

**VRX WORLDWIDE INC.**

**Consolidated Financial Statements**

**For the year ended December 31, 2009**



MEYERS NORRIS PENNY LLP

## AUDITORS' REPORT

To the Shareholders of **VRX Worldwide Inc:**

We have audited the consolidated balance sheet of VRX Worldwide Inc. as at December 31, 2009 and the consolidated statements of operations, comprehensive earnings and deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 21, 2009.

*MeYers Norris Penny LLP*

MEYERS NORRIS PENNY LLP

Vancouver, BC  
April 23, 2010



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# VRX WORLDWIDE INC.

## Consolidated Balance Sheets

December 31	2009	2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 579,859	\$ 265,199
Accounts receivable	676,136	535,317
Prepaid expenses and deposits	15,169	14,280
	<b>1,271,164</b>	814,796
Property and equipment (Note 3)	111,264	45,863
	<b>\$ 1,382,428</b>	\$ 860,659
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 749,938	\$ 610,132
Deferred revenue	477,138	979,800
Current portion of long-term debt (Note 4)	29,660	670,285
	<b>1,256,736</b>	2,260,217
Long-term debt (Note 4)	718,025	216,575
	<b>1,974,761</b>	2,476,792
<b>Shareholders' Deficiency</b>		
Share capital	6,933,704	6,933,704
Equity component of convertible debentures	475,000	475,000
Contributed surplus	396,354	355,080
Deficit	(8,397,391)	(9,379,917)
	<b>(592,333)</b>	(1,616,133)
	<b>\$ 1,382,428</b>	\$ 860,659

Nature of Operations (Note 1)

Commitments (Note 7)

Subsequent Events (Note 12)

*The accompanying notes are an integral part of these Financial Statements*

Approved by the Board:



Director



Director

## VRX WORLDWIDE INC.

### Consolidated Statements of Operations, Comprehensive Earnings and Deficit

<b>For the years ended December 31</b>	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Licensing fees	\$ 2,022,731	\$ 1,830,290
Service fees	4,007,237	2,583,342
	<b>6,029,968</b>	<b>4,413,632</b>
<b>Cost of sales</b>	<b>2,545,171</b>	<b>2,366,357</b>
<b>Gross profit</b>	<b>3,484,797</b>	<b>2,047,275</b>
<b>Costs and expenses</b>		
Sales, marketing and product promotion	770,142	917,206
Research and development	733,130	559,776
General and administrative	749,780	673,398
Stock-based compensation	41,274	58,032
Amortization	57,478	94,638
Interest income	(441)	(3,656)
Interest expense and accretion of convertible debentures	148,558	321,364
Foreign exchange loss	2,350	14,932
	<b>2,502,271</b>	<b>2,635,690</b>
<b>Net and comprehensive earnings (loss) for the year</b>	<b>982,526</b>	<b>(588,415)</b>
<b>Deficit – beginning of year</b>	<b>(9,379,917)</b>	<b>(8,791,502)</b>
<b>Deficit – end of year</b>	<b>\$ (8,397,391)</b>	<b>\$ (9,379,917)</b>
<b>Basic and diluted earnings (loss) per share</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>Diluted number of shares</b>	<b>34,626,145</b>	<b>34,626,145</b>

# VRX WORLDWIDE INC.

## Consolidated Statements of Cash Flows

<b>For the years ended December 31</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net earnings (loss) for the year	\$ 982,526	\$ (588,415)
Items not affecting cash		
Amortization	57,478	94,638
Stock-based compensation	41,274	58,032
License fee revenue offset against Sabre debenture (Note 4(a))	(89,063)	-
Accretion of convertible debentures	36,376	175,958
	<b>1,028,591</b>	<b>(259,787)</b>
Change in non-cash working capital		
Accounts receivable	(140,819)	(211,302)
Prepaid expenses and deposits	(889)	2,687
Accounts payable and accrued liabilities	139,806	247,225
Deferred revenue	(502,662)	256,201
	<b>524,027</b>	<b>35,024</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(59,219)	(55,718)
	<b>(59,219)</b>	<b>(55,718)</b>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(150,148)	(326,908)
	<b>(150,148)</b>	<b>(326,908)</b>
<b>Net cash provided (used) during the year</b>	<b>314,660</b>	<b>(347,602)</b>
<b>Cash and cash equivalents – beginning of year</b>	<b>265,199</b>	<b>612,801</b>
<b>Cash and cash equivalents – end of year</b>	<b>\$ 579,859</b>	<b>\$ 265,199</b>
<b>Supplementary information</b>		
Interest paid	\$ 70,177	\$ 145,406
Taxes paid	\$ -	\$ -
Interest received	\$ 441	\$ 3,656

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 1. Nature of Operations

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.

