

EmerGeo Solutions Worldwide Inc.
(Formerly Kavalmedia Services Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

(Unaudited)

**EmerGeo Solutions Worldwide Inc.
(formerly Kavalmedia Services Ltd.)**

(the “Company”)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and Nine Months Ended December 31, 2008 and 2007

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

February 11, 2009

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

December 31, 2008 and March 31, 2008

(Unaudited)

	December 31, 2008	March 31, 2008
Assets	(Unaudited)	(Audited)
Current:		
Cash and cash equivalents	\$ 1,265,150	\$ 28,939
Accounts receivable	458,225	380,900
Income tax recoverable	23,208	23,208
Prepaid expenses and deposits	101,846	35,871
Future income tax assets	9,065	9,312
	1,857,494	478,230
Equipment (Note 3)	98,574	19,607
Intangible assets (Note 4)	297,876	147,033
	\$ 2,253,944	\$ 644,870
Liabilities		
Current:		
Credit facilities (Note 6)	\$ -	\$ 115,550
Accounts payable and accrued liabilities (Note 8)	209,122	220,578
Advances received (Note 5)	-	100,000
Due to related parties (Note 8)	87,357	55,694
Deferred revenue	275,433	196,556
	571,912	688,378
Shareholders' Equity		
Share capital (Note 7(b))	2,888,416	20
Contributed surplus (Note 7(e))	294,371	-
Deficit	(1,500,755)	(43,528)
	1,682,032	(43,508)
	\$ 2,253,944	\$ 644,870

Nature of Operations and Future Operations (Note 1)

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Statements of Loss and Deficit

(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007

(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Sales	\$ 441,244	\$ 301,253	\$ 1,155,149	\$ 623,324
Cost of Sales	356,169	168,276	873,057	332,648
	85,075	132,977	282,092	290,676
Operating expenses:				
General and administration	352,213	42,731	871,260	98,837
Stock-based compensation	(128,123)	-	294,371	-
Sales and marketing	125,193	37,748	397,759	79,243
Research and development	67,615	40,391	163,355	101,179
	416,898	120,870	1,726,745	279,259
Operating income (loss)	(331,823)	12,107	(1,444,653)	11,417
Other Items:				
Amortization	(31,484)	-	(44,810)	-
Foreign exchange	11,427	(2,498)	(644)	(4,553)
Interest and other income	11,703	-	32,880	-
Income taxes	-	(708)	-	(708)
	(8,354)	(3,206)	(12,574)	(5,261)
Income (loss) and comprehensive income (loss) for the period	(340,177)	8,901	(1,457,227)	6,156
Deficit, beginning of period	(1,160,578)	(61,877)	(43,528)	(59,132)
Deficit, end of period	\$ (1,500,755)	\$ (52,976)	\$ (1,500,755)	\$ (52,976)
Basic and diluted earnings (loss) per share	\$ (0.02)	\$ 0.04	\$ (0.10)	\$ 0.03
Weighted average number of Shares outstanding	16,710,647	200,000	15,192,969	200,000

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007

(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Cash provided by (used in):				
Operations:				
Earnings (loss) for the period	\$ (340,177)	\$ 8,901	\$ (1,457,227)	\$ 6,156
Adjustments for -				
Amortization	31,484	-	44,810	-
Stock-based compensation	(128,123)	-	294,371	-
Change in future income tax asset	495	-	247	-
Changes in non-cash working capital -				
Accounts receivable	221	(291,949)	(68,325)	(297,735)
Income tax recoverable	-	-	-	(14,944)
Prepaid expenses	21,116	(56,780)	(63,075)	14,427
Accounts payable and accrued liabilities	(17,119)	192,723	(31,263)	153,638
Deferred revenue	42,230	125,000	78,877	54,849
	(389,873)	(22,105)	(1,201,585)	(83,609)
Investing:				
Purchase of equipment	(32,426)	(11,104)	(94,602)	(11,104)
Intangible assets	(60,429)	(43,220)	(177,543)	(43,220)
Cash of legal parent upon reverse acquisition (Note 5)	-	-	489,612	-
	(92,855)	(54,324)	217,467	(54,324)
Financing:				
Proceeds from loans	-	-	80,000	-
Decrease in credit facilities	-	87,000	(115,550)	87,000
Due to related parties	-	-	(15,694)	-
Proceeds from issuance of shares	-	-	2,478,150	-
Share issuance costs	-	-	(206,577)	-
	-	87,000	2,220,329	87,000
Increase (decrease) in cash and cash equivalents	(482,728)	10,571	1,236,211	(50,933)
Cash and cash equivalents, beginning of period	1,747,878	(10,959)	28,939	50,545
Cash and cash equivalents, end of period	\$ 1,265,150	\$ (388)	\$ 1,265,150	\$ (388)
Supplementary information:				
Cash paid for:				
Interest	\$ -	\$ -	\$ 1,671	\$ 572
Income taxes	-	-	-	-

