

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2010 and 2009

(Expressed in Canadian Dollars)



MEYERS NORRIS PENNY LLP

AUDITORS' REPORT

To the Shareholders of **Emergeo Solutions Worldwide Inc.:**

We have audited the consolidated balance sheets of Emergeo Solutions Worldwide Inc. (the "Company") as at March 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss, and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

MEYERS NORRIS PENNY LLP

Vancouver, BC
June 25, 2010



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EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

March 31, 2010 and 2009

Assets	2010	2009
Current:		
Cash and cash equivalents	\$ 115,564	\$ 734,583
Accounts receivable	1,683,289	1,029,999
Income tax recoverable	-	23,208
Prepaid expenses and deposits (Note 2(e))	116,958	152,637
	<hr/> 1,915,811	<hr/> 1,940,427
Equipment (Note 3)	68,198	128,452
Intangible assets (Note 4)	338,130	318,637
	<hr/> \$ 2,322,139	<hr/> \$ 2,387,516

Liabilities

Current:		
Credit facilities (Note 6(a))	\$ 507,792	\$ -
Accounts payable and accrued liabilities (Note 10)	696,198	529,830
Due to related parties (Note 10)	87,357	87,357
Deferred revenue	536,643	467,927
	<hr/> 1,827,990	<hr/> 1,085,114
Long-term debt (Note 7)	1,000,000	-

Shareholders' Equity (Deficiency)

Share capital (Note 8(b))	3,028,276	2,888,416
Contributed surplus (Note 8(e))	683,354	378,201
Deficit	(4,100,135)	(1,964,215)
	<hr/> (388,505)	<hr/> 1,302,402
Non-controlling interest (Note 2(a)(ii))	(117,346)	-
	<hr/> \$ 2,322,139	<hr/> \$ 2,387,516

Nature of Operations (Note 1)

Commitments (Note 12)

Subsequent Events (Note 16)

“On Behalf of the Board of Directors”

“Michael Morrow”
Michael Morrow
Director

“Allan Larmour”
Allan Larmour
Director

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Statements of Loss and Deficit

(Expressed in Canadian Dollars)

Years ended March 2010 and 2009

	2010	2009
Sales	\$ 2,956,687	\$ 2,082,336
Cost of Sales	2,048,967	1,543,124
	907,720	539,212
Operating expenses:		
General and administration	1,126,219	1,156,131
Sales and marketing	844,537	586,520
Research and development	547,415	291,311
Amortization	220,480	79,260
Stock-based compensation	191,737	378,201
	2,930,388	2,491,423
Loss before other items	(2,022,668)	(1,952,211)
Other Items:		
Impairment of intangible assets (Note 4)	(38,954)	-
Foreign exchange	(37,656)	2,349
Interest expense	(66,665)	-
Interest and other income	11,883	40,234
	(131,392)	42,583
Loss before non-controlling interest	(2,154,060)	(1,909,628)
Non-controlling interest	127,639	-
Loss before future income taxes	(2,026,421)	(1,909,628)
Future income tax expenses	(4,151)	(11,059)
Loss and comprehensive loss for the year	(2,030,572)	(1,920,687)
Deficit, beginning of year	(1,964,215)	(43,528)
Warrant modification (Note 8(c))	(105,348)	-
Deficit, end of year	\$ (4,100,135)	\$ (1,964,215)
Basic and diluted loss per share	\$ (0.12)	\$ (0.12)
Weighted average number of Shares outstanding	17,095,796	15,410,943

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (2,030,572)	\$ (1,920,687)
Adjustments for -		
Amortization	220,480	79,260
Stock-based compensation	191,737	378,201
Impairment of intangible assets	38,954	-
Change in future income tax asset	-	9,312
Non-controlling interest	(127,639)	-
Financing fees	8,068	-
Changes in non-cash working capital -		
Accounts receivable	(653,290)	(640,099)
Income tax recoverable	23,208	-
Prepaid expenses	35,679	(113,866)
Accounts payable and accrued liabilities	166,368	289,445
Deferred revenue	68,716	271,371
	(2,058,291)	(1,647,063)
Investing:		
Purchase of equipment	(2,610)	(136,918)
Intangible assets	(216,063)	(220,316)
Cash of legal parent upon reverse acquisition (Note 5)	-	489,612
	(218,673)	132,378
Financing:		
Proceeds from loans	1,000,000	80,000
Increase (decrease) in credit facilities	507,792	(115,550)
Due to related parties	-	(15,694)
Proceeds from issuance of shares	139,860	2,478,150
Share issuance costs	-	(206,577)
Contribution by non-controlling interest	10,293	-
	1,657,945	2,220,329
(Decrease) increase in cash and cash equivalents	(619,019)	705,644
Cash and cash equivalents, beginning of year	734,583	28,939
Cash and cash equivalents, end of year	\$ 115,564	\$ 734,583
Supplementary information:		
Cash paid for:		
Interest	\$ 66,665	\$ 2,646
Income taxes	\$ -	\$ 1,136

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

1. Nature of Operations:

EmerGeo Solutions Worldwide Inc. (formerly Kavalmedia Services Ltd.) (“the Company”) was incorporated on October 16, 1997 under the laws of British Columbia. The Company is listed on the TSX Venture Exchange (the “Exchange”).

