VR INTERACTIVE CORPORATION

Consolidated Financial Statements

For the Quarter Ended December 31, 2010

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the quarter ended December 31, 2010.

VR Interactive Corporation
Consolidated Balance Sheets
As at December 31, 2010 and March 31, 2010
(See Note 1 – Going Concern)

	31-Dec 2010 (Unaudited)	31-Mar 2010 (Audited)
	$	$
Assets		
Current assets:		
Cash	488	524
	488	524
Property and equipment (Note 4)	5,624	6,961
	6,112	7,485
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	42,130	46,951
Loans from Shareholders (Note 5)	1,286,653	1,169,891
Current portion long term debt	171,174	81,168
	1,499,957	1,298,009
Long-term debt:		
ACOA (Note 7)	327,105	378,567
Shareholders' deficiency:		
Share capital (Note 8)	2,638,509	2,638,509
Contributed Surplus (Note 9)	108,300	108,300
Deficit	(4,567,759)	(4,415,900)
	(1,820,950)	(1,669,091)
	6,112	7,485

See accompanying notes to consolidated financial statements

On behalf of the Board:

David J. Hennigar

Paul Allingham

VR Interactive Corporation
Consolidated Statements of Operations & Deficit (Unaudited)
For the period ended December 30

	2010 Q3	2010 YTD	2009 Q3	2009 YTD
	$	$	$	$
Revenues	-	-	-	-
	-	-	-	-
Operating expenses:				
General and administrative	10,851	30,229	(4,625)	1,598
Research	-	295	2,286	9,059
Depreciation	414	1,338	554	1,793
	11,264	31,862	(1,784)	12,451
Loss before under noted items:	(11,264)	(31,862)	1,784	(12,451)
Other expenses:				
Interest	40,525	119,997	36,360	105,150
Net loss	(51,789)	(151,859)	(34,576)	(117,600)
Deficit, beginning of period	(4,515,970)	(4,415,900)	(4,348,759)	(4,313,895)
Adjustment to opening balance	-	-	-	48,160
Deficit, end of period	(4,567,759)	(4,567,759)	(4,383,335)	(4,383,335)
Loss per share	($0.002)	($0.006)	($0.001)	($0.004)

See accompanying notes to consolidated financial statements

VR Interactive Corporation

Consolidated Statements of Cash Flows (Unaudited)

For the period ended December 31

	2010 Q3	2010 YTD	2009 Q3	2009 YTD
	$	$	$	$
Cash flows from operating activities:				
Net loss	(51,789)	(151,859)	(34,576)	(117,600)
Items not involving cash:				
Depreciation	414	1,338	554	1,793
Interest accretion on discounted loans	13,069	39,852	12,256	35,439
Changes in non-cash operating working capital				
Decrease in accounts payable	(4,492)	(4,820)	(32,474)	(44,225)
	(42,798)	(115,490)	(54,240)	(124,593)
Cash flows from financing activities:				
Increase (Decrease) in long-term debt	-	(1,308)	-	-
Increase in loans from shareholders	42,443	116,762	54,032	124,260
	42,443	115,455	54,032	124,260
(Decrease) increase in cash during the period	(355)	(35)	(208)	(333)
Cash, beginning of period	843	524	309	434
Cash, end of period	488	488	101	101

See accompanying notes to consolidated financial statements

1. Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which presumes the realization of assets and discharge of liabilities in the normal course of business. Adverse conditions cast doubt on the validity of the assumption.
The Company incurred a loss of $51,789 for the quarter ended December 31, 2010 compared to a loss of $34,576 for the same period in 2009. At December 31, 2010, the Company has a working capital deficiency of $1,499,469 compared to $1,297,485 as at March 31, 2010 and $1,197,789 as at of March 31, 2009. Also, at December 31, 2010 the Company had a shareholders' deficiency of $1,820,950 compared to $1,669,091 at March 31, 2010 and $1,567,086 at March 31, 2009. The Company's ability to continue as a going concern is still dependent on the support of its significant shareholders.
Despite the losses and deficiencies noted above, management believes that the use of accounting principles applicable to a going concern is appropriate given the history of financial support by its significant shareholders.
These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

(a) Incorporation and Corporate History

The accompanying consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and contain all adjustments necessary to present fairly the Corporation’s financial position as at December 31, 2010 and March 31, 2010 and the results of operations for the quarters ended December 31, 2010 and December 31, 2009.