### 2. Significant Accounting Policies

#### *Accounting principles*

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

#### *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, VRX Studios Inc. All intercompany balances and transactions have been eliminated upon consolidation.

#### *Translation of foreign currencies*

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates.

Monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets and liabilities are recorded at the historical exchange rate prevailing when the transaction was recorded. Gains or losses arising on translation are recorded in the consolidated statements of operations.

#### *Property and equipment*

Property and equipment are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of the assets as follows:

Office furniture and equipment	3 to 5 years
Computer equipment	3 years
Computer software	1 to 3 years
Photography equipment	3 years

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the estimated future net cash flows that the assets are expected to generate. Where the carrying value exceeds estimated net cash flows, the assets are written down to fair value.

#### *Leases*

Leases are classified as capital or operating depending upon the terms and conditions of the contracts. Asset values recorded under capital leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

#### *Use of estimates*

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. These estimates are based on the best information available at the balance sheet date and are reviewed and adjusted regularly to ensure that such estimates are reasonable. The estimates included in the consolidated balance sheets, statements of operations comprehensive earnings and deficit and cash flows may vary from actual results.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 2. Significant Accounting Policies (continued)

#### *Financial instruments*

##### *Recognition and measurement*

The Company adopted the recommendations included in the Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections 3855 “*Financial Instruments – Recognition and Measurement*”, Section 3861 “*Financial Instruments – Disclosure and Presentation*”, Section 1530 “*Comprehensive Income*” and 3865 “*Hedges*.” These accounting standards provide comprehensive requirements for the recognition and measurement of financial instruments.

Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is removed from the balance sheet.

The Company has made the following classification for its financial instruments:

- (a) Cash and cash equivalents are classified as assets “held for trading” and are measured at fair value at the end of each period with any resulting gains or losses recognized in the consolidated statements of operations;
- (b) Accounts receivable and other receivable are classified as “loans and receivables” and are measured initially at fair value and subsequently at amortized cost, using the effective interest method less provisions for impairment;
- (c) Accounts payable, accrued liabilities and loans payable on-demand are classified as “other financial liabilities” and are initially measured at fair value and subsequently at amortized cost using the effective interest method.
- (d) The liability component of convertible debentures is classified as “other financial liabilities” and carried at amortized cost, which upon initial measurement is equal to the net present value of future cash flows discounted at an appropriate rate.

#### *Cash and cash equivalents*

The Company considers cash and cash equivalents to be cash and short-term deposits with maturities of three months or less from the original date of acquisition.

#### *Convertible debentures*

Pursuant to the CICA Handbook Section 3861, the Company classifies the proceeds received from convertible debentures into their liability and equity components using the relative fair value approach. The carrying amount of the liability component is accreted over the life of the instrument through charges to operations using the effective interest rate method. On conversion into shares, the carrying amount of the equity component and the carrying amount of the liability component are transferred to share capital. In the event that the instrument is settled in cash, this is treated as the extinguishment of the instrument; a gain or loss on extinguishment of the liability component is recognized in the current period operations, while any gain or loss on the equity component is applied to contributed surplus.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 2. Significant Accounting Policies (continued)

#### *Revenue recognition*

The Company earns revenue from the provision of licensed access to use and display the Company's image archive on web sites and from the provision of custom production services.

Income from the provision of licensed access is recognized rateably over the period of the licence under which access is granted, once the service is delivered, following agreement of fees and contractual arrangements and when the collection of amounts due is considered to be reasonably assured. Cash received in excess of the revenue recognized is deferred.

Income from the provision of custom production services is recognized at the time the service is delivered, following agreement of fees and contractual arrangements and when collection of amounts due is considered to be reasonably assured.

#### *Stock-based compensation*

The Company uses the fair value-based methodology for measuring compensation costs for all stock option grants.

As at December 31, 2009, the Company has a stock option plan as described in Note 5(c). Consideration paid for shares on exercise of the stock options is credited to share capital together with any related stock-based compensation amount previously recorded to the Company's accounts and which directly relates to the stock options that were exercised.

