

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended September 30, 2009 and 2008

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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

(the “Company”)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and Six Months Ended September 30, 2009 and 2008

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.

November 25, 2009

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

September 30, 2009 and March 31, 2009

(Unaudited)

| | September 30, 2009 | March 31, 2009 |
|--|-----------------------|-------------------|
| Assets | (Unaudited) | (Audited) |
| Current: | | |
| Cash and cash equivalents | \$ 189,008 | \$ 734,583 |
| Accounts receivable | 669,648 | 1,029,999 |
| Work in process | 205,582 | - |
| Income tax recoverable | - | 23,208 |
| Prepaid expenses and deposits (Note 5) | 225,809 | 152,637 |
| | 1,290,047 | 1,940,427 |
| Equipment (Note 6) | 96,701 | 128,452 |
| Intangible assets (Note 7) | 404,275 | 318,637 |
| | \$ 1,791,023 | \$ 2,387,516 |
| Liabilities | | |
| Current: | | |
| Accounts payable and accrued liabilities (Note 11) | \$ 818,455 | \$ 529,830 |
| Due to related parties (Note 11) | 87,357 | 87,357 |
| Deferred revenue | 236,813 | 467,927 |
| | 1,142,625 | 1,085,114 |
| Non-controlling interest (Note 2(b)) | (954) | - |
| Shareholders' Equity | | |
| Share capital (Note 10(b)) | 3,028,276 | 2,888,416 |
| Contributed surplus (Note 10(e)) | 521,304 | 378,201 |
| Deficit | (2,900,228) | (1,964,215) |
| | 649,352 | 1,302,402 |
| | \$ 1,791,023 | \$ 2,387,516 |

Nature of Operations and Future Operations (Note 1)

EmerGeo Solutions Worldwide Inc.

(formerly Kavalmedia Services Ltd.)

Consolidated Statements of Loss and Deficit

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|-----------------------|------------------|-----------------------|
| | 2009 | September 30, 2008 | 2009 | September 30, 2008 |
| Sales | \$ 1,048,529 | \$ 518,587 | \$ 1,542,810 | \$ 713,905 |
| Cost of Sales | 667,121 | 352,427 | 974,559 | 516,888 |
| | 381,408 | 166,160 | 568,251 | 197,017 |
| Operating expenses: | | | | |
| General and administration | 268,734 | 346,541 | 515,503 | 519,047 |
| Sales and marketing | 170,202 | 143,112 | 449,690 | 272,566 |
| Research and development | 149,168 | 59,599 | 275,779 | 95,740 |
| Stock-based compensation | 54,079 | 52,681 | 143,103 | 422,494 |
| Amortization | 59,434 | 13,140 | 97,808 | 13,326 |
| | 701,617 | 615,073 | 1,481,883 | 1,323,173 |
| Loss before other items | (320,209) | (448,913) | (913,632) | (1,126,156) |
| Other Items: | | | | |
| Foreign exchange | (23,923) | (10,326) | (36,972) | (12,071) |
| Interest and other income | 1,161 | 16,149 | 7,495 | 21,177 |
| | (22,762) | 5,823 | (29,477) | 9,106 |
| Loss before income taxes | (342,971) | (443,090) | (943,109) | (1,117,050) |
| Income taxes | - | - | (4,151) | - |
| Loss before non-controlling interest | (342,971) | (443,090) | (947,260) | (1,117,050) |
| Non-controlling interest | (24,252) | - | 11,247 | - |
| Loss and comprehensive loss for the period | (367,223) | (443,090) | (936,013) | (1,117,050) |
| Deficit, beginning of period | (2,533,005) | (717,488) | (1,964,215) | (43,528) |
| Deficit, end of period | \$ (2,900,228) | \$ (1,160,578) | \$ (2,900,228) | \$ (1,160,578) |
| Basic and diluted earnings (loss) per share | \$ (0.02) | \$ (0.03) | \$ (0.05) | \$ (0.08) |
| Weighted average number of Shares outstanding | 17,210,147 | 16,710,375 | 16,982,070 | 14,429,984 |

EmerGeo Solutions Worldwide Inc.

