VR INTERACTIVE CORPORATION

Consolidated Financial Statements

For the Year Ending March 31, 2011

VR Interactive Corporation

Financial Information

March 31, 2011

Contents

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Independent Auditors' Report

To the Shareholders of
VR Interactive Corporation

We have audited the accompanying consolidated financial statements of VR Interactive Corporation, which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of VR Interactive Corporation as at March 31, 2011 and 2010, and its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of VR Interactive Corporation have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. There is reason to doubt this assumption which is discussed more fully in Note 1 to the financial statements.

Millard, DesLauriers & Shoemaker LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
July 25, 2011

VR Interactive Corporation

Consolidated Balance Sheets

As at March 31

(See Note 1 – Going Concern)

	2011	2010
Assets		
Current assets:		
Cash	$ 486	$ 524
	486	524
Property and equipment (Note 4)	5,239	6,961
	$ 5,725	$ 7,485
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 43,591	$ 46,951
Loans from Shareholders (Note 5)	1,395,453	1,169,891
Long Term Debt due within one year	-	81,168
	1,439,044	1,298,010
Long-term debt:		
ACOA (Note 7)	-	378,566
Shareholders' deficiency:		
Share capital (Note 8)	2,638,509	2,638,509
Contributed Surplus	108,300	108,300
Deficit	(4,180,128)	(4,415,900)
	(1,433,319)	(1,669,091)
	$ 5,725	$ 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

For the year ended March 31

		2011		2010
Revenues				
Gain on settlement of debt (Note 7)	$	435,155	$	-
Operating expenses:				
General and administrative		37,185		(5,345)
Research and development		295		9,969
Depreciation		1,722		2,308
		39,203		6,932
Income (Loss) before under noted items:		395,952		(6,932)
Other expenses:				
Interest and bank charges		160,180		143,233
Net Income (Loss) for the year		235,772		(150,165)
Deficit, beginning of year		(4,415,900)		(4,313,895)
Opening deficit adjustment (Note 3(h))		-		48,160
Deficit, end of year	$	(4,180,128)	$	(4,415,900)
Income (Loss) per share - basic and diluted:	$	0.01	$	(0.01)

See accompanying notes to consolidated financial statements

VR Interactive Corporation

Consolidated Statements of Cash Flows

For the year ended March 31

		2011		2010
Cash flows from operating activities:				
Net income (loss)	$	235,772	$	(150,165)
Items not involving cash:				
Depreciation		1,722		2,308
Interest accretion on discounted loans		39,852		48,160
Changes in non-cash operating working capital				
Decrease in accounts payable		(3,360)		(55,323)
		273,986		(155,020)
Cash flows from financing activities:				
Increase (Decrease) in long-term debt		(499,586)		-
Increase in loans from shareholders		225,562		155,110
		(274,024)		155,110
Increase (Decrease) in cash during the year		(38)		90
Cash, beginning of year		524		434
Cash, end of year	$	486	$	524

See accompanying notes to consolidated financial statements

Interest paid	$	11,846	$	nil

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 had net income of $235,772 for the 2011 year resulting from a gain of $435,155 on settlement of the ACOA liability as discussed in Note 7. Except for this gain the net loss for the year would have been $211,792 compared to a net loss of $150,165 for the 2010 year. At March 31, 2011, the Company has a working capital deficiency of $1,438,558 compared to $1,297,486 as at of March 31, 2010. Also, at March 31, 2011, the Company had a shareholders' deficiency of $1,433,319 compared to $1,669,091 at March 31, 2010. However, 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 March 31, 2011 and March 31, 2010.

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

Property and equipment 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.

(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) 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 and are subsequently measured at fair value with all revaluation gains and losses 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. The corporation’s financial assets and liabilities were classified as follows:

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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 adopted with an effective date of April 1, 2007, interest free loans are carried at their fair values with the offsetting benefit applied to the retained earnings/deficit account.

(j) 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 2011 or 2010.

(k) Derivatives and hedge accounting
At March 31, 2011 and March 31, 2010 the Corporation had no derivatives or hedge positions.

(l) Comprehensive loss
Comprehensive income (loss) is comprised of the Corporation’s net income (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 a 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 income (loss) transactions for the year ended March 31, 2011 and 2010 and there were no opening or closing balances for AOCI.

(m) 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.

(n) 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 year ended March 31, 2011 is 26,983,333 (2010– 26,983,333).

(o) 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 has been amortized using the effective interest rate method over the term of the debt facilities. The interest accretion for 2011 amounted to $39,852 (2010 - $48,160). During the 2010 fiscal year the company renegotiated the repayment terms of the ACOA loans resulting in a change in the interest accretion which required an adjustment of $48,160 to the opening deficit.