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007

(Unaudited)

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, OpenGISR 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.

The Company changed its year end date to March 31 to coincide with that of EmerGeo Solutions. On August 1, 2008, the Company changed its name to EmerGeo Solutions Worldwide Inc..

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 equity 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 of 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.

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.

EmerGeo Solutions Worldwide Inc.
(Formerly Kavalmedia Services Ltd.)
Notes to Financial Statements
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007
(Unaudited)

2. Significant Accounting Policies (continued):

(a) Basis of presentation and consolidation - (continued)

(i) Reverse takeover transaction - (continued)

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 and Joint Venture -

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. and EmerGeo Solutions (US) Inc.. All intercompany amounts and transactions have been eliminated on consolidation.

During the period, the Company entered into a joint venture agreement with Atlas Telecommunication Establishment ("Atlas") of Abu Dhabi to form a limited liability company called EmerGeo Software Solutions Middle East LLC ("EmerGeo Software"). Net profits from EmerGeo Software shall be distributed as to 80% to the Company and 20% to Atlas.

EmerGeo Solutions Worldwide Inc.
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(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007
(Unaudited)

2. Significant account policies: (Continued)

(b) Change in Accounting Policies -

Effective July 1, 2007, the Company adopted the provisions of the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards:

(i) Comprehensive Income (Section 1530) -

This section describes standards for reporting and disclosing comprehensive income, its components and related changes in equity. Comprehensive income includes net income as well as changes in equity during a period from transactions and events from non-owner sources, such as unrealized gains or losses on available-for-sale financial instruments. Adopting this standard has no impact on the Company's financial statements for the period ended December 31, 2008.

(ii) Financial Instruments - Recognition and Measurement (Section 3855) -

This section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under the new standard, all financial instruments will be classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. The Company has implemented the following classifications:

- Cash is classified as held-for-trading. These 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.
- Accounts receivable and advances to EmerGeo Solutions are classified as loans and receivables. After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, and due to shareholder are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

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(Unaudited)

2. Significant account policies: (Continued)

(b) Change in Accounting Policies - (continued)

(iii) Financial Instruments - Disclosure and Presentation (Section 3861) -

CICA Section 3861 sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

(iv) Hedging (Section 3865) -

CICA Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

Effective April 1, 2008, the Company has adopted the Canadian Institute of Chartered Accountants three new accounting standards: Section 1535 – *Capital Disclosures*, Section 3862 – *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation*.

Section 1535 specifies disclosure of:

- an entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital; and,
- whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Disclosure for Section 1535 is provided in Note 11.

Section 3862 and 3863 replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. The new sections revise and enhance the disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages risks. The Company's financial instruments are presented in Note 10.

The initial adoption of Sections 3862 and 3863 had no impact on the Company's consolidated results of financial position.

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Notes to Financial Statements
(Expressed in Canadian Dollars)

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(Unaudited)

2. Significant account policies: (Continued)

(c) Cash -

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

(d) 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.

(e) 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.

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2. Significant account policies: (Continued)

(f) Revenue recognition - (continued)

(i) License revenue - (continued)

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.

(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.

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2. Significant account policies: (Continued)

(f) 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.

(g) Intangibles -

Intangibles are expensed as incurred. 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 straight line method based on the expected useful life. The normal annual rate is 33%.

(h) 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.

(i) 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.

