

Financial Statements

Multiplied Media Corporation

December 31, 2008

Auditors' Report

To the Shareholders of
Multiplied Media Corporation

We have audited the balance sheets of **Multiplied Media Corporation** as at December 31, 2008 and 2007 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, 2008 and 2007 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 29, 2009

Chartered Accountants

Multiplied Media Corporation

Balance Sheets

(see note 1 – Description of Operations & Going Concern Uncertainty)
As at December 31

| As at | 2008 | 2007 |
|--|--------------|-------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | - | 121,790 |
| Short term & restricted investments [note 8] | - | 3,151,175 |
| Accounts receivable | 9,433 | 24,989 |
| Goods and Services Taxes recoverable | 18,884 | 64,696 |
| Prepaid expenses and deposits | 88,137 | 225,255 |
| | 116,454 | 3,587,905 |
| Prepaid expenses and deposits | 122,334 | 212,194 |
| Property and equipment [note 6] | 186,684 | 346,186 |
| Deferred Development Costs [note 5] | - | 2,353,266 |
| Intangible assets [note 7] | 228,308 | 111,069 |
| | 653,780 | 6,610,620 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current | | |
| Accounts payable | 624,060 | 638,534 |
| Short term promissory note[note 10 & note 15] | 130,000 | - |
| | 754,060 | 638,534 |
| Commitments [note 13] | | |
| Shareholders' equity/(deficiency) | | |
| Share capital [note 9] | 13,828,765 | 13,259,322 |
| Compensation options and warrants | 330,185 | 423,512 |
| Contributed surplus [note 11] | 718,580 | 237,709 |
| Deficit | (14,977,810) | (7,948,457) |
| | (100,280) | 5,972,086 |
| | 653,780 | 6,610,620 |

See accompanying notes

On behalf of the Board:

(signed) "Craig Bentham" _____

(signed) "Stephen Lougheed" _____

Multiplied Media Corporation
Statements of Loss and Comprehensive Loss and Deficit

(see note 1 – Description of Operations & Going Concern Uncertainty)

Year ended December 31

| | 2008 \$ | 2007 \$ |
|--|---------------------|--------------------|
| REVENUE | | |
| Sales | 9,617 | 7,138 |
| Licensing revenue | 60,151 | - |
| Interest income | 62,862 | 120,327 |
| | 132,630 | 127,465 |
| EXPENSES | | |
| Salary and consulting fees | 2,140,514 | 2,061,577 |
| Stock based compensation <i>[note 10]</i> | 371,849 | 223,704 |
| Administration, occupancy and insurance | 825,266 | 682,273 |
| Advertising and marketing | 789,288 | 1,496,953 |
| Professional fees | 147,645 | 313,949 |
| Impairment of deferred development costs <i>[note 5]</i> | 2,029,448 | - |
| Amortization of tangible assets | 120,214 | 64,681 |
| Amortization of deferred development costs and intangible assets | 691,278 | 346,605 |
| Loss on sale of equipment | 122,569 | - |
| Scientific Research and Experimental Development refund | (76,088) | - |
| | 7,161,983 | 5,189,742 |
| Net loss and comprehensive loss for the year | (7,029,353) | (5,062,277) |
| Share repurchase adjustment <i>[note 9]</i> | - | (33,374) |
| Deficit, beginning of the year | (7,948,457) | (2,852,806) |
| Deficit, end of the year | (14,977,810) | (7,948,457) |
| Net loss for the year per share <i>[note 12]</i> | (0.11) | (0.10) |