The Corporation was incorporated under the laws of the Province of Alberta pursuant to the provisions of the Business Corporations Act and is listed on the TSX Venture Exchange NEX under the symbol “VRI.H”

(b) Principles of Consolidation

The accompanying financial statements consolidate the accounts of the Corporation and its wholly-owned subsidiary, VR Interactive International Inc. All inter-corporation transactions and balances have been eliminated on consolidation.

(c) Revenue Recognition

For web site development, revenue is recognized upon completion and acceptance of the web site, unless the fee is not fixed or determined or collection is not probable.

Revenues related to equipment sales are recognized when delivery and acceptance have occurred, provided the amounts due from customers are fixed or determinable and deemed collectible by management.

(d) Property and Equipment

Capital assets are recorded at cost. Depreciation is provided using the declining balance method at the following annual rates:

Assets	*Rates*
Computer hardware	30%
Computer software	100%
Office furniture and equipment	20%

(e) Research and Development

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet specific criteria for capitalization, including reasonable assurance regarding future benefits. To date no such expenditure has qualified for capitalization.

(f) Income Taxes

The Corporation uses the liability method of tax allocation. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable, which would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. No recognition of future income tax assets has been reflected in these financial statements as the Corporation has yet to achieve profitable operations. Future income tax assets are evaluated and if realization is not considered “more likely than not,” a valuation allowance is provided.

(g) Stock-based Compensation

The Corporation has a stock option plan, which is described in Note 9. Compensation cost of options granted under the stock option plan are measured at the grant date based upon a fair value of the award and are recognized over the related service period.

(h) Foreign Currency

Foreign currency transactions are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end rates of exchange. Translation gains and losses are recorded in the statement of operations.

(i) Use of Estimates

The preparation of 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 and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Earnings Per Share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated in accordance with the treasury stock method using the weighted average number of shares that would have been outstanding had all outstanding stock options with a dilutive effect been exercised during the year.

The weighted average number of common shares used in the calculation of basic and diluted earnings per share for the quarter ended December 31, 2010 is 26,983,333 (2009– 26,983,333).

(k) Cash

Cash consists of bank balances.

3. Changes in accounting policies

Changes in accounting policies
On April 1, 2007, the Corporation adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments-Disclosure and Presentation; Section 3865, Hedges; Section 1530 Comprehensive Income; Section 3251, Equity; and Section 1506 Accounting Changes. The adoption of the new standards resulted in changes in accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded prospectively through the 2008 opening deficit per note 3(i) below. The principal changes in the accounting due to the adoption of these accounting standards are described below.

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost using Effective Interest Method
Accounts payable	Other financial liabilities	Amortized cost using Effective Interest Method
Loans from Shareholders	Held for trading	Fair Value
Loans	Loans and receivables	Amortized cost using Effective Interest Method

(a) Financial assets and liabilities

Under the new standards all financial assets and liabilities are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair value except for held to maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. Held-for–trading financial instruments are recorded at cost as they are initiated and subsequently measured at fair value and all revaluation gains and losses are included in the statements of operations in the period in which they arise. Available-for-sale financial instruments are also recorded at cost and are subsequently measured at fair value with all revaluation gains and losses included in other comprehensive income.

In connection with the adoption of the new standards, the company changed its accounting policy relating to the accounting for interest free loans. Previously these loans were carried at face value. Under the new policy, interest free loans will be carried at their fair values with the offsetting benefit applied against the retained earnings account.

(b) Derivatives and hedge accounting

At December 31, 2010 and March 31, 2010 the Corporation had no derivatives or hedge positions.

(c) Comprehensive loss

Comprehensive loss is comprised of the Corporation's net loss and unrealized foreign translation gains and losses. Section 1530 establishes standards for reporting and display of comprehensive income (loss). Unrealized gains or losses on available-for-sale investments, and the effective portion of gains or losses on derivatives designated as cash flow hedges and hedges of the net investment in self-sustaining foreign operations are included in other comprehensive income ("OCI"). Accumulated other comprehensive income ("AOCI") is included as a separate component of equity. The Corporation had no such OCI or loss transactions for the quarters ended December 31, 2010 and December 31, 2009 and there were no opening or closing balances for AOCI.

(d) Accounting changes

Section "1506"Accounting Changes" prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. This standard also requires that any new CICA Handbook standards adopted in future periods and the impact of those standards need to be disclosed in the consolidated financial statements.

(e) Capital disclosures

On April 1, 2008 the Corporation adopted the CICA handbook Section 1535, Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The adoption of the new standards had no impact on the financial statements presentation and disclosure for fiscal 2010 or for the third quarter of fiscal 2011.

