

MEDIA G 3, INC AND SUBSIDIARIES

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MEDIA G 3, INC AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 34	\$ 538
Finished goods Inventory, net	353,591	353,591
Prepaid expenses and deposits	122,100	1,900
Prepaid expenses - media credits	10,000,000	-
TOTAL CURRENT ASSETS	<u>10,475,725</u>	<u>356,029</u>
Property and Equipment, net	11,105,370	12,917,990
OTHER ASSETS		
Goodwill	1,564,037	1,564,037
Other non-current assets	22,419	22,419
TOTAL OTHER ASSETS	<u>1,586,456</u>	<u>1,586,456</u>
Total Assets	<u>\$ 23,167,550</u>	<u>\$ 14,860,476</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CUURENT LIABILITIES		
Accounts payable	\$ 961,537	\$ 948,956
Shareholder Loan	101,969	94,558
Accrued shareholder Loan interest	43,165	42,248
Notes Payable - Current	143,261	-
Accrued wages, payroll taxes, and benefits	1,656,906	1,656,211
Accrued wages - related party	180,000	180,000
Accrued Liabilities	6,500	7,195
Accrued Interest - notes payable	20,140	-
TOTAL CURRENT LIABILITIES	<u>3,113,478</u>	<u>2,929,167</u>
NON-CURRENT LIABILITIES		
Notes Payable - non-current	740,000	740,000
TOTAL NON-CURRENT LIABILITIES	<u>740,000</u>	<u>740,000</u>
TOTAL LIABILITIES	<u>3,853,478</u>	<u>3,669,167</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.001 per share, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, par value \$.001, 1,500,000,000 shares authorized, 1,202,247,882 issued and outstanding - 2010 853,867,474 issued and outstanding - 2009	1,202,247	853,867
Paid in capital	33,020,661	22,917,302
Accumulated other comprehensive (loss) income	(29,431)	(29,431)
(Deficit) accumulated during the development stage	<u>(14,879,405)</u>	<u>(12,550,429)</u>
Total Stockholders' Equity	<u>19,314,073</u>	<u>11,191,309</u>
Total Liabilities and Stockholders' Equity	<u>\$ 23,167,550</u>	<u>\$ 14,860,476</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MEDIA G 3, INC AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,	
	2010	2009
REVENUES	\$ 5,289	\$ 36,921
COST OF GOOD SOLD	-	-
GROSS PROFIT	5,289	36,921
EXPENSES		
Salaries, payroll taxes and benefits	281	926,975
Professional, Consulting, Accounting and Audit fees	128,764	5,000
Consulting Fees	241,674	1,409,156
Rent expense	15,795	97,350
Research and Development	1,149	-
Amortization & depreciation	1,811,392	1,814,209
General and administrative	43,852	352,467
Total expenses	2,242,907	4,605,156
Interest Expense	91,358	81,981
NET LOSS	(2,328,976)	(4,650,216)
LOSS ON SALES OF ASSET	-	(282,517)
COMPREHENSIVE LOSS	\$ (2,328,976)	\$ (4,932,733)
NET (LOSS) PER SHARE - BASIC	\$ (0.00)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,192,247,882	853,867,474