See accompanying notes

Multiplied Media Corporation

Statements of Cash Flow

(see note 1 – Description of Operations & Going Concern Uncertainty)
Year ended December 31

| | 2008 \$ | 2007 \$ |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net loss for the year | (7,029,353) | (5,062,277) |
| Items not requiring cash | | |
| Loss on sale of equipment | 122,569 | - |
| Amortization | 811,492 | 411,286 |
| Stock based compensation [note 10] | 371,849 | 223,704 |
| Impairment of deferred development costs[note 5] | 2,029,448 | - |
| | (3,693,995) | (4,427,287) |
| Changes in non-cash working capital | | |
| Accounts receivable | 15,556 | 6,435 |
| Goods and Services Tax recoverable | 45,812 | 87,955 |
| Prepaid expenses and deposits | 226,978 | (415,262) |
| Accounts payable | (14,474) | 90,996 |
| | 273,872 | (229,876) |
| Cash flows used by operating activities | (3,420,123) | (4,657,163) |
| INVESTING ACTIVITIES | | |
| Short-term investments | 3,151,175 | (1,048,874) |
| Purchase of equipment | (83,280) | (320,289) |
| Intangibles, trademark and patents | (132,579) | (71,366) |
| Deferred development costs | (608,247) | (1,195,475) |
| Investment tax credit refund | 271,821 | - |
| Cash flows provided by (used in) investing activities | 2,598,890 | (2,636,004) |
| FINANCING ACTIVITIES | | |
| Issuance of common shares and compensation options, net of issue costs of [note 9] | 569,443 | 7,109,147 |
| Repurchase of common shares [note 9] | - | (55,250) |
| Promissory Note | 130,000 | - |
| Cash flows from financing activities | 699,443 | 7,053,897 |
| Decrease in cash | (121,790) | (239,270) |
| Cash, beginning of the year | 121,790 | 361,060 |
| Cash, end of the year | - | 121,790 |

See accompanying notes

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

1. DESCRIPTION OF OPERATIONS AND GOING CONCERN ASSESSMENT

Multiplied Media Corporation (TSXV: MMC) (the “Company”), 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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred losses amounting to \$14,977,810, as at and for the year ended December 31, 2008.

The continuation of the Company’s operations is dependent on the ability to achieve future profitable operations and to obtain additional financing which will provide the Company with adequate funds to cover the cash flows projected for the fiscal 2009 year. 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. These factors raise substantial doubt as to the Company’s ability to continue as a going concern. These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

See subsequent event note 16 regarding financing activities completed after year end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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”). The significant accounting policies are summarized as follows.

Changes in accounting policies

The Company has assessed new and revised accounting pronouncements that have been issued and determined that the following may have a significant impact on the Company.

Accounting Changes

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.

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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.

Future changes in accounting policies

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 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.

In January 2009, the CICA issued Emerging Issues Committee Abstract of Issue Discussed 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (“EIC-173”) applicable to the Company’s 2009 fiscal year. EIC-173 recommends that a company take into account its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities. The Company is currently assessing the effect on its financial results.

In October 2008, the CICA issued Section 1582 Business Combinations (“Section 1582”) concurrently with Section 1601 Consolidated Financial Statements (“Section 1601”), and Section 1602 Non-controlling Interests (“Section 1602”). Section 1582, which replaces Section 1581 Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company’s interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standards on its financial statements.

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.

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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.

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.

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.

Impairment of long-lived assets

Property and equipment, deferred development costs and intangible assets are to be evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value of the asset exceeds the estimated undiscounted future cash flows from the use and eventual disposition of the asset, then an impairment loss is recognized to write the asset down to fair value. Fair value is determined based on discounted cash flows

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.

Non-monetary revenue transactions are recorded based upon the fair-value of products or services exchanged.

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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 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.” This 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.

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 income tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted income 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.

Loss per share

Basic per share amounts are computed by dividing the net loss for the year 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. 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.

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

Financial instruments

a) Interest rate risk

As at December 31, 2008, the Company had no material exposure to changes in interest rates with respect to the short-term investments or debt. During the course of the year, short term investments consisted of a number of cashable and non-redeemable GICs which matured between January and November, 2008.

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. 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 sustain future development of the business.