On May 2, 2008, the Company acquired all of the issued and outstanding share capital of EmerGeo Solutions Inc. (“EmerGeo Solutions”), a company which develops, integrates, sells and supports emergency management, environment health and safety, and security software solutions and services. EmerGeo Solutions’ own mapping software suite provides reliable, OpenGIS[®] based mapping solutions that help government and industry to mitigate against, prepare for, respond to and recover from potential and actual incidents, natural disasters, acts of terrorism or other major events.

These consolidated financial statements are prepared on a basis of accounting principles applicable to a going concern, which assumes the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

For the year ended March 31, 2010, the Company had generated revenues of \$2,956,687 as compared to \$2,082,336 from the prior period and has an accumulated deficit of \$4,100,135, including a loss for the year ended March 31, 2010 of \$2,030,572.

During the year ended March 31, 2010, the Company obtained loans of \$1,000,000 (see note 7) and a US\$500,000 line of credit facility (see note 6(a)). The Company is also actively trying to raise additional funds through equity financings, debt financings and other means in order to meet its obligations to March 2011.

The continuation of the Company as a going concern is dependent upon its ability to raise additional financing and ultimately attain and maintain profitable operations. To the extent the Company is unable to cover its ongoing cash requirements through operations, the Company expects to raise additional financing to cover any shortfall. There can be no assurance that such financing and profitability will occur in the amounts and with terms expected. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying value and classification of assets and liabilities should the Company be unable to continue as a going concern.

In the event that cash flow from operations, if any, together with the proceeds from any future financings are insufficient to meet the Company’s current operating expenses, the Company will be required to re-evaluate its planned expenditures and allocate its total resources in such a manner as the Board of Directors and management deems to be in the Company’s best interest. This may result in a substantial reduction of the scope of existing and planned operations.

These consolidated financial statements do not reflect any adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies:

(a) Basis of presentation and consolidation -

(i) Reverse takeover transaction -

On May 2, 2008, the Company acquired all of the issued and outstanding common shares of EmerGeo Solutions in exchange for common shares.

As the transaction was a capital transaction in substance for EmerGeo Solutions, the transaction was accounted for as a reverse takeover using the purchase method with EmerGeo Solutions as the acquirer.

Application of reverse takeover accounting results in the following:

- a) The consolidated financial statements of the combined entity are issued under the name of the legal parent, the Company, but are considered a continuation of the financial statements of the legal subsidiary, EmerGeo Solutions.
- b) As EmerGeo Solutions is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated balance sheets for the continuing entity at their historical carrying values. The Company's assets and liabilities at the date of the transaction are included in the consolidated balance sheets at their estimated fair market value, which equaled their book value at the date of the transaction.

(ii) Consolidation -

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Company and its wholly-owned subsidiaries, EmerGeo Solutions, 0799998 BC Ltd., EmerGeo Solutions (US) Inc. and its 49% owned subsidiary, EmerGeo Software Solutions Middle East LLC ("EmerGeo Middle East"). All intercompany amounts and transactions have been eliminated on consolidation.

The Company legally owns 49% of the equity of EmerGeo Middle East and is entitled to 80% of its net profit/losses. The Company has also determined that it controls EmerGeo Middle East through its majority representation of the Board of Directors and senior management. Accordingly, the Company has consolidated EmerGeo Middle East in these financial statements.

(b) Financial Instruments -

The Company's financial instruments are comprised of cash and cash equivalents, receivables, accounts payable and accrued liabilities, credit facilities, due to related parties and long term debt. The fair values of these financial instruments approximate their respective fair values due to the relatively short-term maturity of these financial instruments. Financial instruments are measured and classified as follows:

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(b) Financial Instruments (continued) –

- a) Held-for-trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in net earnings (loss) in the period in which they arise. Cash and cash equivalents are classified as held-for-trading and are measured at fair value.
- b) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings (loss), using the effective interest method less any impairment. Receivables are classified as loans and receivables and accounts payable and accrued liabilities, credit facilities, due to related parties and long-term debt are classified as other financial liabilities. Interest income and interest expense are recorded in net income, as applicable.
- c) Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings (loss). Other than temporary impairments on available-for-sale financial assets are recorded in net earnings (loss).
- d) Derivatives embedded in other financial instruments or non-financial contracts (the “host instrument”) are treated as separate derivatives with fair value changes recognized in the statement of operations when their economic characteristics and risks are not clearly and closely related to those of the host instrument, and the combined instrument or contract is not held for trading. No reportable embedded derivatives were identified in a review of the Company’s contracts.