#### *Income taxes*

Income taxes are calculated under the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the consolidated balance sheets are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is provided to the extent it is more likely than not that future income tax assets will not be realized.

#### *Net earnings per share*

Basic earnings per share has been computed by dividing the earnings attributable to common shareholders by the weighted average number of common shares outstanding. The treasury stock method is used for the calculation of diluted net earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted net earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and the unrecognized portion of the fair value of stock options is applied to repurchase common shares at the average market price for the year. Stock options and convertible debt are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

At December 31, 2009, 2,435,000 options were outstanding and could potentially dilute basic net loss per share, but are excluded from the calculation of diluted loss per share as their current effects would be anti-dilutive.

#### *Comparative figures*

Certain of the comparative financial figures have been reclassified to conform to the presentation used in the current year.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 2. Significant Accounting Policies (continued)

#### *Changes in accounting policies and future accounting pronouncements*

##### *Goodwill and intangible assets*

As of January 2009, the Company has adopted CICA Section 3064 "Goodwill and Intangible Assets" which will replace CICA Section 3062 of the same name. The new standard revises the requirements for recognition, measurement, presentation, and disclosure of intangible assets, other than the initial recognition of goodwill, or intangible assets acquired through a business combination. The application of this standard did not have an impact on the financial statements.

##### *Financial instrument disclosures*

In June 2009, the CICA issued amendments to CICA Section 3862, "Financial Instruments-Disclosures". The amendments include disclosures around the liquidity risk associated with financial instruments and additional disclosures related to the fair value of the same. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The Company has adopted the standard.

##### *Future Accounting pronouncements:*

In January 2009, the CICA issued Section 1582, Business Combinations and related standards for non-controlling interests and consolidated financial statements. This section replaces Section 1581, Business Combinations converging Canadian standards with IFRS, and is effective January 1, 2011, but earlier application is permitted. The Company will adopt these sections effective January 1, 2011. The application of this standard will not have an impact on the financial statements.

In January 2009, the AcSB issued Sections 1601 and 1602, Consolidated Financial Statements and Non-Controlling Interests which replaces Section 1600, Consolidated Financial Statements, and converges Canadian standards with IFRS. Section 1601 establishes standards for preparation of consolidated financial statements, and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011, although early adoption is permitted. The application of this standard will not have an impact on the financial statements.

##### *International financial reporting standards*

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended March 31, 2011, which must include the interim results for the three months ended March 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures.

The Company is evaluating the impact of the change to IFRS. In particular, the Company has completed a preliminary assessment and planning phase and has commenced a detailed assessment and conversion planning phase. The preliminary assessment phase included the identification of those international standards that are considered likely to have the most significant impact on the Company, or anticipated to involve the highest degree of complexity in implementing.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

### 2. Significant Accounting Policies (continued)

In addition, the Company is monitoring the IASB's active projects and all changes to IFRS prior to January 1, 2011 will be incorporated as required. At this time, the impact on the Company's financial position and results of operations is not expected to be significant. The Company will implement various IFRS disclosure standards as permitted under Canadian GAAP prior to the conversion date.

As a first time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". A number of exemptions are available under this Standard which the Company is currently evaluating including electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances.

In the first half of 2010, the Company will move into the implementation phase and will work on the development of processes and systems to ensure that IFRS comparative data is captured, and to position it for reporting under IFRS in 2011.

### 3. Property and Equipment

	2009		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 118,601	\$ 115,533	\$ 3,068
Computer equipment	617,250	541,469	75,781
Computer software	313,249	285,697	27,552
Photography equipment	380,153	375,290	4,863
	\$ 1,429,253	\$ 1,317,989	\$ 111,264

	2008		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 117,973	\$ 108,356	\$ 9,617
Computer equipment	538,849	509,489	29,360
Computer software	275,598	271,620	3,978
Photography equipment	373,955	371,047	2,908
	\$ 1,306,375	\$ 1,260,512	\$ 45,863

Included in property and equipment are assets held under capital leases as follows (2008: Nil):

	2009		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 46,710	\$ 8,084	\$ 38,626
Computer software	16,950	941	16,009
	\$ 63,660	\$ 9,025	\$ 54,635