* less than \$(.01) per share

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MEDIA G 3, INC AND SUBSIDIARIES
STATEMENT OF STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>(Deficit) Accumulated During the Development Stage</u>	<u>Other Comprehensive loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balances, December 31, 2008, (unaudited)	23,974,073	\$ 23,974	\$ 19,876,642	\$ (7,617,696)	\$ (29,431)	\$ 12,253,490
Accrued Interest converted into shares of common stock, January 12, 2009	678,795	679	17,201	-		17,880
Accrued Interest converted into shares of common stock, January 21, 2009	300,001	300	21,471	-		21,771
Shares issued for marketing services performed and completed at \$0.055 per share on January 21, 2009	3,850,000	3,850	207,900	-		211,750
Shares issued for services performed and completed at \$0.05 per share on January 28, 2009	500,000	500	24,500	-		25,000
Shares issued for services performed and completed at \$0.036 per share on March 2, 2009	100,000	100	3,500	-		3,600
Shares issued for services performed and completed at \$0.035 per share on March 13, 2009	100,000	100	3,400	-		3,500
Shares issued for services performed and completed at \$0.02 per share on April 22, 2009	500,000	500	9,500	-		10,000
Shares issued for services performed and completed at \$0.017 per share on April 28, 2009	4,364,621	4,365	69,834	-		74,199
Shares issued for services performed and completed at \$0.02 per share on April 29, 2009	3,638,006	3,638	69,122	-		72,760
Shares issued for asset purchase of microwave towers performed and completed at \$0.02 per share on May 27, 2009	75,000,000	75,000	1,425,000	-		1,500,000
Accrued Interest converted into shares of common stock, July 8, 2009	1,061,978	1,062	35,662	-		36,724
Accrued Interest converted into shares of common stock, August 13, 2009	1,291,667	1,292	7,612	-		8,904
Shares issued for asset purchase performed and completed at \$0.001 per share on August 19, 2009	350,000,000	350,000	-	-		350,000
Accrued Interest converted into shares of common stock, September 28, 2009	33,332	33	282	-		315
Private placement of shares of common stock issued for cash at \$0.02 per share on September 29, 2009	4,200,000	4,200	79,800	-		84,000
Private placement of shares of common stock issued for cash at \$0.02 per share on October 1, 2009	7,500,000	7,500	142,500	-		150,000
Private placement of shares of common stock issued for cash at \$0.02 per share on October 14, 2009	500,000	500	9,500	-		10,000
Shares issued for services performed and completed at \$0.0083 per share on November 30, 2009	125,000,000	125,000	912,500	-		1,037,500

Private placement of shares of common stock issued for cash at \$0.001 per share on December 9, 2009	250,000,000	250,000	(25,019)	-		224,981
Accrued Interest converted into shares of common stock, December 29, 2009	1,275,001	1,275	26,394	-		27,669
Net (loss) for the year				(4,932,733)		(4,932,733)
Translation loss					-	-
Balances, December 31, 2009, (unaudited)	<u>853,867,474</u>	<u>853,867</u>	<u>22,917,302</u>	<u>(12,550,429)</u>	<u>(29,431)</u>	<u>11,191,309</u>
Cashless exercise of outstanding warrants for Convertible debt on January 20, 2010	154,744,444	154,744	(154,744)	-		-
Shares issued for services performed and completed at \$0.007 per share on April 15, 2010	16,719,998	16,720	100,320	-		117,040
Cashless exercise of outstanding warrants for Convertible debt on June 14, 2010	19,915,966	19,916	(19,916)	-		-
Shares issued for media credits purchased with stock on June 20, 2010	10,000,000	10,000	4,990,000	-		5,000,000
Shares issued for services performed and completed at \$0.0023 per share on August 11, 2010	50,000,000	50,000	65,000	-		115,000
Shares issued for services performed and completed at \$0.0023 per share on August 11, 2010	25,000,000	25,000	32,500	-		57,500
Shares issued for services performed and completed at \$0.0026 per share on August 18, 2010	2,000,000	2,000	3,200	-		5,200
Shares issued for media credits purchased with stock on August 18, 2010	10,000,000	10,000	4,990,000	-		5,000,000
Shares issued for repayment of debt and finance charge at \$0.0026 per share on September 1, 2010	60,000,000	60,000	97,000	-		157,000
Net (loss) for the year				(2,328,976)		(2,328,976)
Balances, December 31, 2010, (unaudited)	<u>1,202,247,882</u>	<u>\$ 1,202,247</u>	<u>\$ 33,020,661</u>	<u>\$ (14,879,405)</u>	<u>\$ (29,431)</u>	<u>\$ 19,314,073</u>