(c) Comprehensive income -

Comprehensive income comprises the Company’s net income and other comprehensive income. Other comprehensive income represents changes in shareholders’ equity during a period arising from non-owner sources and, for the company, principally includes unrealized gains and losses on available-for-sale securities. The Company’s comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the statements of comprehensive income (loss) and the statements of shareholders’ equity.

(d) Cash and Cash Equivalents -

Cash and cash equivalents consists of cash and funds in bank accounts integral to the Company’s cash management.

(e) Deposit -

Deposits consist of investments which have maturity dates beyond three months. Included in prepaid expenses and deposits is a guaranteed investment certificate of \$40,000 which has a maturity date beyond three months and is secured against the Company’s corporate credit cards.

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(f) Equipment -

The assets are recorded at cost and amortized using straight line method based on the expected useful life. The normal annual rates are as follows:

Computer hardware	33%, 3 years
Computer software	50%, 2 years
Office furniture	20%, 5 years
Office equipment	33%, 3 years

When the net carrying amount of the equipment exceeds the estimated net recoverable amount, the asset is written down to its estimated fair value and a charge is recorded in the statement of operations.

(g) Revenue recognition -

(i) License revenue -

The Company recognizes revenue in accordance with CICA Handbook 3400 (and EIC 141 and 142), "Revenue Recognition". Revenue from the license of software is recognized when all of the following criteria have been met:

- a) persuasive evidence of an arrangement exists;
- b) the product has been delivered;
- c) the fees are fixed and determinable; and
- d) collection is reasonably assured.

The Company uses the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the stand-alone value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license agreement, revenue related to the undelivered element is deferred based on vendor-specific objective evidence ("VSOE") of the fair value of the undelivered element. The Company's multiple element sales arrangements included arrangements where software licenses and the associated post contract customer support ("PCS") are sold together. The Company has established VSOE of the fair value of the undelivered PCS element based on the price that is being charged to other customers for PCS on an individual basis when the customer renews this service on an annual basis. The renewed PCS is for services comparable to the bundled PCS and covers the same term.

EmerGeo Solutions Worldwide Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(g) Revenue recognition (continued) -

(ii) Services revenue -

Service revenue consists of revenue from training, implementation and integration services and are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of those services. The Company does not consider the services to be essential to the functionality of any other element of the transaction. The Company determines VSOE of fair value for these services based on the price charged when these services are sold separately and revenue is then recognized in the period in which the services are performed.

(iii) Customer support and maintenance revenue -

Customer support and maintenance revenue consists of revenue derived from contracts to provide PCS to license holders. These revenues are recognized rateably over the period covered which is typically one year.

(iv) Interest income -

Interest income is recognized on an accrued basis as earned and other miscellaneous income is recognized as received.

(h) Cost of Revenue -

Cost of revenue is made up of costs associated with providing on-site professional services to customers. Also included in cost of revenue are costs of third party products and other direct sales costs. Costs of third party products and other direct sales costs are recognized when the product or services have been delivered to the customer.

(i) Intangibles -

Intangible assets consisting of technology assets, website and eLearning programs are expensed as incurred unless they meet Canadian generally accepted accounting criteria for deferral and subsequent amortization. See Note 4.

Intangible assets that are deferred and capitalized are recorded at cost and amortized using the straight line method based on the expected useful life. The normal annual amortization rate is 33%.

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(j) Leases -

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation is recorded at an amount equal to the lesser of the present value of the future minimum lease payments and the property's fair value.

(k) Foreign Currency Translation -

Amounts in foreign currencies are translated into Canadian dollars as follows:

(i) The Company

- a) Transactions are translated at the approximate rate of exchange prevailing at the time of the transaction;
- b) Monetary assets and liabilities at the year-end exchange rate; and
- c) Exchange gains and losses are included in earnings.

(ii) EmerGeo Solutions (US) Inc. and EmerGeo Middle East

- a) Monetary assets and liabilities at the rate in effect at the balance sheet;
- b) Non-monetary assets and liabilities and share capital at the rate in effect on the transaction date;
- c) Revenue and expenses at the average rates as the revenues are earned and expenses are incurred; and
- d) Gains and losses arising on translation have been recognized in the consolidated statements of operations and deficit.

(l) Stock-based Compensation -

The Company has a stock-based compensation plan which is described in note 8(d). The Company accounts for all stock-based payments and awards under the fair value based method.

Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable and are charged to operations over the vesting period. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

EmerGeo Solutions Worldwide Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(m) Earnings (loss) per Share -

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings (loss) per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the year ended March 31, 2010, the calculation proved to be anti-dilutive.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year.

(n) 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 amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known. Actual results could differ from those estimates.

(o) Future income taxes -

Income taxes are accounted for by the asset and liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between carrying value and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is included in income in the period in which the change occurs. The amount of future income tax asset recognized is limited to the amount that is more likely than not to be realized.

