

**VRX WORLDWIDE INC.**

**Consolidated Financial Statements**

**For the nine months ended September 30, 2009**

(Prepared without Audit)

250 – 970 Homer Street  
Vancouver, British Columbia  
Canada V6B 2W7



Tel: (604) 688-2321  
Fax: (604) 605-0051  
Web Site: [www.vrxworldwide.com](http://www.vrxworldwide.com)  
Email: [info@vrxworldwide.com](mailto:info@vrxworldwide.com)

#### NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# VRX WORLDWIDE INC.

## Consolidated Balance Sheet (Unaudited)

	September 30 2009	December 31 2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 313,359	\$ 265,199
Accounts receivable	965,111	535,317
Prepaid expenses and deposits	24,972	14,280
	<b>1,303,442</b>	814,796
Property and equipment	209,761	45,863
	<b>\$ 1,513,203</b>	<b>\$ 860,659</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 546,055	\$ 610,132
Deferred revenue	744,233	979,801
Current portion of long-term debt (Note 4)	285,992	670,285
	<b>1,576,280</b>	2,260,218
Long-term debt (Note 4)	586,733	216,575
	<b>2,163,013</b>	2,476,793
<b>Shareholders' Deficiency</b>		
Share capital	6,933,704	6,933,704
Equity component of convertible debentures	475,000	475,000
Contributed surplus	381,550	355,080
Deficit	(8,440,064)	(9,379,917)
	<b>(649,810)</b>	<b>(1,616,133)</b>
	<b>\$ 1,513,203</b>	<b>\$ 860,659</b>

Approved by the Board:

Director

Director

## VRX WORLDWIDE INC.

### Interim statement of consolidated operations, comprehensive earnings and deficit (Unaudited)

	For the three months ended Sept.		For the nine months ended Sept 30	
	2009	2008	2009	2008
<b>Revenue</b>				
Licensing fees	\$ 474,281	\$ 415,700	\$ 1,539,668	\$ 1,330,284
Service fees	1,200,368	501,268	3,185,876	1,611,196
<b>Total Revenue</b>	<b>1,674,649</b>	<b>916,968</b>	<b>4,725,544</b>	<b>2,941,480</b>
<b>Cost of sales</b>	<b>\$ 728,098</b>	<b>\$ 553,049</b>	<b>\$ 1,966,272</b>	<b>\$ 1,720,906</b>
<b>Gross Profit</b>	<b>946,551</b>	<b>363,919</b>	<b>2,759,272</b>	<b>1,220,574</b>
<b>Costs and expenses</b>				
Sales, marketing and product promotion	180,883	177,623	620,494	628,032
Research and development	193,398	138,724	504,659	420,840
General and administrative	153,066	177,803	526,151	502,538
Stock-based compensation	129	15,654	26,469	49,584
Amortization	12,596	14,281	42,860	67,080
	<b>540,072</b>	<b>524,085</b>	<b>1,720,633</b>	<b>1,668,074</b>
<b>Comprehensive earnings (loss) before other items and income tax</b>	<b>406,479</b>	<b>(160,166)</b>	<b>1,038,639</b>	<b>(447,500)</b>
Interest income	48	-	441	3,656
Interest expense and accretion of convertible debentures	(34,927)	(74,585)	(113,494)	(241,503)
Foreign exchange gain (loss)	(27,815)	11,801	14,267	18,560
<b>Net and comprehensive earnings (loss) before income tax</b>	<b>343,785</b>	<b>(222,950)</b>	<b>939,853</b>	<b>(666,787)</b>
Income tax expense (recovery)				
Current	89,384	-	244,362	-
Future	(89,384)	-	(244,362)	-
<b>Net and comprehensive earnings (loss)</b>	<b>343,785</b>	<b>(222,950)</b>	<b>939,853</b>	<b>(666,787)</b>
<b>Deficit – beginning of period</b>	<b>(8,783,849)</b>	<b>(9,235,339)</b>	<b>(9,379,917)</b>	<b>(8,791,502)</b>
<b>Deficit – end of period</b>	<b>\$ (8,440,064)</b>	<b>\$ (9,458,289)</b>	<b>\$ (8,440,064)</b>	<b>\$ (9,458,289)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ 0.03</b>	<b>\$ (0.02)</b>
<b>Weighted average number of shares</b>	<b>34,626,145</b>	<b>34,626,145</b>	<b>34,626,145</b>	<b>34,626,145</b>
<b>Diluted number of shares</b>	<b>34,626,145</b>	<b>34,626,145</b>	<b>34,626,145</b>	<b>34,626,145</b>

