

Management's Discussion and Analysis

The following discussion and analysis prepared as at May 2, 2011, explains trends in the Company's financial condition and results of operations for the year ended December 31, 2010 as compared to the year ended December 31, 2009. This discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the audited consolidated financial statements of the Company. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All financial statement figures are reported in Canadian dollars unless explicitly stated otherwise.

CAUTION ON FORWARD-LOOKING INFORMATION

This report contains certain statements that constitute forward-looking information. These forward-looking statements are not descriptive of historical matters and may refer to management's expectation or plans. These statements include, but are not limited to statements concerning our business objectives and plans and future trends in our industry. Inherent in forward-looking statements are risks and uncertainties beyond management's ability to predict or control including risks that may affect VRX's operating or capital plans. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements in this discussion and analysis as well as contained in other components of the annual report. Such statements are based upon a number of assumptions that may prove incorrect, including but not limited to, the following assumptions: that there is no material deterioration in general business and economic conditions; that there are no unanticipated fluctuations in interest or exchange rates; that there is no cancellation or unfavourable variation to its current major contracts; that if required, VRX is able to finance future expansion plans on reasonable terms; that there are no terrorism acts that directly impact the global travel industry and that VRX maintains its ongoing relations with its employees and business partners. We caution you that the foregoing list of important factors and assumptions is not exhaustive. You should also carefully consider matters discussed under "Risk and Uncertainties" contained elsewhere in this discussion. VRX undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

OVERVIEW

The Company was incorporated under the Business Corporations Act (Alberta) on December 29, 1993 as 593930 Alberta Ltd. On April 15, 1994 the Company changed its name to Cambridge Minerals Ltd.; further changed to Cambridge Ventures Ltd. on May 21, 1999; and finally to VRX Worldwide Inc. on December 11, 2000.

Since February 2000, the Company's principal business, carried out through its wholly owned subsidiary VRX Studios Inc., is the provision of premium, rich media content solutions to the global travel industry. Today, the company is the leading provider of content production, management and licensing services to the global travel and hospitality industries.

The Company's two primary revenue streams, Licensing and Service Work, have the same client base: online travel intermediaries, hotels and resorts, cruise lines and tourism boards. Under its Service Work offering, VRX creates custom virtual tours, still images, interactive maps and descriptive text of hotels, cruise ships and destinations; whereas under Licensing, VRX licenses existing virtual tours, still images, interactive maps and descriptive text of hotels, cruise ships and destinations to travel companies. The travel content licensed by VRX to third party travel companies is either owned outright by VRX or VRX has the right to license the content.

For Service Work, VRX charges a one-time service fee. In such cases, a client requests specific content to be created of a specific subject matter. VRX charges the client a portion of the Service fee upfront and the remainder upon delivery. Content created under the Service Work model is usually owned by the client. In contrast, Licensing revenues are derived in large part from archives of rich media content that the Company licenses to third parties. Such licensing arrangements tend to be long lived and generate recurring Licensing revenues. Additional Licensing

revenues are generated from hosting, managing and distributing content created for many of the Company's Service Work clients. The content hosting, management and distribution services that VRX provides utilize the same technology and infrastructure developed by the Company for managing and delivering its Licensing products.

The various products, services and content archives offered by the Company to its clients have been developed over time. The Company's initial offering was its Destination Content archive which was launched in early 2001. This archive includes extensive visual coverage of the top tourist destinations in Mexico, the Caribbean and the United States.

In early 2002, to meet the demand of the world's largest online travel agency, Expedia, Inc. ("Expedia"), the Company expanded its offering by creating a custom service division. Under a three-year exclusive contract with Expedia, VRX's new division created virtual tours of over 1,800 hotels throughout North America, Europe and Asia.

In early 2005, in order to meet the rapidly growing demand for high quality hotel content by other online travel agencies, VRX decided not to renew its exclusive contract with Expedia and launched an innovative new hotel content program. Under VRX's new Hotel Program, VRX invested in the creation of the hotel content, creating a large, comprehensive archive of hotel content owned by VRX, and then licensed the content to online travel agencies, global distribution systems and tour operators.

In early 2008, VRX launched Athena™, a new service to address the desire of a growing number of hotels to make the virtual tours, still images and interactive maps of their hotels available royalty-free to online travel agencies, global distribution systems and tour operators. Under this program, hotels are also able to own the content of their hotels created by VRX by covering the production costs and providing VRX an exclusive, worldwide, distribution license.

Whether a hotel is part of VRX's Hotel or Athena™ Program, VRX works with each hotel under its Always Fresh™ program to ensure the content of their hotel is always up-to-date and accurate. The revenue from both programs is captured in Licensing Fees.