Management defines capital as the Company's shareholders' equity (deficiency). The Company manages its capital structure and makes adjustments according to market conditions and the risk characteristics of the underlying assets. In addition, management monitors the Company's ongoing capital requirements for the fiscal year. In order to maintain or adjust the capital structure, the Company may adjust capital spending, issue equity, sell assets or incur debt. The Company is not subject to externally imposed capital requirements. As at December 31, 2008 total managed capital is \$(100,280) (December 31, 2007 - \$5,972,086)

Total managed capital has changed subsequent to year end. See note 16, subsequent events.

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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

| | <u>Prior to amalgamation</u> | | <u>Post-amalgamation</u> | |
|--------------------------|------------------------------|-----------------|--------------------------|-----------------|
| | <u>Number of</u> | <u>Exercise</u> | <u>Number of</u> | <u>Exercise</u> |
| | <u>options</u> | <u>Price</u> | <u>options</u> | <u>Price</u> |
| | <u>#</u> | <u>\$</u> | <u>#</u> | <u>\$</u> |
| 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 expired between February 29, 2008 and April 4, 2008.

5. IMPAIRMENT OF DEFERRED DEVELOPMENT COSTS

In accordance with generally accepted accounting principles, on an annual basis, or more frequently if circumstances may indicate that impairment may occur, the Company conducts an impairment test of its deferred development costs. If it is concluded that an impairment to deferred development costs exists, then a reduction in the carrying value of the deferred development costs would be recorded on the balance sheet and recognized as a non-cash impairment charge to income.

The Company evaluated the deferred development costs relative to the Company’s market capitalization, the revenues generated by the related assets, and the future expectations for those assets. Based upon all of those factors, it was estimated by management, that the deferred development costs had been impaired, and as a result should be written off. The impairment charge does not affect the Company’s liquidity, funds from operations and will not impact future operations with respect to its mobile services.

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
 Years Ended December 31, 2008 and 2007

6. PROPERTY AND EQUIPMENT

| | 2008 | | |
|-------------------------|----------------|-----------------------------------|-------------------------|
| | Cost \$ | Accumulated amortization \$ | Net Book Value \$ |
| Computer | 258,858 | (110,714) | 148,144 |
| Furniture and equipment | 59,377 | (24,828) | 34,549 |
| Leasehold improvement | 14,346 | (10,355) | 3,991 |
| | 332,581 | (145,897) | 186,684 |

| | 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 |

7. INTANGIBLE ASSETS

| | 2008 | | |
|------------|----------------|-----------------------------------|-------------------------|
| | Cost \$ | Accumulated amortization \$ | Net Book Value \$ |
| Patents | 129,484 | (8,504) | 120,980 |
| Trademarks | 121,513 | (14,185) | 107,325 |
| | 250,997 | (22,689) | 228,308 |

| | 2007 | | |
|------------|----------------|-----------------------------------|-------------------------|
| | Cost \$ | Accumulated amortization \$ | Net Book Value \$ |
| Patents | 62,538 | (2,711) | 59,827 |
| Trademarks | 55,880 | (4,637) | 51,243 |
| | 118,418 | (7,348) | 111,070 |

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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. The Company cancelled this facility in October 2008.

9. SHARE CAPITAL

Share Capital Authorized

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

Issued and Outstanding

| | 2008 | | 2007 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Shares # | Amount \$ | Shares # | Amount \$ |
| Common shares: | | | | |
| Balance, beginning of year | 59,978,296 | 13,259,322 | 45,776,480 | 6,502,236 |
| Repurchase of common shares (iii) | | | (154,029) | (21,876) |
| Issuance for cash net (i) | 9,480,000 | 414,443 | - | - |
| Issuance for cash net (ii) | 3,100,000 | 155,000 | - | - |
| Options exercised | - | - | - | - |
| Transfer from contributed surplus for options exercised | - | - | - | - |
| Issuance for cash, net (iv) | - | - | 14,355,845 | 6,778,962 |
| Balance, end of year | 72,558,296 | 13,828,765 | 59,978,296 | 13,259,322 |
| Compensation warrants and options: | | | | |
| Balance, beginning of year | 2,098,085 | 423,512 | 662,500 | 93,327 |
| Compensation warrants [note 9] | (662,500) | (93,327) | - | - |
| Compensation options [note 9] | - | - | 1,435,585 | 330,185 |
| Balance, end of year | 1,435,585 | 330,185 | 2,098,085 | 423,512 |