(p) Comparative figures -

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(q) Adoption of new accounting standards -

The Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) effective April 1, 2009.

(i) Goodwill and intangible assets

CICA Handbook Section 3064, *Goodwill and Intangible Assets* (Section 3064) replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA Handbook Section 1000, *Financial Statement Concepts* is amended to clarify criteria for recognition of an asset. CICA Handbook Section 3450, *Research and Development Costs* is replaced by guidance in Section 3064. EIC 27 *Revenues and Expenditures During the Pre-Operating Period* is no longer applicable for entities that have adopted Section 3064. A number of other EIC abstracts have consequential amendments. CICA Accounting Guideline 11 *Enterprises in the Development Stage* is also amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under CICA 3064. The adoption of this Section had no impact on the Company's consolidated financial statements.

(ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, provides guidance on how to take into account an entity's own credit risk and the credit risk of the counter party in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The application of this EIC had no effect on the Company's consolidated financial statements.

(iii) Business combinations

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*. These new standards have been early adopted by the Company for the year ended March 31, 2010.

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(q) Adoption of new accounting standards (continued) -

(iii) Business combinations (continued)

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3 - *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

(r) Future accounting policies -

(i) International Financial Reporting Standards (IFRS):

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011.

The Company has completed a preliminary assessment of how each IFRS standard impacts the financial statements. It was initially determined that the area of accounting difference that will likely be impacted based on existing IFRS will be property and equipment (measurement and valuation), stock-based compensation and the initial adoption of IFRS under the provisions of IFRS 1 “First-Time Adoption of IFRS”. In addition, the Company anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required.

EmerGeo Solutions Worldwide Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Years ended March 31, 2010 and 2009

2. Significant Accounting Policies (continued):

(r) Future accounting policies (continued) -

(ii) Multiple deliverable revenue arrangements:

EIC-175 replaces EIC-142 *Revenue arrangements with multiple deliverables* for all revenue arrangements with multiple deliverables entered into or materially modified in the first annual arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. Given the requirement to use the relative selling price method of allocating arrangement consideration, the use of the residual method is prohibited. Early adoption of this abstract is permitted. An entity can continue to apply EIC-142 until EIC-175 becomes effective. The Company expects to adopt this standard on April 1, 2011.

3. Equipment:

2010	Cost	Accumulated Amortization	Net
Computer hardware	\$ 136,121	\$ 86,649	\$ 49,472
Computer software	43,014	33,693	9,321
Office furniture	9,645	3,325	6,320
Office equipment	6,786	3,701	3,085
	\$ 195,566	\$ 127,368	\$ 68,198

2009	Cost	Accumulated Amortization	Net
Computer hardware	\$ 133,511	\$ 45,469	\$ 88,042
Computer software	43,014	16,200	26,814
Office furniture	9,645	1,396	8,249
Office equipment	6,786	1,439	5,347
	\$ 192,956	\$ 64,504	\$ 128,452

4. Intangible assets:

	Cost	Accumulated Amortization	Impairment loss	Net
2010				
Technology assets	\$ 498,262	\$ 160,132	\$ -	\$ 338,130
Website	33,750	17,813	15,937	-
eLearning programs	51,400	28,383	23,017	-
	\$ 583,412	\$ 206,328	\$ 38,954	\$ 338,130

EmerGeo Solutions Worldwide Inc.

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4. Intangible assets (continued):

	Cost	Accumulated Amortization	Impairment loss	Net
2009				
Technology assets	\$ 282,199	\$ 30,899	\$ -	251,300
Website	33,750	6,563	-	27,187
eLearning programs	51,400	11,250	-	40,150
	<u>\$ 367,349</u>	<u>\$ 48,712</u>	<u>\$ -</u>	<u>318,637</u>

During the year ended March 31, 2010, the Company discontinued the eLearning business section and re-developed the Company's website. As a result, an impairment loss of \$38,954 (2009: \$nil) is recognized during the year ended March 31, 2010.

5. Reverse takeover ("RTO") of EmerGeo Solutions Inc.:

Pursuant to a Share Exchange Agreement dated February 15, 2008 with EmerGeo Solutions and its shareholders, the Company acquired all of the issued and outstanding shares of EmerGeo Solutions in exchange for the issuance of 6,000,000 common shares of the Company. In addition, the Company issued 300,000 common shares as finder's fee with respect to the acquisition.

The 6,300,000 common shares are subject to a Value Security Escrow Agreement and will be released from escrow over a period of three years in accordance with the policies of the Exchange. The release of the escrowed shares and finder's fee shares is subject to certain assumptions being met as set forth in a valuation report of Evans & Evans dated January 29, 2008. These assumptions include no undisclosed contingent liabilities and no significant variation between the management-prepared financial statements upon which the valuation was based and final audited financial statements.

