

VRXworldwide

CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010

(Prepared without Audit)

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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.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31 2010	December 31 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 264,836	\$ 579,859
Accounts receivable	884,610	676,136
Prepaid expenses and deposits	56,554	15,169
	1,206,000	1,271,164
Property and equipment (Note 3)	120,653	111,264
	\$ 1,326,653	\$ 1,382,428
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 589,769	\$ 749,938
Deferred revenue	531,853	477,138
Current portion of long-term debt (Note 4)	28,749	29,660
	1,150,371	1,256,736
Long-term debt (Note 4)	662,235	718,025
	1,812,606	1,974,761
Shareholders' Deficiency		
Share capital	6,933,704	6,933,704
Equity component of convertible debentures	475,000	475,000
Contributed surplus	415,012	396,354
Deficit	(8,309,669)	(8,397,391)
	(485,953)	(592,333)
	\$ 1,326,653	\$ 1,382,428

The accompanying notes are an integral part of these Financial Statements

Approved by the Board:



Director



Director

**INTERIM STATEMENT OF
CONSOLIDATED OPERATIONS,
COMPREHENSIVE EARNINGS AND DEFICIT**

For the three months ended March 31	2010	2009
Revenue		
Licensing fees	\$ 485,606	\$ 529,081
Service fees	590,952	934,299
	1,076,558	1,463,380
Cost of sales	351,838	574,019
Gross profit	724,720	889,361
Costs and expenses		
Sales, marketing and product promotion	172,209	217,996
Research and development	193,835	156,369
General and administrative	200,031	185,450
Stock-based compensation	18,657	13,793
Amortization	17,186	20,567
	601,918	594,175
Comprehensive earnings before other items	122,802	295,186
Interest income	-	(181)
Interest expense and accretion of convertible debentures	30,912	46,668
Foreign exchange loss	4,168	7,592
Net and comprehensive earnings for the period	87,722	241,107
Deficit – beginning of period	(8,397,391)	(9,379,917)
Deficit – end of period	\$ (8,309,669)	\$ (9,138,810)
Basic and diluted earnings per share	\$ 0.003	\$ 0.007
Weighted average number of shares	34,626,145	34,626,145
Diluted number of shares	34,626,145	34,626,145

INTERIM STATEMENTS OF CONSOLIDATED CASH FLOWS

For the three months ended March 31	2010	2009
Cash flows from operating activities		
Net earnings for the period	\$ 87,722	\$ 241,107
Items not affecting cash		
Amortization	17,186	20,567
Stock-based compensation	18,657	13,793
License fee revenue offset against Sabre debenture (Note 4(a))	(55,000)	-
Accretion of convertible debentures	6,164	17,541
	74,729	293,008
Change in non-cash working capital		
Accounts receivable	(208,474)	174,916
Prepaid expenses and deposits	(41,385)	(59,535)
Accounts payable and accrued liabilities	(160,169)	24,708
Deferred revenue	54,715	(79,033)
	(280,584)	354,064
Cash flows from investing activities		
Acquisition of property and equipment	(26,574)	(35,967)
	(26,574)	(35,967)
Cash flows from financing activities		
Repayment of long-term debt	(7,865)	(68,100)
	(7,865)	(68,100)
Net cash (used) provided during the period	(315,023)	249,997
Cash and cash equivalents – beginning of period	579,859	265,199
Cash and cash equivalents – end of period	\$ 264,836	\$ 515,196
Supplementary information		
Interest paid	\$ 9,542	\$ 29,127
Taxes paid	\$ -	\$ -
Interest received	\$ -	\$ 181

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

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

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, 2009. 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

				Mar. 31 2010	Dec. 31 2009
	Cost	Accumulated Amortization		Net Book Value	Net Book Value
Office furniture and equipment	\$ 118,601	\$ 116,308	\$	\$ 2,293	\$ 3,068
Computer equipment	635,788	550,968		84,820	75,781
Computer software	321,286	292,112		29,174	27,552
Photography equipment	380,153	375,787		4,366	4,863
	\$ 1,455,828	\$ 1,335,175	\$	\$ 120,653	\$ 111,264

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

				Mar. 31 2010	Dec. 31 2009
	Cost	Accumulated Amortization		Net Book Value	Net Book Value
Computer equipment	\$ 46,710	\$ 11,976	\$	\$ 34,734	\$ 38,626
Computer software	16,950	2,354		14,596	16,009
	\$ 63,660	\$ 14,330	\$	\$ 49,330	\$ 54,635

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

4. LONG-TERM DEBT

Continuity	March 31 2010	December 31 2009
Balance at start of period	\$ 747,685	\$ 886,860
Add: Capital Lease Obligations	-	63,660
Add: Accretion expense	6,165	36,376
Deduct: Amount repaid	(62,866)	(239,211)
Balance at end of period	\$ 690,984	\$ 747,685
Outstanding balance at:	March 31 2010	December 31 2009
a) Convertible Debenture - Sabre Inc.	\$ 400,937	\$ 455,937
b) Convertible Debenture - Silver Heights Capital Mgmt	247,740	241,576
c) Capital Lease Obligations	42,307	50,172
Long-term Debt	\$ 690,984	\$ 747,685
Less: current portion	(28,749)	(29,660)
	\$ 662,235	\$ 718,025

- 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 offsets interest payments and principal amounts owed to Sabre against licensing fees accruing to the Company from Sabre or its affiliate companies. As of March 31, 2010, Sabre or its affiliate companies accrued \$70,205 (2009 - \$87,610) in licensing fees and offset these fees against the interest payments and principal amounts of the Sabre debenture. This amounted to \$15,205 (2009 - \$19,510) of interest payments and a reduction of \$55,000 (2009 - \$68,100) of principal amounts to Sabre.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

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. 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:

2011	\$	28,749
2012		414,495
2013		247,740
	\$	690,984

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, March 31, 2010 and December 31, 2009	34,626,145	\$ 6,933,704

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

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 March 31, 2010, options to purchase up to 427,615 shares remained available to be granted under the Plan.

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

	March 31, 2010		December 31, 2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at start of period	2,435,000	\$0.11	1,900,000	\$0.12
Granted	600,000	0.155	760,000	0.10
Expired	-	-	(225,000)	0.18
Outstanding at end of period	3,035,000	\$0.12	2,435,000	\$0.11

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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	2.0	200,000
0.11	625,000	2.4	416,667
0.11	750,000	3.2	250,000
0.10	760,000	4.5	-
0.155	600,000	4.9	-
	3,035,000	3.6	866,667

Stock options granted pursuant to the Plan are accounted for according to CICA 3870 using the fair value-based methodology. 600,000 options were granted during 2010 (2009 – 760,000). For the three months ended March 31, 2010, \$18,657 (2009 - \$13,793) 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:

	2010	2009
a) Average risk-free interest rate	2.26%	2.33%
b) Expected life	5.0 years	5.0 years
c) Expected volatility	115%	116%
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2010, 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 \$32,500 (2009 - \$26,250) with \$15,750 payable at March 31, 2010 (December 31, 2008 - \$20,804).

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 27% (17% and 10% respectively) during the three months ended March 31, 2010.

8. SUBSEQUENT EVENTS

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.