The accompanying notes are an integral part of these financial statements

MEDIA G 3, INC AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2010	2009
OPERATING ACTIVITIES		
Net (loss)	\$ (2,328,976)	\$ (4,932,733)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Stock issued for services	294,740	1,447,310
Loss on sale of assets	-	282,517
Depreciation and amortization	1,811,392	1,814,208
Changes in operating assets and liabilities		
Accounts payable	12,581	65,209
Other payables and accrued liabilities	77,440	832,974
Prepaid expenses	(120,200)	3,955
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(253,023)	(486,560)
INVESTING ACTIVITIES		
Sale of property and equipment	3,475	-
Purchase of property and equipment	(2,245)	3,926
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,230	3,926
FINANCING ACTIVITIES		
Proceeds from sale of common stock	-	459,981
Proceeds from notes payable	242,960	-
Proceeds from shareholder loan payable	-	13,634
Repayments to shareholder loan payable	8,329	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	251,289	473,615
NET INCREASE (DECREASE) IN CASH	(504)	(9,020)
EFFECT OF EXCHANGE RATES ON CASH	-	-
CASH, BEGINNING OF PERIOD	538	9,558
CASH, END OF PERIOD	\$ 34	\$ 538
 SUPPLEMENTAL SCHEDULE OF CASH PAYMENTS		
Interest Paid	\$ -	\$ -
Taxes Paid	\$ -	\$ -
 SUPPLEMENTAL SCHEDULE OF NON-CASH PAYMENTS		
Acquisitions paid for in common stock:		
Assets acquired	\$ -	\$ 1,850,000
Prepaid Expenses - current	10,000,000	-
Common stock issued	(10,000,000)	(1,850,000)
	\$ -	\$ -
Notes payable and interest converted to common shares of stock		
Notes Payable converted - current	\$ 120,000	\$ -
Accrued Interest converted	37,000	113,263
Common Stock issued	(157,000)	(113,263)
	\$ -	\$ -
Cashless exercise of warrants for common stock		
Common Stock	\$ 174,660	\$ -
Paid in Capital	(174,660)	-
	\$ -	\$ -

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MEDIAG3 AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) Organization

MediaG3, Inc. (“MediaG3,” “the Company,” “us,” “we,” “our,” “MDGC”) was incorporated in the State of Delaware on December 21, 2005, and became an operating company immediately upon acquiring two operating subsidiaries on December 28, 2005. MediaG3’s principal place of business is in San Francisco, California, USA.

MediaG3 is principally engaged in the design and sales of interactive marketing solutions for companies of all sizes.

Shanghai Little Sheep Children’s Product Development Limited (“Little Sheep”), a wholly owned subsidiary of MediaG3, was incorporated as a Limited Liability Company in the People’s Republic of China (“PRC”) on May 20, 2005 with its principal place of business in Shanghai, PRC.

Little Sheep is principally engaged in the design, sales and distribution of children’s wear in the PRC.

On December 28, 2005 Little Sheep and its shareholders executed a Stock Purchase Agreement and Plan of Reorganization with MediaG3, whereby MediaG3 issued 2,500,000 shares of its restricted common stock for 100% of Little Sheep.

Shanghai Oriental Media Communications, Limited (“Oriental Media”), was incorporated as a Company with Limited Liability in the People’s Republic of China (“PRC”) on April 8, 2004 with its principal place of business in Shanghai, PRC.

Oriental Media is principally engaged in the design, development and maintenance of websites, network advertisement, database management and network consulting.

On December 28, 2005, Oriental Media and its shareholders executed a Stock Purchase Agreement and Plan of Reorganization with MediaG3, whereby MediaG3 issued 2,250,000 of its restricted common stock for 100% of Oriental Media. The acquisition of Oriental Media is considered to be an acquisition of an entity under common control. As a result, the Company’s consolidated financial statements include Oriental Media’s historical balance sheet and related statements of income, of stockholders’ equity and of cash flows for all periods presented.

In January 2009, MediaG3 discontinued our operations in our Little Sheep and Oriental Media divisions, and sold the divisions to our past President in exchange for amounts owed to him of \$309,296, including advances of \$290,760 and accrued interest of \$18,536 (please see Note 13).

MEDIAG3 AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS
For the years ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
– continued

(B) Principles of consolidation

The consolidated financial statements include the accounts of MediaG3 and its wholly owned subsidiaries from the date of acquisition, and are prepared in accordance with accounting principles generally accepted in the United States of America. All inter-company accounts and transactions have been eliminated.

Certain amounts in previous periods have been reclassified to conform to the current presentation. The reclassifications had no impact on total assets or net loss as previously reported.

(C) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and 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.

(D) Going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred operating losses since inception of \$14,879,405 but has a positive working capital of \$6,622,247 as of December 31, 2010, which is insufficient to meet our funding needs. As a result the Company's continuance depends on its ability to raise additional capital. There is no absolute assurance that the Company will be able to raise the needed capital to sustain its operation and continue as a going concern. The management's plan is to raise additional capital through offerings of common stock and debt.

(E) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with a bank with an original maturity of less than 3 months.

(F) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the

MEDIAG3 AND SUBSIDIARIES
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For the years ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
– continued

future. The Company determines the allowance based on historical write-off experience, current market trends, and customers ability to pay outstanding balances. The Company continually reviews its allowance for doubtful accounts.