Today, VRX licenses destination, hotel and cruise content to many of the World's leading online travel agencies, global distribution systems and tour operators and works with hospitality brands that represent over twenty thousand hotels around the world.

In October 2010, the company entered a new line of business, the provision of online digital asset management services, with the community preview launch of MediaValet™. This cloud-based service extends the Company's existing content management service beyond managing VRX produced content for hospitality and travel customers to being able to manage all digital assets for any company, large or small, in any industry, anywhere in the world under a Software-as-a-Service model.

FINANCIAL CONDITION

SELECTED ANNUAL INFORMATION

	2010	2009	2008
Revenue			
Licensing fees	\$ 1,868,910	\$ 2,022,731	\$ 1,830,290
Service fees	<u>2,160,737</u>	<u>4,007,237</u>	<u>2,583,342</u>
Total Revenue	4,029,647	6,029,968	4,413,632
Total Expenses	<u>3,754,639</u>	<u>5,047,442</u>	<u>5,002,047</u>
Net Income (Loss)	\$ <u>275,008</u>	\$ <u>982,526</u>	\$ <u>(588,415)</u>
Basic and diluted earnings (loss) per share	\$ 0.01	\$ 0.03	\$ (0.02)
Total Assets	\$ 1,251,438	\$ 1,382,428	\$ 860,659
Total Long-term Liabilities	\$ 488,393	\$ 718,025	\$ 216,575
Shareholders' Deficit	\$ (234,704)	\$ (592,333)	\$ (1,616,133)

RESULTS OF OPERATIONS

Net Profit

The Company's net income for the year ended December 31, 2010 was \$275,008, a decrease of \$707,518, compared to a net profit of \$982,526 in the prior year. Basic and diluted earnings per share were \$0.01 for the year ended December 31, 2010 compared to basic and diluted earnings per share of \$0.03 in the prior year.

Revenue

Total revenues were \$4.03 million for the year ended December 31, 2010, down 33% from \$6.03 million in the prior year. Total revenues were \$917 thousand for the three months ended December 31, 2010, down 30% from \$1.30 million in the same period of the prior year.

The average exchange rate for the year ended December 31, 2010 as per the Bank of Canada was 1.026 as compared to 1.107 the prior year, a decrease of 7%. Stated in US dollars, Licensing revenue increased 2%, Service revenue decreased 39%, and total revenue decreased 25% over the prior the year.

The prolonged uncertainty of a global economic recovery has continued to depress the leisure and corporate travel sectors, causing many of our customers to defer their marketing expenditures to future periods.

REVENUE	Three months ended December 31,				Year ended December 31,			
	2010	2009	Change		2010	2009	Change	
Licensing fees	\$ 443,034	\$ 457,368	\$ (14,334)	-3%	\$ 1,814,550	\$ 1,773,759	\$ 40,791	2%
Service fees	462,609	777,671	(315,062)	41%	2,096,586	3,522,012	(1,425,426)	-40%
Total revenue US	\$ 905,643	\$ 1,235,039	\$ (329,396)	27%	\$ 3,911,136	\$ 5,295,771	\$ (1,384,635)	-26%
Foreign Exchange	11,574	69,385			118,511	734,197		
Total revenue CD	\$ 917,190	\$ 1,304,424	\$ (387,234)	30%	\$ 4,029,647	\$ 6,029,968	\$ (2,000,321)	-33%

Cost of Sales and Gross Profit

Cost of sales decreased for the year ended December 31, 2010 to \$1.49 million, down 42% from \$2.55 million in the previous year. Expressed as a percentage of total revenue, cost of sales decreased from 42% in 2009 to 37% in 2010. Production costs within the cost of sales are variable and have decreased accordingly with the Service revenue.

The Company's gross profit for the year ended December 31, 2010 was \$2.54 million, down 27% from \$3.48 million in the previous year. Between these two periods, the company's gross profit percentage increased from 58% to 63%. This increase is the result of the sale of new higher margin service products, cost control initiatives and the relative mix of Licensing and Service revenue.

	Three months ended December 31,				Year ended December 31,			
	2010	2009	Change		2010	2009	Change	
Total Revenue	\$ 917,190	\$ 1,304,424	\$ (387,234)	-30%	\$ 4,029,647	\$ 6,029,968	\$ (2,000,321)	-33%
Cost of Sales	360,795	578,899	(218,104)	-38%	1,487,645	2,545,171	(1,057,526)	-42%
Gross Profit	\$ 556,395	\$ 725,525	\$ (169,130)	-23%	\$ 2,542,002	\$ 3,484,797	\$ (942,795)	-27%
Gross Profit %	61%	56%			63%	58%		

Sales, Marketing and Product Promotion

Sales, marketing and product promotion expenses were \$618,945 for the year ended December 31, 2010, down 20% from \$770,142 in the prior year. Sales, marketing and product promotion expenses were \$128,202 for the three months ended December 31, 2010, down 14% from \$149,648 in the same period of the prior year. Lower sales commissions were the primary reasons for the change.