As the transaction, which was completed on May 2, 2008, was a capital transaction in substance for EmerGeo Solutions, the transaction was accounted for as a reverse takeover using the purchase method with EmerGeo Solutions as the acquirer. The amounts assigned to the assets and liabilities purchased are based on the account balances as at April 30, 2008 (there being no material transactions between April 30, 2008 and May 2, 2008) as the estimated fair value of the net assets of the Company, as follows:

Net assets acquired at assigned value:

Cash	\$ 489,612
Accounts receivable	9,000
Prepaid expenses	2,900
Advances to EmerGeo Solutions	220,000
	<u>721,512</u>
Equipment	2,475
Accounts payable and accrued liabilities	(19,807)
Due to a shareholder	(87,357)
	<u>\$ 616,823</u>

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5. Reverse takeover (“RTO”) of EmerGeo Solutions Inc. (continued):

Consideration given:	
6,000,000 common shares	\$ 616,823

6. Credit Facilities:

- (a) EmerGeo Middle East has been granted a US\$500,000 line of credit facility. The loan has a term of one year and bears interest at 4.5% over and above Emirates interbank offered rate per annum compounded daily. EmerGeo Middle East shall repay all principal and accrued interest not later than September 30, 2010 and in case of default an additional 2% will be charged on the loan. The loan is secured by a guarantee from the Company. As at March 31, 2010, the line of credit had a balance of \$507,792 (2009 - \$nil).
- (b) The Company has an operating line of credit with a maximum limit of \$150,000. As at March 31, 2010, the line of credit had a balance of \$nil (2009 - \$nil) and bears interest at the rate equal to Royal Bank prime rate plus 1.8%. The credit facilities are secured by a first priority lien on the assets of the company including, but not limited to, inventory, equipment, accounts receivable, chattel paper, documents of title, contractual rights and insurance claims, all patents, industrial designs, trade-marks, trade secrets and know-how, and all proceeds and renewals thereof.

7. Long-Term Debt:

The Company obtained a \$1,000,000 loan pursuant to a loan agreement dated November 5, 2009. The loan has a term of three years and bears interest at a rate of 16% per annum. The loan is secured by General Security Agreements from the Company and the Company’s wholly-owned subsidiary, EmerGeo Solutions Inc., and by a guarantee from EmerGeo Solutions Inc. As additional consideration for the loan, the Company issued 400,000 share purchase warrants to the lender. Each share purchase warrant entitles the lender to acquire a common share of the Company at a price of \$0.50 per share for a period of three years expiring November 5, 2012. (Note 8(c))

8. Share Capital:

- (a) Authorized -

Unlimited Common shares without par value.

- (b) Issued and Fully Paid -

In accordance with reverse takeover accounting principles, EmerGeo Solutions, the legal subsidiary, is deemed to have acquired control of the net assets of the legal parent, the Company (Note 5). Accordingly, the number of issued shares reflects the structure of the Company, while the value of the issued share capital reflect the position of EmerGeo Solutions adjusted for the cost of the purchase.

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8. Share Capital (continued):

(b) Issued and Fully Paid (continued)-

Share capital of EmerGeo Solutions (legal subsidiary) prior to reverse takeover:

	Number of Shares	Amount
Balance, April 30, 2008 immediately prior to reverse takeover transaction	200,000	\$ 20

Share capital of the Company (as a result of the reverse takeover):

	Number of Shares	Amount
Fair value of net assets of legal parent attributed to issued shares of legal parent at the date of the reverse takeover	7,919,997	\$ 20
Shares issued pursuant to reverse takeover	6,300,000	616,823
Exercise of warrants	50,000	37,500
Private placement (i)	2,440,650	2,440,650
Share issue costs	-	(206,577)
Balance, March 31, 2009	16,710,647	2,888,416
Exercise of warrants	499,500	139,860
Balance, March 31, 2010	17,210,147	\$ 3,028,276

(i) Non-brokered Private Placement -

On June 19, 2008, the Company completed a non-brokered private placement of 2,440,650 units priced at \$1.00 per unit for gross proceeds of \$2,440,650. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder, on exercise, to acquire one additional common share of the Company at an exercise price of \$1.50 per share at any time until the close of business on the day which is two years from the date of issuance of the warrant.

The warrant has an "accelerator" provision such that if the closing price of the Company's common shares exceeds \$2.00 for 10 consecutive trading days at any time after the closing date, the Company may, by issuance of a press release, give notice of "acceleration" of the warrant expiry date to the day which is 20 calendar days following the date of issuance of the press release.

Finders' fees of \$180,852 were paid in connection with this private placement.