(f) Financial instruments

On April 1, 2008 the Corporation adopted the CICA Handbook Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments –Presentation. These new standards revise and enhance the disclosure requirements and carry forward, substantially unchanged the presentation requirements. These new standards emphasize the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. The adoption of the new standards had no impact on the financial statements presentation and disclosure for fiscal 2010 or for the third quarter of fiscal 2011.

(g) Management of Capital

The Company defines capital that it manages as the aggregate of its loans payable, share capital, contributed surplus, stock options, accumulated other comprehensive income, and deficit. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2010.

(h) Future changes in accounting policies

International Financing Reporting Standards (IFRS)
In January 2006, the AcSB adopted a strategic plan calling for the adoption of IFRS by publicly accountable enterprises in Canada, after a specified transition period. The AcSB has confirmed January 1, 2011 as the changeover date (i.e., the date IFRS will replace current Canadian standards and interpretations as GAAP for this category of reporting entity). As a result, the Company is required to prepare its consolidated financial statements in accordance with IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests
In October 2008, the CICA issued Section 1582 Business Combinations ("Section 1582") concurrently with Section 1601 Consolidated Financial Statements ("Section

1601"), and Section 1602 Non-controlling Interests ("Section 1602"). Section 1582, which replaces Section 1581 Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. This pronouncement will not have any impact on the financial statements.

(i) Impact of changes in accounting policies

The Corporation secured $600,656 in interest free loans from the government, consisting of $488,674 term loan and $111,982 conditional repayable loan. The change in policy associated with the accounting for interest free debt facilities at fair value using the effective interest method for the term loan had the effect of requiring a transition adjustment to the 2008 opening deficit and the debt facilities in the amount of $230,574. The fair value of the debt facilities was calculated by discounting the future cash repayments over the term of the debt facilities, using a discount rate of 15% which management considers reasonable and approximates the Corporation's cost of borrowings for similar debt. The resulting reduction in carrying value will be amortized using the effective interest rate method over the term of the debt facilities.

The future cash repayments of the conditional repayable loan are not determinable. Due to this the amortized cost cannot be calculated. The conditional loan repayable continues to be recorded at cost.

4. Property and Equipment

			Dec 31 2010	**Mar 31 2010**
	Cost	Accumulated depreciation	Net book value	Net book value
Computer hardware and software	$ 87,695	$ 83,556	$ 4,139	$ 5,229
Office furniture and equipment	10,419	8,934	1,485	1,732
	$ 98,114	$ 92,490	$ 5,624	$ 6,961

5. Loans from Shareholders

Loans from shareholders are due on demand, accrue interest quarterly at 8.75% per annum and have no specific terms of repayment. No repayments are anticipated in the next 12 months.

6. Economic Dependence

The Corporation has been reliant on shareholder loans to fund the operations and contractual obligations of the business. The Corporation's ability to continue viable operations and to continue to meet its debt repayments are dependent on these loans and future shareholder loans.

7. Long-Term Debt

The Corporation has interest-free repayable loans outstanding from the Atlantic Canada Opportunities Agency ("ACOA") in the amount of $487,366 as at December 31, 2010 (March 31, 2010 $488,674). The repayment of these loans was scheduled to commence August 1, 2010 and were repayable in forty-eight consecutive monthly instalments of $10,146 and one final payment in the amount of $1,577. The Corporation is in negotiation with ACOA and at this time there is no indication what effect these negotiations might have on the financial statement presentation. The accepted standards require that interest free debt facilities be accounted for at fair value using the effective interest method for the term loan. (Refer to note 3(a) and 3(i)) An extension would have the effect of requiring an adjustment to the 2010 opening deficit and a corresponding reduction the debt facilities. The fair value of the debt facilities was calculated by discounting the future cash repayments over the adjusted term of the debt facilities, using a discount rate of 15% (consistent with past policy) which management considers reasonable and approximates the Corporation's cost of borrowings for similar debt. The resulting reduction in carrying value will be amortized using the effective interest rate method over the adjusted term of the debt facilities. The interest accretion for the quarter ending December 31, 2010 amounted to $13,069 (2009 - $12,256).

The Corporation also has a provisional repayable loan repayable to ACOA in the amount of $111,982 as at December 31, 2010 (March 31, 2010 $111,982). The loan is repayable in annual instalments calculated as a percentage of the product and service sales related to the VR Showcase and other resulting products. It is anticipated that no repayments will be payable in the next fiscal year.