	Three months ended December 31,			Year ended December 31,		
	2010	2009		2010	2009	
Wages, contractors & benefits	\$ 85,659	\$ 71,475	20%	\$ 352,877	\$ 383,886	-8%
Commissions	7,285	34,709	-79%	119,042	212,135	-44%
Other	35,258	43,464	-19%	147,026	174,121	-16%
	<u>\$ 128,202</u>	<u>\$ 149,648</u>	<u>-14%</u>	<u>\$ 618,945</u>	<u>\$ 770,142</u>	<u>-20%</u>

Research and Development

Research and Development (R&D) expenses were \$597,774 for the year ended December 31, 2010, down 18% from \$733,130 in the previous year; and \$125,440 for the three months ended December 31, 2010, down 45% from \$228,471 in the previous year. R&D Expenses have declined due to the capitalization of costs directly incurred and related to the development of the Company's cloud-based digital asset management service, MediaValet™.

	Three months ended December 31,			Year ended December 31,		
	2010	2009		2010	2009	
Wages & benefits	\$ 67,203	\$ 124,587	-46%	\$ 361,596	\$ 445,632	-19%
Specialized consulting	38,266	83,447	-54%	155,057	210,807	-26%
Other	19,971	20,437	-2%	81,121	76,691	6%
	<u>\$ 125,440</u>	<u>\$ 228,471</u>	<u>-45%</u>	<u>\$ 597,774</u>	<u>\$ 733,130</u>	<u>-18%</u>

General and Administrative

General and administrative (G&A) expenses were \$733,564 for the year ended December 31, 2010, down 2% from \$749,780 in the previous year; and \$203,603 for the three months ended December 31, 2010, down 9% from \$223,629 in the previous year. Wages and benefits for the three months ended December 31, 2010 have decreased due to the adjustment of accruals for estimated annual incentive compensation expense while G&A other has risen due to an increased provision for doubtful accounts.

	Three months ended December 31,			Year ended December 31,		
	2010	2009		2010	2009	
Wages & benefits	\$ 75,927	\$ 156,938	-52%	\$ 433,856	\$ 488,244	-11%
Other	127,676	66,691	91%	299,708	261,536	15%
	<u>\$ 203,603</u>	<u>\$ 223,629</u>	<u>-9%</u>	<u>\$ 733,564</u>	<u>\$ 749,780</u>	<u>-2%</u>

Other items

Interest expense including accretion was \$102,398 for the year ended December 31, 2010, down 46% from \$148,117 in the prior year. The majority of the decrease is due to the completion in 2010 of accretion expense related to outstanding convertible debentures. Accretion expense was \$8,425 for the year ended December 31, 2010 as compared to \$36,376 in the prior year.

At December 31, 2010, the Company had non-capital losses for Canadian income tax purposes of approximately \$2.7 million which are available for carry forward to reduce future years' taxable income of VRX. Of these income tax losses, \$1,276,000 expire in 2015, \$923,000 expire in 2026, \$340,000 expire in 2027, and \$197,000 expire in 2028. While the Company's recorded losses are available for application against future profits, there is not as yet a sufficient degree of certainty as to the amount or timing of such future profits to enable the Company to record an estimated recovery and corresponding income tax asset on its accounts.

Sequential Results of Operations

	Quarter ending Dec. 31, 2010	Quarter ending Sep. 30, 2010	% change
Licensing fees	\$ 448,683	\$ 457,076	-2%
Service fees	468,507	551,105	-15%
Total revenue	917,190	1,008,181	-9%
Cost of sales	360,795	394,971	-9%
Gross Profit	556,395	613,210	-9%
Gross Profit %	61%	61%	
Marketing, R&D and G&A expenses	457,245	439,762	4%
EBITDA	\$ 99,150	\$ 173,448	-43%

Total revenue in the fourth quarter of 2010 declined by 9% or \$90,991 compared to the third quarter of 2010. Although economic conditions in 2010 appear less severe than last year, the hotel industry has not yet seen a significant recovery in the leisure or corporate travel segments. As a result, many customers have deferred their marketing expenditures to future periods.