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

### 4. Long-term Debt

<b>Continuity</b>	<b>2009</b>		<b>2008</b>	
Balance, January 1	\$	886,860	\$	1,037,810
Add: Capital Lease Obligations		63,660		-
Add: Accretion expense		36,376		175,957
Deduct: Amount repaid		(239,211)		(326,907)
Balance, December 31	\$	747,685	\$	886,860
<hr/>				
<b>Outstanding balance at:</b>	<b>2009</b>		<b>2008</b>	
a) Convertible Debenture - Sabre Inc.	\$	455,937	\$	670,285
b) Convertible Debenture - Silver Heights Capital Mgmt		241,576		216,575
c) Capital Lease Obligations		50,172		-
Long-term Debt	\$	747,685	\$	886,860
Less: current portion		(29,660)		(670,285)
	\$	718,025	\$	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%.

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

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 and restructured 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 December 31, 2009, Sabre or its affiliate companies accrued \$274,855 (2008 - \$425,728) in licensing fees and offset these fees against the interest payments and principal amounts of the Sabre debenture. This amounted to \$82,626 (2008 - \$98,820) of interest payments and a reduction of \$189,286 (2008 - \$326,907) of principal amounts to Sabre.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

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.

On April 9, 2010, the two parties agreed to extend the debenture with the same terms for another three year period. The agreement is subject, among other things, the execution of definitive agreements and regulatory approval. See subsequent event Note 12.

- c) Capital lease obligations for computer equipment and software were incurred during the year. The lease financing was provided directly by various vendors. The terms of the leases range from one to three years with finance rates from 5.0% to 14.6%. 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	\$	29,660
2011		20,512
2012		455,937
2013		241,576
	\$	<u>747,685</u>

### 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, December 31, 2009 and 2008	34,626,145	\$ 6,933,704

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

### 5. Capital Stock (continued)

#### 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 December 31, 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:

	2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at start of year	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 end of year	2,435,000	\$0.11	1,900,000	\$0.12

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	2.3	200,000
0.11	625,000	2.7	416,667
0.11	750,000	3.4	250,000
0.10	760,000	4.7	-
	2,435,000	3.5	866,667

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 5. Capital Stock (continued)

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 year ended December 31, 2009, \$41,274 (2008 - \$58,032) 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 debenture holder 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.
- f) Contributed Surplus

Balance, December 31, 2007	\$ 297,048
Add: Stock-based compensation charge	58,032
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Balance December 31, 2008	\$ 355,080
Add: Stock-based compensation charge	41,274
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Balance December 31, 2009	\$ 396,354

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 6. Income Taxes

A reconciliation of the statutory income tax rate to the Company's effective income tax rate is as follows:

	2009	2008
<b>Statutory rate</b>	30.00%	31.00%
Provision for income taxes based on statutory Canadian combined federal and provincial income tax rates	\$ 294,800	\$ (182,400)
Permanent differences	20,600	73,700
Change in current and anticipated statutory tax rate	4,600	72,300
Previously unrecognized items deducted for tax	(7,700)	(18,600)
Benefit of previously unrecognized losses carried forward	(127,400)	-
Change in valuation allowance	(184,900)	55,000
Income tax recovery	\$ -	\$ -

	2009	2008
<b>Future income tax assets</b>		
Tax losses carried forward	\$ 788,900	\$ 976,500
Property and equipment	207,800	204,500
Deferred revenue	119,300	254,700
Other	24,800	17,200
Less: valuation allowance	(1,140,800)	(1,452,900)
Net future income tax asset	\$ -	\$ -

Management believes there is sufficient uncertainty regarding the realization of future income tax assets such that a full valuation allowance has been provided.

The Company has non-capital losses for Canadian income tax purposes of approximately \$3,034,000 (2008 - \$3,518,000) which are available for carry forward to reduce future years' taxable income of VRX. Of these income tax losses, \$1,574,000 expire in 2015, \$923,000 expire in 2026, \$340,000 expire in 2027, and \$197,000 expire in 2028.

The Company has capital losses of approximately \$62,000 (2008 - \$62,000), which are available for carry forward to reduce future years' income from capital gains. These capital losses carry forward indefinitely.

### 7. Commitments

The Company has certain commitments pursuant to operating leases as follows:

2010	\$	66,528
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# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 8. Related Party Transactions

During the year ended December 31, 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 \$59,860 (2008 - \$82,098) with \$20,804 payable at December 31, 2009 (2008 - \$32,000).