EmerGeo Solutions Worldwide Inc.
(Formerly Kavalmedia Services Ltd.)
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(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007
(Unaudited)

2. Significant account policies: (Continued)

(i) Foreign Currency Translation (Continued) -

(ii) Emergeo Solutions (US) Inc.

- a) Monetary assets and liabilities at the rate in effect at the balance sheet;
- b) Non-monetary assets and liabilities and capital stock 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.

(j) Stock-based Compensation -

The Company has a stock-based compensation plan which is described in note 7(d). The Company accounts for all stock-based payments and awards under the fair value based method.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period.

During the period ended December 31, 2008, the Company granted stock options to directors and officers as set out in note 7(d).

EmerGeo Solutions Worldwide Inc.
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Notes to Financial Statements
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007
(Unaudited)

2. Significant account policies: (Continued)

(k) 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 nine months ended December 31, 2008, the calculation proved to be anti-dilutive.

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

(l) 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.

(m) 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.

(n) Comparative figures -

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

EmerGeo Solutions Worldwide Inc.
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(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007
(Unaudited)

3. Equipment:

December 31, 2008	Cost	Accumulated Amortization	Net
Computer hardware	\$ 99,831	\$ 38,225	\$ 61,606
Computer software	36,267	12,031	24,236
Office furniture	8,265	937	7,328
Office equipment	6,278	874	5,404
	<u>\$ 150,641</u>	<u>\$ 52,067</u>	<u>\$ 98,574</u>

March 31, 2008	Cost	Accumulated Amortization	Net
Computer hardware	\$ 37,848	\$ 19,777	\$ 18,071
Computer software	9,379	7,843	1,536
	<u>\$ 47,227</u>	<u>\$ 27,620</u>	<u>\$ 19,607</u>

4. Intangible assets:

December 31, 2008	Cost	Accumulated Amortization	Net
Technology assets	\$ 239,426	\$ 15,450	\$ 223,976
Website	33,750	3,750	30,000
eLearning programs	51,400	7,500	43,900
	<u>\$ 324,576</u>	<u>\$ 26,700</u>	<u>\$ 297,876</u>

March 31, 2008	Cost	Accumulated Amortization	Net
Technology assets	\$ 147,033	\$ -	\$ 147,033

EmerGeo Solutions Worldwide Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007

(Unaudited)

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
	<hr/>
	721,512
Equipment	2,475
Accounts payable and accrued liabilities	(19,807)
Due to a shareholder	(87,357)
	<hr/>
	\$ 616,823
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Consideration given:	
6,000,000 common shares	\$ 616,823

EmerGeo Solutions Worldwide Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2008 and 2007

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6. Credit Facilities:

The Company has an operating line of credit with a maximum limit of \$150,000. As at December 31, 2008, the line of credit had a balance of \$nil (March 31, 2008 - \$115,550) 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. 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.

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

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7. Share Capital: (Continued)

(b) Issued and Fully Paid - (Continued)

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, December 31, 2008	16,710,647	\$ 2,888,416

(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 was paid in connection with this private placement.

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7. 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, June 30, 2007	1,168,000	\$ 0.28
Issued	713,000	0.75
Exercised	(20,000)	0.28
Balance, March 31, 2008	1,861,000	0.46
Issued	1,220,325	1.50
Exercised	(50,000)	0.75
Balance, December 31, 2008	3,031,325	\$ 0.87

As at December 31, 2008, the Company recorded share issue costs of \$nil (March 31, 2008 - \$20,461) for the estimated fair value of agent's warrants issued and were valued with an option valuation model using the following weighted average assumptions:

	December 31, 2008	March 31, 2008
Risk free interest rate	-	3.75%
Expected dividend yield	-	0%
Stock price volatility	-	137%
Expected life of warrants	-	2 years

The weighted average fair value of agent's warrants granted at December 31, 2008 was \$nil (March 31, 2008 - \$0.43) per agent's warrant.

Share purchase warrants outstanding at December 31, 2008 are as follows:

Number of Shares	Exercise Price	Expiry Date
1,148,000	\$0.28	June 29, 2009
663,000	\$0.75	December 7, 2009
1,220,325	\$1.50	June 19, 2010
3,031,325		

EmerGeo Solutions Worldwide Inc.