- (i) 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.
- (ii) During December 2008, the Company completed a first closing of a non-brokered private placement to issue 4,100,000 Units comprised of 1 Common Share and ½ Warrant at a price of \$0.05. Each whole Warrant is exercisable for one Common Share at a price of \$0.10 per Common Share. [note 10]

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

- (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).
- (v) As at December 31, 2008, the Company had a share subscription amount receivable of \$50,000 to issue 1,000,000 shares, and 500,000 warrants, from the closing on December 24, 2008. Subsequent to year end the cash was received and the shares issued.

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, 2008, the Company granted stock options to employees and directors of the Company to purchase 2,395,000 Common Shares, respectively, for prices ranging between \$0.10 and \$0.19 per share. During the year ended December 31, 2007, the Company granted 5,072,000 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 year, the Company recognized stock based compensation expense, net of cancellations, of \$371,849 (for 2007 – \$237,709). Assuming that no common share dividend will be paid, a weighted average expected volatility of 104.44% (2007 – 75 – 85%), 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 a 3-year Government of Canada bond.

As at December 31, 2008, there were 5,685,698 stock options outstanding.

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(see note 1 – Description of Operations & Going Concern Uncertainty)
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A summary of the status of the Company's stock options during the years presented is as follows:

| | 2008 | | 2007 | |
|-----------------------------------|-------------------|---------------------------------------|-------------------|---------------------------------------|
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Balance, beginning of year | 5,000,698 | 0.40 | 373,698 | 0.32 |
| Granted | 2,395,000 | 0.11 | 5,072,000 | 0.40 |
| Forfeited/cancelled | (1,710,000) | 0.40 | (445,000) | 0.40 |
| Exercised | - | - | - | - |
| Balance, end of year | 5,685,698 | 0.26 | 5,000,698 | 0.40 |
| Exercisable, end of year | 1,306,043 | 0.37 | 373,698 | 0.32 |

| Exercise Price \$ | Number of Options Outstanding | Number of Options Exercisable | Remaining Life (Year) |
|----------------------|----------------------------------|----------------------------------|--------------------------|
| 0.10 – 0.19 | 2,385,000 | - | 4.44 |
| 0.20 – 0.29 | 455,000 | 101,670 | 3.89 |
| 0.30 – 0.39 | 773,698 | 507,032 | 1.23 |
| 0.40 – 0.49 | 1,862,000 | 620,674 | 3.15 |
| 0.50 – 0.59 | 200,000 | 66,667 | 3.37 |
| 0.60 – 0.69 | 10,000 | 10,000 | 3.49 |
| | 5,685,698 | 1,306,043 | 3.61 |

Warrants

Pursuant to a promissory note announced on November 6, 2008, the Company issued 1,300,000 warrants exercisable at \$0.10 on or before October 31, 2010.

Pursuant to the first closing of a non-brokered private placement on December 23, 2008, the Company sold 3,100,000 Units comprised of 1 Common Share and ½ Warrant. Each whole Warrant is exercisable for two years and may purchase 1 Common Share at a price of \$0.10. As at December 31, 2008 there are 1,550,000 Warrants outstanding that do not expire until December 23, 2010.

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, 2008, the Compensation Warrants are no longer outstanding as they expired February 29, 2008 and April 4, 2008.