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

### 9. 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 58% (37% and 21% respectively) during the year ended December 31, 2009.

### 10. Financial Instruments and Risk Management

#### *Fair value of financial instruments*

As of December 31, 2009, the fair value of the Company's convertible debentures is \$697,513 (2008 - \$886,860). The fair value of the convertible debentures is estimated based on discounted future cash flows using current market rates for mortgages with similar terms and conditions.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment. Changes in assumptions could affect estimates.

The Company's short-term financial instruments, comprising accounts receivable and accounts payable and accrued liabilities, are carried at amortized cost which, due to their short-term nature, approximates their fair value.

#### *Risk management*

The Company is exposed to a number of risks related to changes in foreign currency exchange rates, interest rates, collection of accounts receivable, settlement of liabilities and management of cash and cash equivalents. The Company manages these risks through internal risk management policies. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on the preservation of capital. Risk management activities are carried out by operational and financial management.

Many of the Company's strategies are based on historical patterns and correlations and management's expectations of future events. However, these strategies may not be fully effective in all market environments or against all types of risks. Unexpected market developments may affect risk management strategies during this time, and unanticipated developments could impact the Company's strategies in the future. If any of the variety of instruments and strategies utilized are not effective, the Company may incur losses.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 10. Financial Instruments and Risk Management (continued)

#### a) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company limits its exposure to undue credit risk from cash and cash equivalents by holding them with various high credit quality financial institutions located in Canada and the United States.

The Company's accounts receivable are primarily from large, well-known international companies in the travel industry. The Company manages its exposure to credit risk by assessing the associated risk of default prior to accepting new customers. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each customer and the length of time taken for amounts to be settled. Where necessary, management takes the appropriate action to collect those balances considered overdue. During 2009, the Company recorded a provision for bad debts of \$48,075 or 0.8% of total sales (2008 - \$45,593 or 1.0%)

Management does not believe that there is significant credit risk arising from any of the current customer base; however, should one of the main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts. At December 31, 2009, one customer accounted for 10% or more of the total trade accounts receivable (2008 - three customers).

#### Financial assets past due

At December 31, 2009, the Company has a provision of \$48,075 against trade accounts receivable, the collection of which is considered doubtful (2008 - \$47,535).

The following table provides information regarding the aging of financial assets that are past due but which are not impaired.

At December 31, 2009

#### Financial assets that are past due but not impaired

	Neither past due nor impaired	31 – 60 days	61-90 days	91 days +	Carrying value on the balance sheet
Trade accounts receivable	\$170,824	\$83,522	\$27,116	\$249,668	\$531,131
Other	\$86,599	\$39,019	\$8,943	\$10,444	\$145,005

The definition of items that are past due is determined by reference to terms agreed with individual customers. Of the trade accounts receivable outstanding at December 31, 2009, 43% has been subsequently collected as at March 23, 2010. None of the significant amounts outstanding have been challenged by customers and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectable in the future.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 10. Financial Instruments and Risk Management (continued)

Management reviews the Company's past due financial assets on an ongoing basis with the objective of identifying potential matters, early on, which could delay the collection of funds. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms. All amounts neither past due nor impaired are collectible from customers located in Canada and the United States. Management is not aware of any information suggesting that the collectability of these amounts is in doubt.

#### b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they come due. Management's objective in managing liquidity risk is to ensure that the Company has sufficient liquidity available to meet its obligations when they come due.

At December 31, 2009, the Company has convertible debentures of \$697,513 outstanding (2008 - \$886,860). The maturity date of \$455,937 of this balance is May 31, 2012 and the maturity date of the remaining balance of \$241,576 is May 2013.

At December 31, 2009, the Company's accounts payable and accrued liabilities were \$749,938 (2008 - \$610,132).

The Company manages liquidity risk through ongoing review of accounts receivable balances, following up of amounts past due and the management of the Company's cash and cash equivalents.

Although the global economy, and in particular the United States, the Company's most significant market, has suffered a significant downturn, the Company has not experienced a decline in customer purchasing. Further weakening or unexpected prolonging of current economic conditions could negatively impact the Company in future periods.