Gross profit in the fourth quarter of 2010 decreased by 9% compared to the third quarter of 2010; the Company's gross margin percentage increased by 2%. The Company's gross margin is susceptible to fluctuation from period to period depending on the mix of revenue between Licensing and Service work, the amount of total revenue, and changes in foreign exchange.

Marketing, R&D and G&A expenses in the fourth quarter of 2010 rose by 4% compared to the third quarter of 2010. The increase is primarily due to the a higher provision for doubtful accounts.

Quarterly Disclosure: Eight Quarters Preceding Most Recently Completed Financial Year

The following table sets forth selected unaudited financial information prepared by management of the Company.

	Three months ended			
	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010
Licensing fees	\$ 448,683	\$ 457,076	\$ 477,545	\$ 485,606
Service fees	468,507	551,105	550,173	590,952
Total revenues	917,190	1,008,181	1,027,718	1,076,558
Net income	\$ 15,140	\$ 80,978	\$ 91,168	\$ 87,722
Basic and diluted earnings per share	\$ 0.000	\$ 0.002	\$ 0.003	\$ 0.003

	Three months ended			
	Dec. 31, 2009	Sep. 30, 2009	Jun. 30, 2009	Mar. 31, 2009
Licensing fees	\$ 483,063	\$ 474,281	\$ 536,306	\$ 529,081
Service fees	821,361	1,200,368	1,051,209	934,299
Total revenues	1,304,424	1,674,649	1,587,515	1,463,380
Net income	\$ 42,673	\$ 343,785	\$ 354,961	\$ 241,107
Basic and diluted earnings per share	\$ 0.001	\$ 0.010	\$ 0.010	\$ 0.007

Liquidity and Capital Resources

As of December 31, 2010, the Company had working capital of \$57,951 compared to \$14,428 at December 31, 2009.

	Dec. 31, 2010	Dec. 31, 2009
Cash and cash equivalents	\$ 114,905	\$ 579,859
Accounts receivable	844,138	676,136
Prepaid expenses and deposits	26,622	15,169
Line of credit	(234,000)	-
Accounts payable	(611,282)	(749,938)
Deferred revenue	(133,117)	(477,138)
Current portion of long-term debt	(19,350)	(29,660)
Working Capital (Deficit)	\$ (12,084)	\$ 14,428

Cash used by operating activities for the year ended December 31, 2010 was \$454,191 compared with a source of cash of \$524,027 in the previous year, a decrease of \$978,218. The decrease is primarily due to net income being lower by \$707,518 in the current period. As previously discussed, the net income for the year ended December 31, 2010 has been negatively impacted because many of our customers have deferred their marketing expenditures to future periods and due to a significantly weaker US dollar in 2010. Operating cash decreased as a result of a higher than normal accounts receivable balance with one of our larger customers at December 31, 2010.

Cash used for investing activities was \$214,807 for the year ended December 31, 2010 compared with \$59,219 in the the prior year. The expenditure was largely for the development of the Company's online digital asset management service, MediaValet™.

On August 26, 2010, the Company announced that its wholly owned subsidiary, VRX Studios Inc., entered into a \$300,000 Revolving Demand Line of Credit with a Canadian chartered bank. See Note 4 of the December 31, 2010 consolidated financial statements of the Company.

Net cash provided by financing activities was \$204,044 for the year ended December 31, 2010, compared with a use of cash for financing activities of \$150,148 in the prior year. At December 31, 2010, the Company borrowed \$234,000 from its revolving line of credit and made net principal repayments of \$29,956 on outstanding capital lease obligations. The Company has principal repayments pursuant to long-term debt obligations as follows for the twelve months ending December 31, 2011 - \$19,350; 2012 - \$238,393; and 2013 - \$250,000.

On April 9, 2010, VRX and Silver Heights Capital Management Inc. announced their 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. See Note 5(b) of the December 31, 2010 consolidated financial statements of the Company.

Transactions with Related Parties

During the year ended December 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 \$46,327 (2009 - \$59,860) with \$9,587 payable at December 31, 2010 (December 31, 2009 - \$20,804).

These transactions were in the normal course of operations and have been recorded at their exchange amounts, which is the amount agreed upon by the related parties.

Segmented information and Economic Dependence

The Company primarily operates in one business segment, the provision of content production, management and licensing solutions to the global travel and hospitality industries. 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 one customer that accounted for greater than ten percent of revenue (12%) during the quarter ended December 31, 2010, and two customers that accounted for greater than ten percent of revenue for a total of 26% (15% and 11% respectively) during the year ended December 31, 2010 (2009 – two customers 37% and 21% respectively).