Please refer to Note 7 for a discussion on the settlement of these loans.

(p) Cash
Cash consists of bank balances.

3. Changes in accounting policies

(a) 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.

(b) Future changes in accounting framework

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.

The Company has carried out a diagnostic review of significant IFRS differences and management has identified areas where it may be impacted by accounting policy changes which may potentially impact the recognition, measurement and presentation of the Company's financial statement balances as of the transition date. The Company is planning to have the necessary changes in place prior to August 29, 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.

4. Property and Equipment

2011

	Cost	Accumulated Depreciation	Net Book Value
Computer hardware and software	$ 87,695	$ 83,866	$ 3,829
Office furniture and equipment	10,419	9,009	1,410
	$ 98,114	$ 92,875	$ 5,239

2010

	Cost	Accumulated Depreciation	Net Book Value
Computer hardware and software	$ 87,695	$ 82,466	$ 5,229
Office furniture and equipment	10,419	8,687	1,732
	$ 98,114	$ 91,153	$ 6,961

5. Loans from Directors and Shareholders

To facilitate the settlement with ACOA discussed in Note 7, a shareholder advanced $75,000 with interest at 9%, repayable upon the closing of any re-organization of the company's operations. Other loans from directors and shareholders are due on demand, accrue interest at 8.75% and have no specific terms of repayment. No repayments on these loans are anticipated in the next 12 months.

		2011		2010
Directors - 8.75%, unsecured, no fixed terms of repayment	$	16,944	$	15,539
Shareholders - 8.75%, unsecured, no fixed terms of repayment		1,303,509		1,154,352
Shareholder - 9%, unsecured, repayable as noted above		75,000		-
Total	$	1,395,453	$	1,169,891

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 had interest-free repayable loans outstanding from the Atlantic Canada Opportunities Agency ("ACOA") in the amount of $ nil as at March 31, 2011 (2010 $488,674) and a provisional-repayable contribution from ACOA in the amount of $ nil as at March 31, 2011 (2010 $111,982).

As of March 31, 2011 the company entered into a settlement agreement with ACOA whereby the company made full and final payment of the loans in the form of a cash payment of $75,000 and the forfeiture of $1,577,129 in unclaimed research and development expenses and tax losses carried forward. The forfeiture represented the tax value attributed to the gain on the settlement of the debt.

The gain is calculated as follows:

Principal outstanding	$600,656
Repayment during year	(1,308)
Interest and fees	11,876
Total	611,224
Cash payment	75,000
Gain on settlement	536,224
Less: balance of interest accretion	101,069
Gain reported on statement of operations	$435,155

8. Share Capital

	Number of Shares		Amount
Authorized:			
Unlimited number of common shares			
Balance outstanding March 31, 2011 and 2010	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 March 31, 2011. 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.

No stock options were issued during the year ended March 31, 2011.

The stock option expense for 2011 included in the statement of operations is $ nil (2010 - $ nil).

The fair value of the option issued in 2007 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 March 31, 2011:

Grant Date	Expiry Date	Exercise Price	Issued	Exercisable
July 27, 2007	July 27, 2012	.10	1,900,000	1,900,000
Total			1,900,000	1,900,000

Contributed Surplus	2011 $	2010 $
Balances beginning of year, as reported	108,300	108,300
Stock-based compensation	-	-
Balance, end of year	108,300	108,300

10. Financial Instruments

The Corporation's financial instruments consist of cash, accounts payable and 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 nil as at March 31, 2011 (2010 - $347,751) The fair values of the remaining financial instruments approximate their carrying values due to the short term nature and or repayment terms.

11. Income Taxes

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

	2011	2010
Future income tax assets		
Property and equipment	$ 50,587	$ 50,587
Scientific research and development credits		64,912
Scientific research and development pools		54,729
Share issuance costs		142,935
Tax loss carry forwards	126,393	1,676,957
	176,980	1,990,120
Tax benefit	60,173	676,641
Valuation allowance	(60,173)	(676,641)
	$ -	$ -

The tax benefits on temporary differences have been calculated using the statutory federal and provincial income tax rate of 34%. Tax loss carry forwards amount to $126,393 and expire in 2030 and 2031.

12. Management of Capital

The Company defines capital that it manages as the aggregate of its loans from shareholders, ACOA long-term debt, share capital, contributed surplus and deficit. Its objective when managing capital is to ensure that the Company will continue as a going concern, so that it can provide returns to its shareholders.

	2011	2010
Long-tem debt - ACOA	$ -	$ 459,734
Loans from shareholders	1,395,453	1,169,891
Share Capital	2,638,509	2,638,509
Contributed surplus	108,300	108,300
Deficit	(4,180,128)	(4,415,900)
	$ (37,866)	$ (39,466)

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.