(G) Finished goods inventory

Inventories are stated at the lower of cost or market value, cost being determined on a first in, first out method. The Company provides for inventory allowances for excess and obsolete inventories determined principally by customer demand and each inventory item's activity. Inventories consist of finished goods.

(H) Intangible assets

The Company amortizes intangible assets, which consist of a purchased software and trademark, over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on either discounted cash flows or appraised value. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required.

(I) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization.

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation and amortization are provided on a straight-line basis, less estimated residual value over the asset's estimated useful lives. The estimated useful lives are as follows:

Software	3 years
Machinery	10 years
Other equipment	5 years
Office equipment	3 years
Leasehold improvements	3 years

(J) Long-lived assets

The Company reviews property and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the assets' carrying amount to future undiscounted net cash flows the assets are expected to generate. Cash flow forecasts are based on trends of historical performance and management's estimate of future performance,

MEDIAG3 AND SUBSIDIARIES
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For the years ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
– continued

giving consideration to existing and anticipated competitive and economic conditions. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from the assets or their fair values, whichever is more determinable. The Company did not record any impairment of long-lived assets during the nine months ended September 30, 2010 and 2009.

(K) Fair value of financial instruments

Statement of Financial Accounting Standards No. 107, “Disclosure about Fair Value of Financial Instruments,” requires certain disclosures regarding the fair value of financial instruments. Cash, receivables, payables and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

(L) Revenue recognition

The Company’s revenue is derived by providing professional services for website design, development and maintenance, network advertisement, database management and network consulting, and by the sale of children’s wear in the PRC.

To the extent that a website design or development contract extends over multiple accounting periods, revenues are recognized based on the percentage of completion method. Revenues from customer contracts requiring significant production, modifications, or customization are recognized over the installation and customization period. Labor hours and direct project expenses are used to determine the stage of completion. Revisions in estimated contract profits are made in the period, in which the circumstances requiring the revision become known.

Provisions, if any, are made currently for anticipated losses on uncompleted contracts.

Revenues from network advertisement, database management and network consulting are recognized when services are rendered and obligations under related contracts are fulfilled.

Revenues from sales of children’s wear are recognized upon delivery or shipment of the products, at which time title passes to the customer, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an arrangement exists; the sales price is fixed or determinable; and collectability is reasonably assured.

Children’s wear merchant customers can return the merchandise in exchange for different merchandise at full value within 90 days. Returns are provided in the allowance for sales returns based upon the individual evaluation of each customer’s historical returns. During 2007, the Company changed the period to return the merchandise from 90 days to 60 days.

If a merchant customer can no longer operate its business due to causes beyond human control, such as war, major natural disaster and death etc., then the Company would take back the remaining merchandise at half the sales price. No provision for returns under this provision has

MEDIAG3 AND SUBSIDIARIES
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For the years ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
– continued

been made, since there is no evidence or history of impairment, nor are any potential losses reasonably estimatable.

The Company assesses collectability based on a number of factors, including past transaction history with the customer and the credit worthiness of the customer. The Company generally does not request collateral from its customers. If the Company determines that collection of an account is not probable, it defers the amount and recognizes revenue at the time collection becomes probable, which is generally upon receipt of cash.

(M) Income taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

Utilization of net operating losses and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating losses and tax credits before utilization.

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that the net deferred tax assets will not be realized. At December 31, 2010, the Company had deferred tax assets of \$14,879,405 consisting of net operating loss carryforwards. Based on a number of factors, including the lack of a history of profits and future projected taxable income; management believes that there is sufficient uncertainty regarding the realization of deferred tax assets such that a full valuation allowance has been provided.

(N) Foreign currency translation

The functional currency of the Company's children's wear and software services subsidiaries is the Chinese Renminbi ("RMB"). Foreign currency transactions during the year are translated to RMB at the approximate rates of exchange on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the approximate rates of exchange at that date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the time the asset or liability was acquired. Exchange gains or losses are recorded in the statement of operations.

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For the years ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION
– continued

The financial statements are translated into United States dollars (“US\$”) using the closing rate method. The balance sheet items are translated into US\$ using the exchange rates at the respective balance sheet dates. The capital and various reserves are translated at historical exchange rates prevailing at the time of the transactions while income and expenses items are translated at the average exchange rate for the period. All translation differences are recorded as accumulated comprehensive loss within shareholder’s equity.