The Company had one customer that accounted for greater than ten percent of accounts receivable for a total of 52% at December 31, 2010 (2009 – 40%).

Financial Instruments

As disclosed in its audited financial statements, the Company has identified several financial instruments that it utilizes in its day-to-day activities.

Management has identified that four such instruments bear scrutiny on an ongoing basis. These items are accounts receivable and other receivables, cash equivalents, accounts payable and accrued liabilities and the liability component of the Company's convertible debentures.

The Company has an excellent client base and strong history of collecting its accounts receivable and other receivables in full. During the ongoing economic uncertainty, the Company experienced a lengthening of the collection period with a few customers. We have implemented processes to address the situation and maintain our strong collection performance. At December 31, 2010, 52% or \$437,637 of the total trade accounts receivable is due from one customer. Subsequent to the year end, the Company collected 36% of the outstanding balance from the customer and is currently in discussions to collect the remaining overdue amounts.

Cash equivalents consist of highly liquid investments which are generally less than three months. As such management perceives little risk to the Company from investing excess cash in such investments.

Accounts payable and accrued liabilities consists of normal monthly expenditures that are required for continued operations. The Company attempts to make payments within thirty to forty days.

The liability component of the Company's convertible debentures consists of financing arrangements with Silver Heights Capital Managements Inc. and Sabre Inc. Please see Note 5 in the December 31, 2010 Notes to Financial Statements for further details.

Outstanding Share Data

The authorized share capital of VRX Worldwide Inc. is unlimited. At December 31, 2010 there were 34,626,145 shares outstanding (December 31, 2009: 34,626,145). There are no warrants outstanding as the common share performance warrants issued under the original Sabre debenture were not re-issued upon restructuring (December 31, 2009: Nil). There are 3,035,000 common shares reserved for issuance upon the exercise of stock options currently outstanding under the Stock Option Plan (December 31, 2009: 2,435,000).

During the year ended December 31, 2010, the Company granted 600,000 stock options with an exercise price of \$0.155 and expiry date of March 8, 2015, giving rise to share-based payment expense of \$75,552 to be recognized over the vesting period.

Critical Accounting Estimates

The Company's consolidated financial statements are impacted by the accounting policies used, and the estimates and assumptions made, by management during their preparation. The Company's accounting policies are described in Note 2 to the December 31, 2010 annual consolidated financial statements.

Significant estimates made by management include the carrying values of accounts receivable, useful lives of property and equipment, recovery of software under development and valuation of future income tax assets..

The Company uses the relative fair value approach to classify the proceeds received from convertible debentures into their liability and equity components. Under this approach an equity value of the convertible debenture is computed using an option pricing model that includes estimates of expected volatility as well as an estimated discount rate, and concurrently a liability value is computed using a net present value methodology based on estimated discount rates. The face value of the convertible debenture is classified as equity or a liability based on the relative value that each of the above computed amounts is to the aggregate of the two amounts. During 2007 the Company classified the \$250,000 of proceeds from the Silver Heights debenture as \$75,000 to equity and \$175,000 to liability.

The Company uses the fair-value method of accounting for stock-based compensation related to incentive stock options granted, modified or settled. Under this method, compensation cost attributable to all incentive stock options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated discount rate. Changes to these estimates could result in the fair value of the stock-based compensation being less than or greater than the amount recorded. During the year ended December 31, 2010, the Company recorded a stock-based compensation expense of \$82,621 (2009 - \$41,274).

Future Accounting Policy Changes

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 report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended March 31, 2011, which will 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 has completed a detailed assessment and conversion planning phase. The impact on the Company's financial position and results of operations is not significant.

As a first time adopter of IFRS, the Company is required to apply IFRS 1 “First time adoption of International Financial Reporting Standards”. The Company has decided it will not use any of exemptions that are available under this Standard.

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.

Risks and Uncertainties

An investment in the Company’s common shares involves a high degree of risk. Investors should carefully consider the cautionary statement under the caption "Forward-Looking Statements" in the beginning of this Report and the other information included herein, before purchasing the Company’s common shares. The risks described in these financial reports are not the only ones that the Company faces. Additional risks that are not yet known or considered immaterial at this time could also impair the Company’s business, financial condition or results of operations in the future. In such case, the trading price of the Company’s common shares could decline, and cause investors to lose all or a portion of their investment.

The Company invoices for its services primarily in US dollars while its operating expenses are paid in Canadian dollars. As such the Company’s revenue stream is exposed to foreign currency fluctuations, in particular increases and decreases in the value of the US dollar to the Canadian dollar. It is not possible for the Company to predict such fluctuations or their magnitude.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com and at its corporate website, www.vrxworldwide.com.