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8. Share Capital (continued):

(c) Warrants -

Each whole warrant entitles the holder to purchase one common share of the Company:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2008	1,861,000	\$ 0.46
Issued (Note 16(b))	1,220,325	1.50
Exercised	(50,000)	0.75
Balance, March 31, 2009	3,031,325	0.87
Issued (Note 7)	400,000	0.50
Cancelled	(696,500)	0.31
Exercised	(499,500)	0.28
Balance, March 31, 2010	2,235,325	\$ 1.11

During the year ended March 31, 2010, the Company extended the expiry date from December 7, 2009 to December 7, 2012 for 615,000 outstanding warrants that were issued in connection with a non-brokered private placement completed by the Company on December 7, 2007. No other terms of the warrants were amended.

The Company calculated the fair value of the warrant extension using the Black-Scholes valuation model to be \$105,348. The effect of this was to increase contributed surplus and deficit by \$105,348. The following weighted average assumptions were used in the valuation:

Risk-free interest rate	1.13%
Expected life	3 years
Annualized volatility	97.57%
Dividend rate	0.00%

During year ended March 31, 2010, the Company issued 400,000 share purchase warrants at a fair value of \$0.15 per share (Note 7) and \$8,068 in financing fees was recorded in the statements of operations for these warrants. The fair value of the warrants was determined using the Black-Scholes option pricing formula based on the following assumptions: expected dividend yield 0%; risk free interest rate 1.3%; expected life of warrants 3 years; expected stock price volatility 97%.

Share purchase warrants outstanding at March 31, 2010 are as follows:

Number of Shares	Exercise Price	Expiry Date
615,000	\$0.75	December 7, 2012 ⁽¹⁾
1,220,325 (Note 16(b))	\$1.50	June 19, 2010
400,000	\$0.50	November 5, 2012
2,235,325		

⁽¹⁾ The term of these warrants was extended from December 7, 2009 (two years) to December 7, 2012 (five years).

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8. Share Capital (continued):

(d) Options -

On October 1, 2009, the Company established a new stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed twenty percent (20%) of the issued and outstanding common shares of the Company. The options will be exercisable for a period of up to ten years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed ten percent (10%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one person will not exceed five percent (5%) of the total number of issued and outstanding shares. Any option granted under the plan which have been cancelled or terminated in accordance with the terms of the plan without having been exercised will again be available under the plan.

A summary of the status of the options outstanding is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2008	580,000	\$ 0.34
Granted	1,180,000	0.61
Cancelled	(165,000)	0.88
Balance, March 31, 2009	1,595,000	0.48
Granted	85,000	0.50
Cancelled	(225,000)	0.49
Balance, March 31, 2010	1,455,000	\$ 0.48

Stock options outstanding and exercisable at March 31, 2010 are as follows:

Outstanding	Exercise Price	Expiry Date	Exercisable
540,000	\$0.34	July 8, 2017 ⁽¹⁾	540,000
400,000	\$0.56	May 2, 2013	400,000
15,000	\$1.12	May 13, 2013	15,000
50,000	\$0.95	September 2, 2013	50,000
365,000	\$0.50	January 21, 2014	273,750
85,000	\$0.50	April 13, 2019	53,125
1,455,000			1,331,875

⁽¹⁾ The term of these stock options was extended from July 8, 2012 (five years) to July 8, 2017 (ten years).

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8. Share Capital (continued):

(d) Options (continued) -

During year ended March 31, 2010, under the fair-value-based method \$191,737 (2009 - \$378,201) in compensation expense was recorded in the statements of operations for stock options granted to employees and consultants of the Company.

The stock-based compensation costs reflected in these financial statements were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2010	2009
Risk free interest rate	1.59%	2.18%
Expected dividend yield	0%	0%
Expected stock price volatility	121%	127%
Expected life of options	5 years	3.08 years

The weighted average fair value of options granted during the year ended March 31, 2010 was \$0.40 (2009 - \$0.46) per option.

(e) Contributed surplus -

A continuity of contributed surplus is as follows:

	2010	2009
Balance, beginning of year	\$ 378,201	\$ -
Stock-based compensation	191,737	378,201
Warrant modification (Note 8(c))	105,348	-
Warrants issued for long-term debt (Note 7)	8,068	-
Balance, end of year	\$ 683,354	\$ 378,201

(f) Escrow shares -

As at March 31, 2010, 4,725,000 (2009 - 6,300,000) common shares of the Company are subject to escrow.

9. Non Controlling Interest:

The following details the non-controlling interest balance in Emergeo Middle East from the incorporate date to March 31, 2010:

Balance, beginning of year	\$	-
Investment in Emergeo Solutions Middle East LLC		10,293
Net loss attributable to non-controlling interest		(127,639)
Balance, end of year	\$	(117,346)

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10. Related Party Transactions:

During the year ended March 31, 2010, the Company paid or accrued \$72,000 (2009 - \$66,000) for professional fees to a company controlled by an officer of the Company.

During the year ended March 31, 2010, the Company paid or accrued \$260,000 (2009 - \$240,000) for wages to two directors and officers of the Company.

During the year ended March 31, 2010, the Company paid or accrued \$nil (2009 - \$40,479) for accounting fees to a company controlled by a spouse of a director and officer of the Company.