(O) Other comprehensive income (loss)

The foreign currency translation gain or loss resulting from translation of the consolidated financial statements expressed in RMB to the US\$ is reported as other comprehensive loss or gain in the consolidated statements of operations and comprehensive loss, and as a separate component of shareholders’ deficit in the consolidated balance sheets.

(P) Recent accounting pronouncements

Below is a listing of the most recent accounting standards and their effect on the Company.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-6, “Improving Disclosures about Fair Value Measurements.” This update requires additional disclosure within the roll forward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, the update requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. As ASU 2010-6 only requires enhanced disclosures, the adoption of this update will not have a material effect on our financial statements.

(Q) Advertising Expense

Advertising costs are expensed as incurred. Advertising expense was \$465 and \$215,750, for the years ended December 31, 2010 and 2009, respectively.

MEDIAG3 AND SUBSIDIARIES
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2. OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)
Prepaid Media Credits - current	\$ 10,000,000	\$ -0-
Other receivables	-0-	-0-
Prepayments	122,100	1,900
Trade deposit	-0-	-0-
	<u>\$ 10,122,100</u>	<u>\$ 1,900</u>

On June 20, 2010, we purchased Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for 10,000,000 shares of our common stock. Additionally, on August 18, 2010, we purchased additional Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for 10,000,000 shares of our common stock.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)
Machinery and office equipment	\$ 10,324,316	\$ 10,325,545
Less: accumulated depreciation	(2,794,486)	(1,915,844)
	<u>\$ 7,529,830</u>	<u>\$ 8,409,701</u>

All of the Company's net fixed assets were located in the USA as of December 31, 2010 and 2009. Significant purchases of fixed assets for cash during the years ended December 31, 2010 and 2009 were \$2,245 and \$3,926, respectively. On May 27, 2009, we made an asset purchase of microwave towers in the amount of \$1,500,000 in exchange for 75,000,000 shares of our common stock. In addition to the previous, we also acquired certain software and technologies valued at \$350,000 in exchange for 350,000,000 shares of our common stock. In January 2009, we also disposed of some assets as part of the sale of our discontinued operations as further discussed below in Note 13. In August 2010, we sold some of our office furniture for \$3,475.

The depreciation expense for the years ended December 31, 2010 and 2009 was \$469,797 and \$472,613, respectively.

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4. SOFTWARE

Software consists of the following:

	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)
Software	\$ 6,529,247	\$ 6,529,247
Less: accumulated amortization	(2,953,707)	(2,020,957)
	<u>\$ 3,575,540</u>	<u>\$ 4,508,290</u>

The amortization expense for the years ended December 31, 2010 and 2009 was \$1,341,595 and \$1,341,595, respectively.

5. NOTES PAYABLE

In November 2007, the Company entered into a note and equity purchase agreement with an individual and issued a convertible promissory note in the original principal amount of \$300,000. The note bears interest at the rate of 10% per annum and matures in 12 months from the date of the note. The holder of the note may, at his option, convert the outstanding principal and interest into common stock at the then market price. The Company will also issue to the holder of the note shares of the Company's common stock with an aggregate value equal to 10% of the principal amount of the note divided by \$3.00 per share. Such shares will be issued on the earlier to occur of (i) conversion of the note and (ii) maturity of the note. On April 21, 2008, we received an additional \$100,000 from the same note holder under the same terms as above.

During the year ended December 31, 2008, we entered into several notes payable bearing an interest rate of 10%, and mature in 12 months from the date of the note. We received an aggregate amount of \$340,000 under these notes.

As of December 31, 2010 and 2009, all the above notes are still outstanding and payable.

During the year ended December 31, 2010, we received advances from a note receivable from an unrelated party for \$143,261, and is payable on demand.

During the years ended December 31, 2010 and 2009, we expensed \$91,358 and \$81,981, respectively, and is reflected in interest expense.

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6. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)
Compensation payable to shareholder	\$ 180,000	\$ 180,000
Accrued expenses	6,500	6,500
Accrued interest	63,305	42,248
Employee benefits payable	106,535	106,535
Accrued staff salaries	1,447,500	1,447,500
Other taxes payable	102,871	102,176
	<u>\$ 1,906,711</u>	<u>\$ 1,884,959</u>

7. LOSS PER SHARE CALCULATION

Basic earnings per share (“EPS”) are computed by dividing net loss by the weighted average number of common shares outstanding during the period. Basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period.