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(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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, 2008, the Compensation Options remain outstanding and expire on January 24, 2009. The Company expects that the Compensation Options will expire on that date.

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:

| | 2008 | 2007 |
|--|----------------|----------------|
| | \$ | \$ |
| Balance, beginning of year | 237,709 | - |
| Stock-based compensation recognition of fair value of stock options granted, net of cancellations <i>[note 10]</i> | 371,849 | 223,704 |
| Stock-based compensation directly related to development | 15,695 | 14,005 |
| Fair value of expired compensation warrants | 93,327 | - |
| Balance, end of year | 718,580 | 237,709 |

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(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

12. LOSS PER SHARE

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

| | 2008 | 2007 |
|---|----------------|----------------|
| Numerator for basic net loss per share | \$ (7,029,353) | \$ (5,062,277) |
| Denominator for basic net loss per share: | | |
| Weighted average number of common shares | 64,834,373 | 51,800,445 |
| Net loss per share | | |
| Basic | \$ (0.11) | \$ (0.10) |

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 2013 with remaining total minimum annual lease payments of \$625,575.

During 2007, the Company entered into agreements to lease premises in Thornton, Ontario. The leases expire in February, 2012 and 2013 with total minimum lease payments of \$148,926.

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

| | \$ |
|-------|---------|
| 2009 | 174,381 |
| 2010 | 184,522 |
| 2011 | 192,123 |
| 2012 | 151,707 |
| 2013 | 71,768 |
| Total | 774,501 |

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

14. INCOME TAXES

Scientific Research and Experimental Development

During the third quarter the Company received a refund from Revenue Canada for Scientific Research and Experimental Development expenditures made during 2006. A portion of that refund was related to expense items for \$76,088, and the remainder \$271,821 was charged against development costs.

Non-capital loss

The Company has non-capital losses available of \$11,133,900 (2007 - \$7,199,703). These losses are available to reduce income taxes in future years. The benefit from these losses has not been recognized in the accompanying financial statements.

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:

| | 2008 | 2007 |
|---|-------------|-------------|
| | \$ | \$ |
| Expected income tax recovery at 29.5% (2007 - 32.12%) | (2,073,659) | (1,626,003) |
| Increase (decrease) resulting from: | | |
| Non-deductible stock-based compensation costs | 109,695 | 71,854 |
| Other items | 9,002 | 7,765 |
| Income tax rate adjustments | 300,277 | 477,116 |
| Expiry of non-capital losses | 69,725 | - |
| Change in valuation allowance | 1,584,960 | 1,069,268 |
| Income tax expense | - | - |

Multiplied Media Corporation

Notes to Financial Statements

(see note 1 – Description of Operations & Going Concern Uncertainty)
Years Ended December 31, 2008 and 2007

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:

| | 2008 | 2007 |
|------------------------------------|-------------|-------------|
| | \$ | \$ |
| Non-capital losses carried forward | 2,783,475 | 1,799,926 |
| Share issuance costs | 274,422 | 355,659 |
| Capital and other assets | 864,608 | 166,776 |
| | 3,922,505 | 2,322,361 |
| Less: valuation allowance | (3,922,505) | (2,322,361) |
| Net future tax asset | - | - |

15. RELATED PARTY TRANSACTIONS

A promissory note was issued November 6, 2008 to related parties of the Company for \$130,000. The promissory note is non-interest bearing, due October 31, 2009 and were issued with 1,300,000 detachable warrants that are exercisable at \$0.10 on or before October 31, 2010.

16. SUBSEQUENT EVENTS

Subsequent to the end of the year, the Company announced the following:

February 2, 2009 – Grant of 1,875,000 options at an exercise price of \$0.10.

February 18, 2009 – Second closing of an equity financing, for an additional \$498,200 issuing 9,964,000 shares and 4,982,000 warrants. Each warrant is exercisable for 2 years at \$0.10.

17. COMPARATIVE FIGURES

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