During the year ended March 31, 2010, the Company paid or accrued \$47,227 (2009 - \$28,220) for legal fees and \$nil (2009 - \$12,771) for share issue costs to a company controlled by an officer of the Company.

During the year ended March 31, 2010, the Company paid or accrued \$56,000 (2009 - \$55,000) for office, rent and administration to companies having an officer in common.

During the year ended March 31, 2010, the Company paid or accrued \$65,833 (2009 - \$nil) for consulting fees to a director of the Company.

As at March 31, 2010, included in accounts payable and accrued liabilities was \$8,549 (2009 - \$2,354) due to companies owned by officers of the Company.

As at March 31, 2010, the amounts due to shareholders, directors, officers and related companies of directors and officers of \$87,357 (2009 - \$87,357) were unsecured, non-interest bearing and without fixed terms of repayment.

These transactions are in the normal course of business operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

11. Income Taxes:

Income tax expense differs from that calculated by applying statutory rates of 30.00% (2009 – 30.75%) for the following reasons:

	2010	2009
Earnings (Loss) before income taxes	\$ (2,026,421)	\$ (1,920,687)
Income tax recovery computed at statutory rates	\$ (607,926)	\$ (590,612)
Effect of reduction in tax rates	70,200	75,012
Effect of expiry of non-capital losses	5,842	27,859
Difference between foreign tax rate and average statutory rate	152,350	(2,089)
Stock based compensation not deductible for tax	57,521	116,297
Tax benefit of share issuance costs not recognized	-	(66,325)
Expenses not deductible for tax	121	2,017
Decrease in valuation on acquisition of EmerGeo	-	(346,256)
Increase in valuation allowance	326,043	784,097
	4,151	-

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11. Income Taxes (continued):

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities at March 31, 2010 and 2009 are presented below:

	2010	2009
Future tax assets and liabilities:		
Non-capital loss carry forwards	\$ 841,930	\$ 575,835
Capital loss carry forwards	150,606	156,630
Tax value of unrealized foreign exchange	8,084	(6,753)
Tax value of share issuance costs in excess of book value	33,807	47,174
Tax value of intangible assets in excess of book value	61,320	12,665
Tax value of equipment in excess of book value	23,705	7,858
	1,119,452	793,409
Valuation allowance	(1,119,452)	(793,409)
Net future tax asset	-	-

Estimated taxable income for the period is \$nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets. The estimated taxable temporary difference valuation allowance will be adjusted in the period it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

As at March 31, 2010, the Company has non-capital losses of approximately \$3,199,236 (2009 - \$2,102,435) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows:

2014	\$ 66,608
2015	196,094
2026	186,346
2027	41,819
2028	228,449
2029	1,443,914
2030	1,036,006
	<u>3,199,236</u>

As at March 31, 2010, the Company has non-capital losses of approximately \$123,885 (2009 - \$85,888) which may be carried forward to apply against future years income tax for United States income tax purposes, subject to final determination by taxation authorities and expiring as follows:

2028	\$ 21,615
2029	64,273
2030	37,997
	<u>123,885</u>

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12. Commitments:

The Company has operating lease agreements for the rental of premises, a vehicle and equipment. The minimum future annual rental payments under the leases are as follows:

2011	\$ 72,360
2012	1,773
	<u>\$ 74,133</u>

13. Segmented Information:

The Company operates a single reportable operating segment. This segment derives its revenue from the development, integration, sale and support of emergency management, environment health and safety, and security software solutions and services.

For geographical reporting, revenues are attributed to the geographic location in which the customer is located as follows:

<u>Year ended March 31,</u>	<u>2010</u>	<u>2009</u>
Canada	\$ 819,731	\$ 1,147,959
United States	196,062	445,921
Middle East and Australia	1,940,894	488,456
	<u>\$ 2,956,687</u>	<u>\$ 2,082,336</u>

For the year ended March 31, 2010, two customers accounted for more than 10% of the Company's revenues. These customers accounted for \$1,538,243 of revenues.

For the year ended March 31, 2009, one customer accounted for more than 10% of the Company's revenues. This customer accounted for \$445,924 of revenues.

<u>2010</u>	<u>Canada</u>	<u>Middle East</u>	<u>United States</u>	<u>Total</u>
Current assets	\$ 591,801	\$ 1,288,807	\$ 35,203	\$ 1,915,811
Equipment	68,198	-	-	68,198
Intangible assets	338,130	-	-	338,130
	<u>\$ 998,129</u>	<u>\$ 1,288,807</u>	<u>\$ 35,203</u>	<u>\$ 2,322,139</u>

<u>2009</u>	<u>Canada</u>	<u>Middle East</u>	<u>United States</u>	<u>Total</u>
Current assets	\$ 1,881,857	\$ -	\$ 58,570	\$ 1,940,427
Equipment	128,452	-	-	128,452
Intangible assets	318,637	-	-	318,637
	<u>\$ 2,328,946</u>	<u>\$ -</u>	<u>\$ 58,570</u>	<u>\$ 2,387,516</u>

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14. Financial Instruments:

The risk exposure is summarized as follows:

(a) Credit risk -

Credit risk is the risk of loss resulting from the failure of a customer or counterparty to meet its contractual obligations to the Company. The carrying amount of financial assets represents the Company's estimate of maximum credit exposure.