In past years, the Company has relied on its ability to raise additional financing through the issuance of convertible debentures or the sale of common shares to fund its growth plans. The problems seen in global credit markets have resulted in a drastic reduction in the ability of companies to raise capital. While the Company does not plan on raising any additional funds at this time, should circumstances change in the future, the Company's ability to do so may be impaired.

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.

#### c) Market risk

Market risk is the risk to the Company that the fair value of future cash flows of financial instruments will fluctuate due to changes in interest rates and foreign currency exchange rates. Market risk arises as a result of the Company generating revenues and incurring expenses in foreign currencies, and holding cash and cash equivalents in foreign currencies which earn interest.

# VRX WORLDWIDE INC.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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### 10. Financial Instruments and Risk Management (continued)

#### Interest rate risk

The only financial instruments that expose the Company to interest rate risk are cash and cash equivalents. Management's objective in managing the Company's cash and cash equivalents is to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts which are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents on short-term deposit, the Company uses high quality commercial banks to ensure that access to the amounts placed can be obtained on short notice.

The convertible debentures currently outstanding bear interest at rates between 12% and 13.9% (see Note 4(a) and 4(b)).

#### Currency risk

The majority of the Company's revenues are denominated in US dollars. Starting in the second half of 2008, the Company's photography services were largely conducted by US-based photographers who are paid in US dollars. The majority of the remainder of the Company expenses are denominated in Canadian dollars. The Company's reporting currency is the Canadian dollar. As such, the Company is exposed to risk from changes in the US dollar. The Company holds financial assets and liabilities in foreign currencies that expose it to foreign exchange risks. Management occasionally utilises forward contracts to mitigate the risks arising from changes in foreign currency rates.

At December 31, 2009, the Company had cash and cash equivalents of \$577,063 (2008 - \$258,710), accounts receivable of \$644,152 (2008 - \$485,401), accounts payable of \$58,092 (2008 - \$14,121) and deferred revenue of \$476,780 (2008 - \$979,801) which were denominated in US dollars.

#### Sensitivity analysis

Management has completed a sensitivity analysis to estimate the impact on net loss for the period which a change in foreign exchange rates or interest rates during the year ended December 31, 2008 would have had.

This sensitivity analysis includes the following assumption:

- Changes in market interest rates do not cause a change in foreign exchange rates

The impact on net loss of a +/- 10% change in the US\$ foreign exchange is +/- \$68,104 (2008 - +/- \$24,981).

The above results arise primarily as a result of the Company having US dollar denominated trade accounts receivable, trade accounts payable, deferred revenue and bank accounts.

There is no impact on net loss of a change in interest rates as the Company's convertible debentures bear interest at fixed rates over the life of the debenture.

#### Limitations of sensitivity analysis

The analysis above demonstrates the effect of either a change in foreign exchange rates or interest rates in isolation. There is a correlation between the two factors which if considered could cause the results above to vary.

Additionally, the Company's financial position may vary at the time that a change in either of these factors occurs, causing the impact on the Company's results to differ from that shown above.

# **VRX WORLDWIDE INC.**

## **Notes to Consolidated Financial Statements**

For the years ended December 31, 2009 and 2008

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### **11. Capital Management**

The Company considers its convertible debentures, share capital, and contributed surplus as capital, which at December 31, 2009 totalled \$8,523,083 (December 31, 2008 - \$8,650,644). The Company manages its capital structure in order to ensure sufficient resources are available to meet day-to-day operating requirements and other obligations; to allow it to enhance existing product offerings as well as develop new ones and to have the financial ability to expand the size of its operations by taking on new customers. In managing its capital structure, the Company takes into consideration various factors, including the seasonality of the market in which it operates and the growth of its business and related infrastructure.

Methods used by the Company to manage its capital include the issuance of new shares or new debt (secured, unsecured, convertible and/or other types of available debt instruments).

The Company is not subject to any externally imposed capital requirements.

### **12. Subsequent Events**

On March 9, 2010, VRX issued 600,000 stock options to the directors of the Company. The stock options are being offered in conformance with TSX Venture Exchange regulations as incentive compensation and have a term of five years and an exercise price of \$0.155 per share.

On April 9, 2010, VRX and Silver Heights Capital Management Inc. (see Note 4(b)) announced a mutual agreement to extend the maturity date of the convertible debenture that was set to mature on May 3, 2010 for another three year term. The agreement is subject, among other things, the execution of definitive agreements and to regulatory approval.