**VRX WORLDWIDE INC.**  
**Interim statement of consolidated cash flows**  
**(Unaudited)**

	For the three months ended Sept. 30		For the nine months ended Sept. 30	
	2009	2008	2009	2008
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	\$ 343,785	\$ (183,731)	\$ 939,853	\$ (443,837)
Items not affecting cash				
Amortization	12,596	24,645	42,860	52,799
Stock-based compensation	129	31,673	26,469	33,930
Accretion of convertible debenture	6,302	1,724	30,075	93,409
	<b>362,812</b>	<b>(125,689)</b>	<b>1,039,257</b>	<b>(263,699)</b>
Change in non-cash working capital				
Accounts receivable	(221,387)	(103,615)	(429,794)	(165,436)
Prepaid expenses	8,172	(3,777)	(10,692)	(20,270)
Accounts payable and accrued liabilities	(60,381)	278,580	(64,077)	391,018
Deferred revenue	(28,961)	(196,868)	(235,567)	(241,515)
	<b>60,255</b>	<b>(151,369)</b>	<b>299,127</b>	<b>(299,902)</b>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(2,936)	(9,269)	(206,757)	(13,947)
	<b>(2,936)</b>	<b>(9,269)</b>	<b>(206,757)</b>	<b>(13,947)</b>
<b>Cash flows from financing activities</b>				
Capital lease obligations	-	-	139,940	-
Repayment of long-term debt	(38,302)	(116,764)	(184,150)	(213,705)
	<b>(38,302)</b>	<b>(116,764)</b>	<b>(44,210)</b>	<b>(213,705)</b>
<b>Net cash and cash equivalents provided during the period</b>	<b>19,017</b>	<b>(277,402)</b>	<b>48,160</b>	<b>(527,554)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>294,342</b>	<b>362,649</b>	<b>265,199</b>	<b>612,801</b>
<b>Cash and cash equivalents – end of period</b>	<b>\$ 313,359</b>	<b>\$ 85,247</b>	<b>\$ 313,359</b>	<b>\$ 85,247</b>
<b>Supplementary information</b>				
Interest paid	\$ 28,625	\$ 36,183	\$ 83,419	\$ 73,509
Taxes paid	\$ -	\$ -	\$ -	\$ -
Interest received	\$ 48	\$ 1,461	\$ 441	\$ 3,656

# VRX WORLDWIDE INC.

## Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

---

### 1. Nature of Operations and Going Concern

VRX Worldwide Inc. (“the Company”), through its wholly owned subsidiary VRX Studios Inc. (“VRX”), is a provider of premium rich media content solutions to the global travel industry.

While these consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future, and will be able to realize its assets and discharge its liabilities in the normal course of operations, there are uncertainties that cast substantial doubt about the validity of that assumption. The Company has an accumulated deficit from operations of \$8,440,064, a shareholders deficiency of \$649,810 and a working capital deficit of \$272,838. The Company's ability to continue on a going concern basis is dependent upon generating revenues sufficient to cover its operating costs and other obligations, or obtaining additional financing. Management plans to generate positive cash flows from operations by increasing revenues, investing in technology, increasing production efficiencies, adding new products and services and containing costs. However, there is no assurance the Company will be successful in achieving these objectives.

If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expense and the balance sheet classifications used, and such adjustments could be material.

### 2. Significant Accounting Policies

These interim consolidated financial statements are expressed in Canadian dollars and have been prepared by the Company in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods as per the annual consolidated financial statements for the year ended December 31, 2008. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements of the Company.

#### *Comparative Figures*

Comparative amounts have been reclassified, where necessary, to conform to the financial statement presentation adopted in the current year.

### 3. Property and Equipment

			<b>Sept. 30 2009</b>	Dec. 31 2008
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	Net Book Value
Office furniture and equipment	\$ 118,602	\$ 114,512	\$ 4,090	\$ 9,617
Computer equipment	608,832	533,120	75,712	29,360
Computer software	405,780	280,952	124,828	3,978
Photography equipment	379,918	374,787	5,131	2,908
	\$ 1,513,132	\$ 1,303,372	\$ 209,761	\$ 45,863

# VRX WORLDWIDE INC.

## Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

### 3. Property and Equipment (continued)

Included in property and equipment are assets held under capital leases as follows:

			Sept. 30 2009			Dec. 31 2008
	Cost	Accumulated Amortization	Net Book Value			Net Book Value
Computer equipment	\$ 42,090	\$ 4,237	\$ 37,853	\$		-
Computer software	119,250	-	119,250	\$		-
	\$ 161,340	\$ 4,237	\$ 157,103	\$		-

### 4. Long-term Debt

Continuity			September 30 2009			December 31 2008
Balance, January 1	\$	886,860	\$		1,037,810	
Add: Capital Lease Obligations		139,940			-	
Add: Accretion expense		30,075			175,957	
Deduct: Amount repaid		(184,150)			(326,907)	
Balance, September 30	\$	872,725	\$		886,860	

Outstanding balance at:			September 30 2009			December 31 2008
a) Convertible Debenture - Sabre Inc.	\$	510,937	\$		670,285	
b) Convertible Debenture - Silver Heights Capital Mgmt		235,274			216,575	
c) Capital Lease Obligations		126,514			-	
Long-term Debt	\$	872,725	\$		886,860	
Less: current portion		(285,992)			(670,285)	
	\$	586,733	\$		216,575	

- a) Effective May 29, 2009 the Company and Sabre Inc. signed a Restructuring Agreement that agreed to extend the term of the outstanding debenture to May 31, 2012. In addition, the two parties agreed to amend the debenture by reducing the interest rate from 12% per annum to 0% per annum and eliminating the security requirement of a copy of 500 hotels from the VRX's Hotel Content archive without any license or other fee being payable. The Company will record imputed interest on the restructured debenture at a discount rate of 13.9%. All other material terms of the debenture remain unchanged.

The two parties also renegotiated and renewed the associated content licensing agreement, signed on February 7, 2006, for an additional three years.

# VRX WORLDWIDE INC.

## Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

---

### 4. Long-term Debt (continued)

The original debenture was closed on February 7, 2006 for gross proceeds of \$1,100,000. The debenture had a maturity date of January 31, 2009; bore interest at 12% per annum payable semi-annually; was secured with respect to the outstanding principal and any accrued and unpaid interest by a copy of 500 hotels (at Sabre's choosing) from the Company's Hotel Content archive without any license or other fee being payable to the Company; and was convertible into shares of the Company at Sabre's option at any time after July 31, 2006 up to and including January 31, 2008 at a conversion price of \$0.28 per share and thereafter at a conversion price of \$0.31 per share up to and including January 31, 2009.

Pursuant to the terms and conditions of the original debenture and an associated content licensing agreement, the Company offset interest payments and principal amounts owed to Sabre against licensing fees accruing to the Company from Sabre or its affiliate companies. As of September 30, 2009, Sabre or its affiliate companies accrued \$202,737 (2008 - \$342,622) in licensing fees and offset these fees against the interest payments and principal amounts of the Sabre debenture. This amounted to \$43,389 (2008 - \$79,078) of interest payments and a reduction of \$159,348 (2008 - \$263,544) of principal amounts to Sabre.

Sabre also received 4,000,000 performance warrants vesting according to certain performance criteria pursuant to terms and conditions contained in an associated content licensing agreement. The performance warrants had a variable exercise price that is not less than \$0.28 per share. At the time of issuance, the Company assigned a fair value of \$nil to the warrants. None of the warrants were exercised prior to their expiry on January 31, 2009.

- b) On May 4, 2007 the Company closed a debenture financing with Silver Heights Capital Management Inc. ("Silver Heights") for gross proceeds of \$250,000. The debenture has a term of 36 months, bears interest at 12% per annum payable quarterly and is convertible into common shares of the Company at the holder's option at a price equal to the greater of \$0.25 per share or the amount which is calculated by taking a 25% discount to the average of the closing price of the common shares on the TSX Venture Exchange ("the Exchange") for the 10 days immediately preceding the conversion date, provided that at no time shall such price exceed \$0.65 per share, subject to adjustment provided therein. The Company has the right to force conversion of the debenture in the event that the 10-day average closing price of the common shares on the Exchange exceeds \$0.65 per share or in an event of a change of control of the Company.
- c) Capital lease obligations for computer hardware and software were incurred during the second quarter of 2009. The lease financing was provided directly by various vendors. The terms of the leases range from one to three years with finance rates from 5% to 14%. The leases are secured by the underlying assets with title transferring at the end of the lease.
- d) The Company has principal repayments pursuant to long-term debt obligations as follows:

2010	\$	285,992
2011		46,687
2012		540,046
	\$	<u>872,725</u>

# VRX WORLDWIDE INC.

## Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

### 5. Capital Stock

#### a) Authorized

Unlimited number of common shares without par value  
Unlimited number of first preferred shares without par value  
Unlimited number of second preferred shares without par value  
Unlimited number of third preferred shares without par value  
Unlimited number of fourth preferred shares without par value

#### b) Issued and Outstanding

	Common Shares	Amount
Balance, September 30, 2009 and December 31, 2008	34,626,145	\$ 6,933,704

#### c) Stock Option Plan

The Company's rolling stock option plan ("the Plan"), approved by the Company's shareholders in June 2009, provides that the Board of Directors of the Company may grant from time to time incentive stock options to purchase common shares of the Company to directors, officers, employees, consultants or advisors of the Company, with the number of incentive stock options being limited to 10% of the issued common shares of the Company at the time of granting options. All options granted under the Plan shall expire not later than the fifth anniversary of the date the options were granted. The exercise price of an option is determined by the Board of Directors, but shall not be less than the market price of the common shares of the Company on the TSX Venture Exchange on the last business day before the date on which the options are granted, less any discount permitted by the rules of the Exchange, or \$0.10 per share. Vesting and terms are at the discretion of the Board of Directors.

As at September 30, 2009, options to purchase up to 1,027,615 shares remained available to be granted under the Plan.

A summary of the Company's options and the changes are presented below:

	September 30, 2009		December 31, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at Jan. 1, 2009	1,900,000	\$0.12	1,725,000	\$0.14
Granted	760,000	0.10	875,000	0.11
Expired	(225,000)	0.18	(700,000)	0.14
Outstanding at Sept. 30, 2009	2,435,000	0.11	1,900,000	0.12

# VRX WORLDWIDE INC.

## Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

### 5. Capital Stock (continued)

Options to acquire common shares have been granted to employees, consultants, officers and directors of the Company as follows:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
\$0.14	300,000	2.5	200,000
0.11	625,000	2.9	416,667
0.11	750,000	3.7	250,000
0.10	760,000	5.0	-
	<u>2,435,000</u>	<u>3.7</u>	<u>866,667</u>

Stock options granted pursuant to the Plan are accounted for according to CICA 3870 using the fair value-based methodology. 760,000 options were granted during 2009 (2008 – 875,000). For the nine months ended September 30, 2009, \$26,469 (2008 - \$49,584) was recorded as contributed surplus and charged to the income statement relating to the vesting of stock options.

The cost of stock options granted pursuant to the Plan has been estimated using an option-pricing model yielding a weighted-average fair value per option of \$0.09. Assumptions used in the pricing model are as follows:

	2009	2008
a) average risk-free interest rate	2.33%	3.24%
b) expected life	5.0 years	5.0 years
c) expected volatility	116%	85%
d) expected dividends	Nil	Nil

- d) Pursuant to the terms of the restructured Sabre debenture (Note 4(a)), the debentureholder has the right to convert all or any portion of the outstanding debenture into common shares of the Company at a conversion price of \$0.31 per share up to and including May 31, 2012.
- e) Pursuant to the terms of the Silver Heights debenture (Note 4(b)), the debenture is convertible into common shares of the Company at the holder's option at a price equal to the greater of \$0.25 per share or the amount which is calculated by taking a 25% discount to the average of the closing price of the common shares on the TSX Venture Exchange ("the Exchange") for the 10 days immediately preceding the conversion date, provided that at no time shall such price exceed \$0.65 per share, subject to adjustment provided therein. The Company has the right to force conversion of the debenture in the event that the 10-day average closing price of the common shares on the Exchange exceeds \$0.65 per share or in an event of a change of control of the Company.

# **VRX WORLDWIDE INC.**

## **Notes to Interim Consolidated Financial Statements**

For the nine months ended September 30, 2009

---

### **6. Related Party Transactions**

During the nine months ended September 30, 2009, the Company outsourced certain of its executive and staff search requirements to a company owned by a party related to an officer of the Company. In the aggregate the Company incurred expenses amounting to \$50,113 (2008 - \$74,578).

These transactions were in the normal course of operations and have been recorded at their exchange amounts.

### **7. Segmented Information and Economic Dependence**

The Company operates in one business segment, the provision of rich media content solutions to the travel industry. All property and equipment is located in Canada. Substantially all of the Company's revenues are derived from customers located in the United States.

The Company had two customers that accounted for greater than ten percent of revenue for a total of 64% (32% and 32% respectively) during the quarter ended September 30, 2009, and two customers for the nine months ended September 30, 2009 that accounted for a total of 58% (33% and 25% respectively).