposures, as well as the company's use of financial instruments. These risk factors include interest rate risk, liquidity risk and credit risk.

#### Fair value of financial instruments

The carrying value of the Company's financial assets and liabilities was as follows:

	September 30, 2008		December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Held for trading:				
Cash	18,811	18,811	121,790	121,790
Short term investments	-	-	3,101,175	3,101,175
Restricted short term investments	50,000	50,000	50,000	50,000
Deposits	64,034	64,034	95,612	95,612
Loans and receivables:				
Accounts receivable	1,808	1,808	24,989	24,989
<b>Financial liabilities</b>				
Other liabilities:				
Accounts payable	660,916	660,916	638,534	638,534

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## Notes to Financial Statements

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### Interest Rate Risk

The Company is exposed to interest rate risk with respect to the short term investments. The Company's short term investments consist of a cashable GIC's with floating interest rate that will fluctuate based on Royal Bank of Canada's prime rate. If interest rates on the floating instrument were to change by 1% it is estimated that revenue would change by \$163.

### Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient funds to meet its current and foreseeable financial requirements at reasonable costs. The Company's accounts payable and accrued liabilities are due within one year.

### Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Company's accounts receivable are subject to normal credit risks. The Company believes that the credit risk of accounts receivable is limited due to the strong historical collection record of the Company's customers.

No provision has been made for impaired receivables as September 30, 2008 as the Company does not have any impaired receivables.

## 5. SHORT TERM INVESTMENTS

Short term investments consist of a cashable GIC which matures on August 17, 2009 at an annual interest of 2.15% per annum. (see note 9).

## 6. PROPERTY AND EQUIPMENT

	September 30, 2008		
	Cost	Accumulated	Net Book
	\$	amortization	Value
	\$	\$	\$
Computer	375,599	(142,212)	233,387
Furniture and equipment	118,155	(37,137)	81,018
Leasehold improvement	23,957	(11,653)	12,304
	517,711	(191,002)	326,709

  

	December 31, 2007		
	Cost	Accumulated	Net Book
	\$	amortization	Value
	\$	\$	\$
Computer	329,912	(53,255)	276,657
Furniture and equipment	75,453	(14,718)	60,735
Leasehold improvement	16,263	(7,468)	8,795
	421,628	(75,441)	346,187

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### 7. 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 three and nine month periods ended September 30, 2008, development costs of \$134,437 and \$623,939, 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, 2008, \$214,601 and \$675,936, respectively, was expensed as amortization of deferred development costs. During the year, the Company made a Scientific Research and Experimental Development claim for its eligible expenditures incurred in 2006 and received a cash refund of \$347,909. The refund was credited to deferred development costs and expense recovery for \$271,821 and \$76,088 respectively.

Amounts incurred and amortized for deferred development costs are as follows:

	September 30, 2008	December 31, 2007
	\$	\$
Balance, beginning of period	2,353,266	1,485,266
Additions	623,939	1,209,480
Scientific Research and Experimental Development refund	(271,821)	-
Amortization	(675,936)	(341,480)
Balance, end of period	2,029,448	2,353,266

Breakdown of deferred development cost additions are as follows:

	September 30, 2008	December 31, 2007
	\$	\$
Consulting expenses	168,739	808,634
Salaries and stock based compensation related to development	455,200	400,846
Total	623,939	1,209,480

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.

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**8. INTANGIBLE ASSETS**

	<b>September 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net book</b>
	<b>\$</b>	<b>amortization</b>	<b>value</b>
		<b>\$</b>	<b>\$</b>
Patents	129,484	(6,620)	122,864
Trademarks	111,270	(11,226)	100,044
	240,754	(17,846)	222,908

  

	<b>December 31, 2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net book</b>
	<b>\$</b>	<b>amortization</b>	<b>Value</b>
		<b>\$</b>	<b>\$</b>
Patents	62,538	(2,712)	59,826
Trademarks	55,880	(4,637)	51,243
	118,418	(7,349)	111,069

**9. 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 4.75% at September 30, 2008. No amounts are drawn on this facility as at September 30, 2008.

**10. SHARE CAPITAL**

**Share Capital Authorized**

Unlimited Common voting shares, no par value  
Unlimited Preferred shares, no par value

**Issued and Outstanding**

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	September 30, 2008		December 31, 2007	
	Shares #	Amount \$	Shares #	Amount \$
<b>Common shares:</b>				
Balance, beginning of period	59,978,296	13,259,322	45,776,480	6,502,236
Repurchase of common shares (i)	-	-	(154,029)	(21,876)
Issuance for cash, net (ii)	-	-	14,355,845	6,778,962
Issuance for cash, net (iii)	9,480,000	414,443	-	-
<b>Balance, end of period</b>	<b>69,458,296</b>	<b>13,673,765</b>	<b>59,978,296</b>	<b>13,259,322</b>
<b>Compensation warrants and options:</b>	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Balance, beginning of period	2,098,085	423,512	662,500	93,327
Compensation warrant - expired <i>[note 11]</i>	(662,500)	(93,327)	-	-
Compensation options <i>[note 11]</i>	-	-	1,435,585	330,185
<b>Balance, end of period</b>	<b>1,435,585</b>	<b>330,185</b>	<b>2,098,085</b>	<b>423,512</b>

- (i) 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.
- (ii) 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 note 11).
- (iii) During June 2008, the Company closed a non-brokered private placement to issue 9,480,000 Common Shares at a price of \$0.05 each for gross proceeds of \$474,000 less issuance costs of \$59,557.