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

Three and Six Months Ended September 30, 2009 and 2008
 (Unaudited)

| | Three months ended September 30, | | Six months ended September 30, | |
|--|-------------------------------------|--------------|-----------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Cash provided by (used in): | | | | |
| Operations: | | | | |
| Net loss for the period | \$ (367,223) | \$ (443,090) | \$ (936,013) | \$ (1,117,050) |
| Adjustments for - | | | | |
| Amortization | 59,434 | 13,140 | 97,808 | 13,326 |
| Stock-based compensation | 54,079 | 52,681 | 143,103 | 422,494 |
| Change in future income tax asset | - | (299) | - | (248) |
| Non-controlling interest | 24,252 | - | (11,247) | - |
| Changes in non-cash working capital - | | | | |
| Accounts receivable | (302,463) | (12,865) | 360,351 | (68,546) |
| Work in process | (205,582) | - | (205,582) | - |
| Income tax recoverable | - | - | 23,208 | - |
| Prepaid expenses | (83,176) | (47,000) | (73,172) | (84,191) |
| Accounts payable and accrued liabilities | 430,383 | (35,104) | 288,625 | (14,144) |
| Deferred revenue | (63,020) | (156,264) | (231,114) | 36,647 |
| | (453,316) | (628,801) | (544,033) | (811,712) |
| Investing: | | | | |
| Purchase of equipment | - | (46,909) | (280) | (62,176) |
| Intangible assets | (88,636) | (93,178) | (151,415) | (117,114) |
| Cash of legal parent upon reverse acquisition (Note 8) | - | - | - | 489,612 |
| | (88,636) | (140,087) | (151,695) | 310,322 |
| Financing: | | | | |
| Proceeds from loans | - | - | - | 80,000 |
| Decrease in credit facilities | - | (44,100) | - | (115,550) |
| Due to related parties | - | (15,694) | - | (15,694) |
| Proceeds from issuance of shares | - | 18,750 | 139,860 | 2,478,150 |
| Share issuance costs | - | 2,400 | - | (206,577) |
| Share subscriptions | - | 135,000 | - | - |
| Contribution by non-controlling interest | - | - | 10,293 | - |
| | - | 96,356 | 150,153 | 2,220,329 |
| Increase (decrease) in cash and cash equivalents | (541,952) | (672,532) | (545,575) | 1,718,939 |
| Cash and cash equivalents, beginning of period | 730,960 | 2,420,410 | 734,583 | 28,939 |
| Cash and cash equivalents, end of period | \$ 189,008 | \$ 1,747,878 | \$ 189,008 | \$ 1,747,878 |
| Supplementary information: | | | | |
| Cash paid for: | | | | |
| Interest | \$ 1,027 | \$ 1,099 | \$ 2,281 | \$ 1,671 |
| Income taxes | - | - | - | - |

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(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, 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.

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..

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 period ended September 30, 2009, the Company had generated revenues of \$1,542,810 as compared to \$713,905 from the prior period and has an accumulated deficit of \$2,900,228, including a loss for the period ended September 30, 2009 of \$936,013.

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.

Subsequent to the period end, the Company obtained loans of \$1,000,000 and US\$400,000 (see note 15). As a result, the Company has sufficient funds to continue its anticipated ongoing operations for the next twelve months.

In the event that cash flow from operations, if any, together with the proceeds from loans and 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.

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

2. Basis of Preparation and Consolidation:

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the company’s audited consolidated financial statements including notes thereto as at and for the year ended March 31, 2009.

The accounting policies followed by the company are set out in note 2 to the audited consolidated financial statements for the year ended March 31, 2009 and have been consistently followed in the preparation of these consolidated financial statements.

(a) 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:

- i) 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.
- ii) 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.

(b) 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 Inc., 0799998 BC Ltd., EmerGeo Solutions (US) Inc. and its 80% owned subsidiary, EmerGeo Software Solutions Middle East LLC. All intercompany amounts and transactions have been eliminated on consolidation.

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

3. 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.

(a) 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.

(b) 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.

4. Recent Accounting Pronouncements:

(a) Business combinations -

CICA Handbook Section 1582, *Business Combinations*, replaces Section 1581, *Business Combinations* and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, *Business Combinations*. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. 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.