The Company's credit risk is primarily attributable to its cash balances and accounts receivable. The Company's cash equivalents are held in Guaranteed Investment Certificates and are held on deposit with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

The Company sells the majority of its products and services to government agencies responsible for emergency management within their jurisdictions, as well as to companies in industries responsible for their own emergency management programs, such as oil and gas, utilities, and forestry, located in Canada, United States, and the Middle East. The Company's exposure to credit risk associated with non-payment by customers of this nature to be limited, but may be affected by conditions or occurrences within its industry and the global marketplace. The Company closely monitors extensions of credit and performs ongoing credit evaluations of its customers' financial condition to manage its credit risk exposure. The Company believes it maintains adequate provisions for potential credit losses. The amounts disclosed in the consolidated balance sheet are net of allowances for doubtful accounts, estimated by the Company's management, based on prior experience and an assessment of current financial conditions of customers, as well as the general economic environment. As of March 31, 2010, accounts receivable are net of an allowance for doubtful accounts of \$Nil (2009 - \$11,241).

The Company is exposed to concentrations of credit risk. As at March 31, 2010, the Company's largest customer group accounted for 32% of consolidated revenues, but the amounts due from the group are collected on an individual basis. As at March 31, 2010, the maximum credit risk exposure for accounts receivable corresponds to the carrying value.

(b) Liquidity risk -

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at March 31, 2010, the Company had cash and cash equivalents of \$115,564 and account receivable of \$1,683,289 to settle current liabilities of \$1,827,990 which mainly consist of accounts payable that are considered short term and settled within 30 days and amounts due to a related party which is non-interest bearing and no fixed terms of repayment. The Company's primary source of liquidity is its cash reserves. The Company also maintains certain credit facilities to support short term funding of operations and trade finance. The Company believes it has sufficient available funds to meet immediate operating cash requirements. However, the Company is also actively trying to raise additional funds through equity financings, debt financings and other means in order to meet its obligations to March 2011. The repayment schedule for our long-term credit facilities is included in notes 6 and 7.

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14. Financial Instruments (continued):

(c) Market risk -

(i) Interest rate risk -

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash and cash equivalents attract interest at floating rates and have maturities of 90 days or less. The interest is typical of Canadian banking rates, which are at present low, however the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

(ii) Foreign currency risk -

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has offices in Canada, United States and Abu Dhabi and holds cash in Canadian, United States and United Arab Emirates currencies in line with forecasted expenditures.

As at March 31, 2010, the denomination of the Company's financial instruments were as follows:

	US	Canadian	AED	Total
Cash	\$ 4,658	\$ 97,881	\$ 13,025	\$ 115,564
Accounts receivable	56,563	350,944	1,275,782	1,683,289
Accounts payable and Accrued liabilities	50,188	425,145	220,865	696,198

At March 31, 2010, the Company had no hedging agreements in place with respect to foreign exchange rates.

15. Capital management:

The Company defines capital that it manages as the aggregate of short-term and long-term debt, share capital, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support its operations and maintain its good standing with the various regulatory authorities. The current objectives are to meet the capital requirements through funds from operations. Certain capital requirements are required to be met to utilize the credit facility outlined in note 6. The Company is not subject to externally imposed capital requirements.

The Company has policies and procedures in place for employee and officer expenditure authorization limits and capital expenditure authorization. Capital expenditures of \$50,000 or more require approval by the Board of Directors. Management reviews its capital management approach on an ongoing basis and believes this approach, given the size of the Company, is reasonable.

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15. Capital management (continued):

There were no changes in the Company's management of capital during the year ended March 31, 2010.

16. Subsequent events:

The following events occurred subsequent to the year ended March 31, 2010:

- (a) The Company granted incentive stock options to directors, officers, employees and consultants of the Company to purchase 1,035,000 common shares at an exercise price of \$0.18 per share expiring 10 years from the date of grant.
- (b) The Company amended the terms of its 1,220,325 share purchase warrants. The original terms specified that each whole warrant was exercisable into one common share at a price of \$1.50 per share expiring on June 18, 2010. The Company amended the warrant exercise price from \$1.50 per share to \$0.40 per share and amended the expiry date from June 18, 2010 to June 18, 2013. The amended warrants contain a forced provision exercise whereby the warrant holders will be required to exercise their warrants within a period of 30 days if the Company's common shares close at or above \$0.50 for ten consecutive trading days, otherwise the warrants will, if not exercised, expire at the end of such 30 day period.