## 11. 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 three months ended September 30, 2008 and nine months ended September 30, 2008, the Company granted stock options to employees and directors of the Company to purchase 100,000 and 2,395,000 common shares, respectively, for prices ranging between \$0.10 and \$0.19 per share as compared. During the three and nine month periods ended September 30, 2007, the Company granted nil and 4,047,000 stock options, respectively, to employees and directors. In June 2008, two of the Company's executives voluntarily cancelled 1,000,000 stock options without consideration. As a result, a one-time non-cash stock-based compensation expense of \$137,333 was recognized.

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 and nine month periods of 2008, the Company recognized stock

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based compensation expense, net of cancellations, of \$47,900 and \$271,105 respectively (three and nine month periods of 2007 – \$52,323 and \$156,554). In addition, the Company capitalized \$5,671 and \$15,695 respectively (2007 – Nil) as deferred development costs, assuming that no common share dividend will be paid, a weighted average expected volatility of 104.44% (2007 – 91.10%), an expected life of three years, and a weighted average risk-free interest rate of 3.45% (2007 – 3.77%), equal to the interest rate of 3-year Government of Canada bond.

As at September 30, 2008, there were 5,685,698 stock options outstanding. A summary of the status of the Company's stock options during the years presented is as follows:

	September 30, 2008		September 30, 2007	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
<b>Balance, beginning of period</b>	<b>5,000,698</b>	<b>0.40</b>	<b>373,696</b>	<b>0.32</b>
Granted	2,395,000	0.15	4,047,000	0.42
Forfeited/cancelled	(1,710,000)	-	(345,000)	0.40
<b>Balance, end of period</b>	<b>5,685,698</b>	<b>0.39</b>	<b>4,075,696</b>	<b>0.41</b>
<b>Exercisable, end of period</b>	<b>1,071,039</b>	<b>0.38</b>	<b>373,696</b>	<b>0.32</b>

Exercise Price \$	Number of Options Outstanding	Number of Options Exercisable	Remaining Life (Year)
0.10	2,195,000	-	4.69
0.13	10,000	-	4.45
0.15	60,000	-	4.74
0.16	55,000	-	4.37
0.18	15,000	-	4.35
0.19	50,000	-	4.79
0.25	455,000	-	4.14
0.32	373,698	373,698	0.57
0.39	400,000	-	4.03
0.40	1,862,000	620,674	3.40
0.55	200,000	66,667	3.62
0.69	10,000	10,000	3.74
	<b>5,685,698</b>	<b>1,071,039</b>	<b>3.79</b>

### 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. All Compensation Warrants expired without being exercised during the nine month period ended September 30, 2008.

The fair value of the 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

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70.34%, expected life of 18 months, and a risk-free interest rate of 4.03%. During the nine month period ended September 30, 2008, 662,500 Compensation Warrants expired and fair value of \$93,327 was charged to contributed surplus.

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### Compensation Options

Pursuant to an agency agreement for issuance of 14,355,845 Common Shares in July 2007 (note 10), the Company granted 1,435,585 compensation options (the "Compensation Options") to the agents, 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, 2008, 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%.

### 12. 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, 2008	Year ended December 31, 2007
Balance, beginning of period	237,709	-
Stock-based compensation recognition of fair value of stock options granted, net of cancellations <i>[note 11]</i>	271,105	223,704
Stock-based compensation directly related to development <i>[note 7]</i>	15,695	14,005
Fair value of expired Compensation Warrants <i>[note 11]</i>	93,327	-
Balance, end of period	617,836	237,709

### 13. DEFERRED REVENUE

Deferred revenue as at September 30, 2008 consists of license fees for granting access and integrating third party applications into the Company's application. Revenue is recognized evenly over the term of agreement.

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### 14. LOSS PER SHARE

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

	Three month ended September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
Numerator for basic net loss per share	\$ (1,061,132)	\$ (1,120,347)	\$ (4,433,107)	\$ (3,398,035)
Denominator for basic net loss per share:				
Weighted average number of common shares	69,458,296	48,328,881	63,311,922	48,270,163
Net loss per share Basic	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.07)

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

### 15. 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 \$665,235.

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 \$151,819.

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

Remainder of 2008	\$ 43,875
2009	176,897
2010	186,548
2011	193,922
2012 & after	215,812
Total	\$ 817,054

### 16. SUBSEQUENT EVENTS

During October 2008, the Company arranged a demand note financing of \$130,000. The Company has agreed to repay the entire amount of the note, either in cash or through the issuance of common shares of the Company, on or before October 31, 2010. The note is non-interest bearing and as a result the Company has granted to the lenders an aggregate of 1,300,000 warrants to purchase common shares of the Company as consideration for the note.

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**17. COMPARATIVE FIGURES**

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