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

4. Recent Accounting Pronouncements (continued):

(b) International Financial Reporting Standards -

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.

(c) Consolidations and Non-Controlling Interests -

Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), *Consolidated and Separate Financial Statements*. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company expects to adopt this standard on April 1, 2011.

5. Prepaid expenses and deposits:

Included in prepaid expenses and deposits are deposits consisting of investments of US\$49,186 and \$40,000 which have maturity dates beyond three months and relate to performance guarantees on the Company's service contracts and prepayment of corporate credit cards accordingly.

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

6. Equipment:

| September 30, 2009 | Cost | Accumulated Amortization | Net |
|--------------------|-------------------|-----------------------------|------------------|
| Computer hardware | \$ 133,791 | \$ 66,249 | \$ 67,542 |
| Computer software | 43,014 | 25,356 | 17,658 |
| Office furniture | 9,645 | 2,360 | 7,285 |
| Office equipment | 6,786 | 2,570 | 4,216 |
| | <u>\$ 193,236</u> | <u>\$ 96,535</u> | <u>\$ 96,701</u> |

| March 31, 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 |
| | <u>\$ 192,956</u> | <u>\$ 64,504</u> | <u>\$ 128,452</u> |

7. Intangible assets:

| September 30, 2009 | Cost | Accumulated Amortization | Net |
|--------------------|-------------------|-----------------------------|-------------------|
| Technology assets | \$ 433,614 | \$ 82,484 | \$ 351,130 |
| Website | 33,750 | 12,188 | 21,562 |
| eLearning programs | 51,400 | 19,817 | 31,583 |
| | <u>\$ 518,764</u> | <u>\$ 114,489</u> | <u>\$ 404,275</u> |

| March 31, 2009 | Cost | Accumulated Amortization | Net |
|--------------------|-------------------|-----------------------------|-------------------|
| 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>\$ 318,637</u> |

8. 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.

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

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

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 |
| Consideration given: | |
| 6,000,000 common shares | <hr/> \$ 616,823 |

9. Credit Facilities:

The Company has an operating line of credit with a maximum limit of \$150,000. As at September 30, 2009, the line of credit had a balance of \$nil (March 31, 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.

10. Share Capital:

(a) Authorized -

Unlimited Common shares without par value.

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

10. Share Capital (continued):

(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 8). 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 |

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, September 30, 2009 | 17,210,147 | \$ 3,028,276 |

EmerGeo Solutions Worldwide Inc.

(Formerly Kavalmedia Services Ltd.)

Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

10. Share Capital (continued):

(b) Issued and Fully Paid (continued) -

(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.

(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 | 1,220,325 | 1.50 |
| Exercised | (50,000) | 0.75 |
| Balance, March 31, 2009 | 3,031,325 | 0.87 |
| Cancelled | (648,500) | 0.28 |
| Exercised | (499,500) | 0.28 |
| Balance, September 30, 2009 | 1,883,325 | \$ 1.23 |

Share purchase warrants outstanding at September 30, 2009 are as follows:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|------------------|
| 663,000 | \$0.75 | December 7, 2009 |
| 1,220,325 | \$1.50 | June 19, 2010 |
| 1,883,325 | | |

EmerGeo Solutions Worldwide Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

10. 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, 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 | (125,000) | 0.49 |
| Balance, September 30, 2009 | 1,555,000 | \$ 0.48 |

Stock options outstanding and exercisable at September 30, 2009 are as follows:

| Outstanding | Exercise Price | Expiry Date | Exercisable |
|-------------|----------------|-----------------------------|-------------|
| 540,000 | \$0.34 | July 8, 2017 ⁽¹⁾ | 540,000 |
| 500,000 | \$0.56 | May 2, 2013 | 437,500 |
| 15,000 | \$1.12 | May 13, 2013 | 13,125 |
| 50,000 | \$0.95 | September 2, 2013 | 37,500 |
| 365,000 | \$0.50 | January 21, 2014 | 182,500 |
| 85,000 | \$0.50 | April 13, 2019 | 31,875 |
| 1,555,000 | | | 1,242,500 |

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

During the six months ended September 30, 2009, under the fair-value-based method \$143,103 (2008 - \$422,494) in compensation expense was recorded in the statements of operations for stock options granted to employees and consultants of the Company.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2009 and 2008

(Unaudited)

10. Share Capital (continued):

(d) Options (continued) -

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:

| | 2009 | 2008 |
|---------------------------------|---------|------------|
| Risk free interest rate | 1.59% | 2.81% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 120.88% | 128% |
| Expected life of options | 5 years | 2.98 years |

The weighted average fair value of options granted during the period ended September 30, 2009 was \$0.40 (2008 - \$0.98) per option.