8. SHAREHOLDERS’ EQUITY

The authorized stock of the Company consists of 1,500,000,000 shares of common stock and 5,000,000 shares on preferred stock, \$.001 par value, of which 1,202,247,882 and 853,867,474 shares of common stock were outstanding at December 31, 2010 and 2009, respectively, and there was no preferred stock outstanding as of December 31, 2010 and 2009.

On January 21, 2009, we issued 3,850,000 shares of our common stock for marketing services rendered to us by an independent third party. We valued these shares at \$211,750 and are reflected in advertising expense.

During the year December 31, 2009, we issued shares of our common stock as payment for accrued unpaid interest on notes payable, for an aggregate amount of \$113,263 and an aggregate amount of 4,640,774 shares of common stock.

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8. SHAREHOLDERS' EQUITY - continued

During the year ended December 31, 2009, we also issued and aggregate amount of 9,202,627 shares of our common stock for services rendered to us, and has been valued at \$189,059, and is reflected in consulting fees.

On May 27, 2009, we made an asset purchase of microwave towers in the amount of \$1,500,000 in exchange for 75,000,000 shares of our common stock. In addition to the previous, we also acquired certain software and technologies valued at \$350,000 in exchange for 350,000,000 shares of our common stock.

On November 30, 2009, we issued 125,000,000 shares of our common stock for finder's fees associated with the private placements that have occurred in the year ended, December 31, 2009. These shares were valued at \$1,037,500 and are reflected in consulting fees.

During the year ended December 31, 2009, we completed several tranches of private placement equity financing for an aggregate total of \$468,981, net of offering costs, and 262,200,000 shares of common stock.

On January 20, 2010, a warrant was exercised for 154,744,444 shares of our common stock for the cashless option under the terms warrant. Additionally, on June 14, 2010, an additional warrant was exercised for 19,915,966 shares of our common stock for the cashless option under the terms warrant

During the year ended December 31, 2010, we also issued 93,719,998 shares of our common stock for services rendered to us, and has been valued at \$294,740, and is reflected in consulting fees.

On June 20, 2010, we purchased Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for 10,000,000 shares of our common stock. In addition, on August 18, 2010, we purchased additional Media Credits that are current assets, for our use to promote our business plan, valued at \$5,000,000 in exchange for an additional 10,000,000 shares of our common stock.

On September 1, 2010, we issued 60,000,000 shares of our restricted common stock for payment of an outstanding debt and finance charges totaling \$157,000, including \$120,000 for the outstanding advances, and \$37,000 for finance charges.

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9. RELATED PARTY TRANSACTIONS

As of December 31, 2010 and 2009, the Company and its subsidiaries owed \$101,969 and \$94,558, respectively, to shareholders of the Company. Of these amounts, \$94,558 was a loan from William Yuan, founder and Chief Executive Officer of the Company, in 2006, and bears interest at the rate of 8% per annum. During the year ended December 31, 2009, we repaid the shareholder \$290,760 of the amounts due to him.

10. DISCONTINUED OPERATIONS

On January 1, 2009, the Company determined to discontinue operations at its Little Sheep and Oriental Media divisions, and put the assets and business up for sale. The Company decided to eliminate this division primarily because it has incurred significant operating losses since December 28, 2005 and because the division has not increased its market share as planned. On January 1, 2009, the Company completed the sale of these divisions to our past President in exchange of amounts due to him for total non-cash proceeds of \$309,296. The assets sold consisted primarily of accounts receivable, inventories, property and equipment, and other assets. The buyer also assumed certain accounts payable and accrued liabilities.

In 2009, the Company recognized a loss on disposal of \$282,517 for the write-down of the two divisions' carrying amounts to fair value less cost to sell.

The following is a summary of the net assets sold as initially determined at and as finally reported on the closing date of January 1, 2009:

	<i>January 1,</i> <i>2009</i>
Cash	<u>\$ 9,565</u>
Accounts receivable	59,036
Inventories	62,275
Property and equipment, net	958,935
Other assets	64,173
Total assets	<u>1,153,984</u>

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Accounts payable	449,237
Shareholder's advances and accrued interest	309,296
Accrued liabilities	112,933
Total liabilities	<u>871,466</u>
Net assets of discontinued operations	<u>\$ 282,517</u>

11. SUBSEQUENT EVENTS

In accordance with Accounting Standards Codification (ASC) topic 855-10 "Subsequent Events", the Company has evaluated subsequent events through the date which the financial statements were available to be issued. The Company has determined that there were no such events that warrant disclosure or recognition in the financial statements.