As explained in Note 3(i) the principal amounts have been discounted and appear on the balance sheet as follows:

	Dec 30 2010	**March 31 2010**
Loan principal – Loan 1	$487,366	$488,674
- Loan 2	111,982	111,982
Discount	(101,069)	(140,921)
Principal after discount	498,279	459,735
Current portion as reported	171,174	81,168
Long –Term Debt (As adjusted)	$327,105	$378,567

The undiscounted principal of the loan subject to fixed terms of repayment is repayable as follows:

Fiscal year:	2011	$ 79,860
	2012	121,752
	2013	121,752
	2014	121,752
	2015	42,250
		$487,366

8. Share Capital

	Number of Shares		Amount
Authorized:			
Unlimited number of common shares			
Balance outstanding Dec 31, 2010 and 2009	26,983,333	$	2,638,509

9. Stock-based Compensation Plan

The Board of Directors has established a stock option plan under which options to purchase common shares are granted to directors, officers, and key employees of the Corporation. This plan when adopted was approved by the shareholders of the Corporation. Options to acquire common shares are granted at exercise prices equal to the market prices of the common shares on the date of the grant and expire between one and five years from the date of the grant. Market prices are the closing price of the shares on the day prior to the notice date of the transaction, unless the weighted average share price for the 10 days prior to the closing date exceeds the closing share price by more than 10%; then the market price used is the weighted average price.

The Corporation has reserved 2,698,333 common shares pursuant to the stock option plan. There are 1,900,000 options to acquire common shares outstanding under the plan as at December 31, 2010. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Compensation costs of options granted under the stock option plan are measured at the grant date, based upon a fair value of the award and are recognized over the related service period.

In July 2007, 1,900,000 options were granted to Directors, Officers, and employees under the stock purchase plan at an exercise price of $0.10. These options vested immediately.

On September 26 2008, 400,000 options expired and were cancelled. No stock options were issued during the year ended March 31, 2010 or for the quarter ended December 31, 2010

The fair value of the options issued in fiscal 2008 was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 2.97% ; dividend yields of nil ; volatility factor of 185%; and a weighted average expected life of the option of 5 years.

Options issued and outstanding as at December 31, 2010;

Grant Date	Expiry Date	Exercise Price	Issued	Exercisable
July 27, 2007	July 27, 2012	$0.10	1,900,000	1,900,000
Total			1,900,000	1,900,000

Contributed Surplus	Dec 31, 2010 $	Mar 31, 2010 $
Balance beginning of period	108,300	108,300
Stock-based compensation	-	-
Balance, end of period	108,300	108,300

10. Financial Instruments

The Corporation's financial instruments consist of cash, accounts payable, accrued liabilities, loans from shareholders and long-term debt. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of the long-term debt with repayment terms is approximately $386,295 as at December 31, 2010 (March 31, 2010 - $347,753) The fair values of the remaining financial instruments approximate their carrying values due to the short term nature and or repayment terms.

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company has significant financial liabilities outstanding including accounts payable, accrued liabilities, and loans payable. The company is exposed to the risk that it may not have sufficient liquid assets to meet its commitments with these financial liabilities.

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations management will consider securing additional funds through debt of equity transactions. The Company manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations. In recent years, additional loans from directors/shareholders have provided the necessary liquidity as required.

Some of the loans payable bear interest at a fixed rate, and the balance of the loans bear interest based on bank prime rate. All loans have a short-term maturity when lenders have an opportunity to renegotiate interest rates. As such, all loans are subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates.

A 1% change in interest rates would affect the Company's interest expense by approximately $13,000 per annum. At present, no financial contracts are in place to offset interest rate risk nor are any contemplated.

11. Income Taxes

A reconciliation of the temporary differences and carry forwards which give rise to future tax assets and liabilities are as follows:

	Dec 31 2010	March 31 2010
Future income tax assets		
Property and equipment	$ 50,587	$ 50,587
Scientific research and development credits	64,912	64,912
Scientific research and development pools	54,729	54,729
Share issuance costs	142,935	142,935
Tax loss carry forwards	1,788,964	1,676,957
	2,102,127	1,990,120
Tax benefit	714,723	676,641
Valuation allowance	(714,723)	(676,641)
	$ -	$ -

Temporary differences have been calculated using the statutory federal and provincial income tax rate of 34%. Tax loss carry forwards expire in varying amounts to 2030.