(e) Contributed surplus -

A continuity of contributed surplus is as follows:

| | September 30, 2009 | March 31, 2009 |
|------------------------------|--------------------|----------------|
| Balance, beginning of period | \$ 378,201 | \$ - |
| Stock-based compensation | 143,103 | 378,201 |
| Balance, end of period | \$ 521,304 | 378,201 |

(f) Escrow shares -

As at September 30, 2009, 5,355,000 (March 31, 2009 – 6,300,000) common shares of the Company are subject to escrow.

11. Related Party Transactions:

During the six months ended September 30, 2009, the Company paid or accrued \$36,000 (2008 - \$36,000) for professional fees to a company controlled by an officer of the Company.

During the six months ended September 30, 2009, the Company paid or accrued \$120,000 (2008 - \$120,000) for wages to two directors and officers of the Company.

During the six months ended September 30, 2009, the Company paid or accrued \$nil (2008 - \$31,300) for accounting fees to a company controlled by a spouse of a director and officer of the Company.

During the six months ended September 30, 2009, the Company paid or accrued \$27,462 (2008 - \$18,985) for legal fees and \$nil (2008 - \$6,540) for share issue costs to a company controlled by an officer of the Company.

During the six months ended September 30, 2009, the Company paid or accrued \$30,000 (2008 - \$30,000) for office, rent and administration to a company having an officer in common.

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11. Related Party Transactions (continued):

As at September 30, 2009, included in accounts payable and accrued liabilities was \$9,047 (March 31, 2009 - \$2,354) due to a company owned by an officer of the Company.

As at September 30, 2009, the amounts due to shareholders, directors, officers and related companies of directors and officers of \$87,357 (March 31, 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.

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:

| | |
|------|------------|
| 2010 | \$ 86,091 |
| 2011 | 72,360 |
| 2012 | 1,773 |
| | <hr/> |
| | \$ 160,224 |

13. 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.

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13. Financial Instruments (continued):

(a) Credit risk (continued) -

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 September 30, 2009, accounts receivable are net of an allowance for doubtful accounts of \$11,241 (March 31, 2009 - \$11,241).

(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 September 30, 2009, the Company had in cash and cash equivalents a balance of \$189,008 to settle current liabilities of \$1,142,625 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 current and foreseeable financial requirements. The repayment schedule for our long-term credit facilities is included in note 9.

(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.

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13. Financial Instruments (continued):

(c) Market risk (continued) -

(ii) Foreign currency risk (continued) -

As at September 30, 2009, the denomination of the Company's financial instruments were as follows:

| | US | Canadian | AED | Total |
|---|-----------|------------|-----------|------------|
| Cash | \$ 26,505 | \$ 119,836 | \$ 42,667 | \$ 189,008 |
| Accounts receivable | 9,060 | 226,955 | 433,633 | 669,648 |
| Work in process | - | - | 205,582 | 205,582 |
| Accounts payable and Accrued liabilities | 26,021 | 551,094 | 241,340 | 818,455 |

At September 30, 2009, the Company had no hedging agreements in place with respect to foreign exchange rates.

14. 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. The Company had minimal short-term debt which was paid off during the year 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 period ended September 30, 2009.

15. Subsequent events:

The following events occurred subsequent to September 30, 2009:

- (a) 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 October 30, 2012.

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15. Subsequent events (continued):

- (b) EmerGeo Software Solutions Middle East LLC (“EmerGeo Middle East”), the Company’s 80% owned subsidiary, has been granted a US\$400,000 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, 2009 and in case of default an additional 2% will be charged on the loan. The loan is secured by a guarantee from the Company.