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(Unaudited)

7. Share Capital: (Continued)

(d) Options -

The Company established a 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 10% of the issued and outstanding common shares of the Company. The options will be exercisable for a period of up to five years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares.

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

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2007	-	\$ -
Granted	580,000	0.34
Balance, March 31, 2008	580,000	0.34
Granted	765,000	0.67
Cancelled	(115,000)	1.02
Balance, December 31, 2008	1,230,000	\$ 0.48

Stock options outstanding and exercisable at December 31, 2008 are as follows:

Outstanding	Exercise Price	Expiry Date	Exercisable
565,000	\$0.34	July 8, 2012	494,375
600,000	\$0.56	May 2, 2013	300,000
15,000	\$1.12	May 13, 2013	7,500
50,000	\$0.95	September 2, 2013	18,750
1,230,000			820,625

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7. Share Capital: (Continued)

(d) Options - (Continued)

During the nine months ended December 31, 2008, under the fair-value-based method \$294,371 (2007 - \$nil) 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:

	2008	2007
Risk free interest rate	2.74%	-
Expected dividend yield	0%	-
Expected stock price volatility	128%	-
Expected life of options	2.97 years	-

The weighted average fair value of options granted during the period ended December 31, 2008 was \$0.55 (2007 - \$nil) per option.

(e) Contributed surplus -

A continuity of contributed surplus is as follows:

	December 31, 2008	March 31, 2008
Balance, beginning of period	\$ -	\$ -
Stock-based compensation	294,371	-
Balance, end of period	\$ 294,371	\$ -

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8. Related Party Transactions:

During the nine months ended December 31, 2008, the Company paid or accrued \$48,000 (2007 - \$nil) for professional fees to a company controlled by an officer of the Company.

During the nine months ended December 31, 2008, the Company paid or accrued \$180,000 (2007 - \$130,000) for wages to two directors and officers of the Company.

During the nine months ended December 31, 2008, the Company paid or accrued \$40,479 (2007 - \$7,549) for accounting fees to a company controlled by a spouse of a director and officer of the Company.

During the nine months ended December 31, 2008, the Company paid or accrued \$19,440 (2007 - \$nil) for legal fees and \$12,771 (2007 - \$nil) for share issue costs to a company controlled by an officer of the Company.

During the nine months ended December 31, 2008, the Company paid or accrued \$40,000 (2007 - \$nil) for office, rent and administration to a company having an officer in common.

As at December 31, 2008, included in accounts payable and accrued liabilities was \$2,202 (March 31, 2008 - \$nil) due to a company owned by an officer of the Company.

As at December 31, 2008, the amounts due to shareholders, directors, officers and related companies of directors and officers of \$87,357 (March 31, 2008 - \$55,694) 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.

9. Subsequent event:

Subsequent to December 31, 2008, the Company granted an aggregate of 415,000 stock options to directors, officers and consultants of the Company at a price of \$0.50 per share expiring January 21, 2014.

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10. Financial Instruments:

Fair value of financial instruments -

i) Determinable:

Cash is recorded at fair market value. The carrying amounts of accounts receivable, income tax recoverable, accounts payable and accrued liabilities and credit facilities approximate their fair value due to the short term to maturity of these items.

ii) Indeterminable

The loan payable, shareholder loans and amounts due to related companies are non-interest bearing and have no specific terms of repayment. Accordingly, the fair value of these advances which is indeterminable may not approximate their carrying value.

Credit risk -

Credit risk reflects the risk that the Company may be unable to recover contractual receivables. The Company does not have significant receivables and no one account represents a concentration of credit risk. The Company employs established credit approval practices to mitigate this risk.

Foreign currency risk -

A significant portion of the sales and purchases are in foreign currencies. This may cause a significant fluctuation in income from changes in the exchange rates during the year as transactions are not hedged through derivatives.

Interest rate risk -

The Company is exposed to interest rate risk as the obligations under Credit Facilities will accrue interest at the rate equal to Royal Bank prime rate plus 1.8%.

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11. Capital management

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. The Company has minimal short-term debt which was paid off subsequent to the quarter end and there are no current plans to issue long-term debt. 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.

There were no changes in the Company's management of capital during the nine months ended December 31, 2008.