

# **EmerGeo Solutions Worldwide Inc.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Nine Months Ended December 31, 2010 and 2009**

**(Expressed in Canadian Dollars)**

**(Unaudited – Prepared by Management)**

**EmerGeo Solutions Worldwide Inc.**

**(the “Company”)**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Three and Nine Months Ended December 31, 2010 and 2009

**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.

March 1, 2011

## EmerGeo Solutions Worldwide Inc.

Consolidated Balance Sheets  
(Expressed in Canadian Dollars)

December 31, 2010 and March 31, 2010  
(Unaudited)

	December 31, 2010	March 31, 2010
<b>Assets</b>		
Current:		
Cash and cash equivalents	\$ 342,582	\$ 115,564
Accounts receivable	147,878	1,683,289
Prepaid expenses and deposits (Note 5)	74,505	116,958
	564,965	1,915,811
Equipment (Note 6)	32,868	68,198
Intangible assets (Note 7)	213,587	338,130
	\$ 811,420	\$ 2,322,139
<b>Liabilities</b>		
Current:		
Credit facilities (Notes 8)	\$ 497,324	\$ 507,792
Accounts payable and accrued liabilities (Note 12)	658,846	696,198
Due to a related party (Note 12)	87,357	87,357
Deferred revenue	420,303	536,643
	1,663,830	1,827,990
Long-term debt (Note 9(a))	1,000,000	1,000,000
Convertible loan note (Note 9(b))	161,068	-
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (Note 10(b))	3,028,276	3,028,276
Equity component of convertible loan note (Note 9(b))	48,407	-
Contributed surplus (Note 10(e))	925,723	683,354
Deficit	(5,838,650)	(4,100,135)
	(1,836,244)	(388,505)
Non-controlling interest (Note 11)	(177,234)	(117,346)
	\$ 811,420	\$ 2,322,139

Nature of Operations and Going Concern (Note 1)  
Commitments (Note 13)

- See accompanying notes -

## EmerGeo Solutions Worldwide Inc.

Consolidated Statements of Loss and Deficit  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Sales	\$ 366,630	\$ 820,464	\$ 729,757	\$ 2,363,274
Cost of Sales	160,221	602,603	621,723	1,577,162
	206,409	217,861	108,034	786,112
Operating expenses:				
General and administration	156,241	284,124	640,101	799,627
Sales and marketing	79,112	189,563	363,135	639,253
Research and development	79,834	120,409	361,511	396,188
Stock-based compensation	17,938	31,199	85,911	174,302
Amortization	52,058	59,144	159,873	156,952
	385,183	684,439	1,610,531	2,166,322
Loss before other items	(178,774)	(466,578)	(1,502,497)	(1,380,210)
Other Items:				
Foreign exchange	26,451	(19,166)	11,866	(56,138)
Interest expense	(69,147)	(26,666)	(169,603)	(26,666)
Interest and other income	2,728	4,164	3,197	11,659
	(39,968)	(41,668)	(154,540)	(71,145)
Loss before non-controlling interest	(218,742)	(508,246)	(1,657,037)	(1,451,355)
Non-controlling interest	(1,277)	46,197	59,888	57,444
Loss before future income taxes	(220,019)	(462,049)	(1,597,149)	(1,393,911)
Future income tax expenses	-	-	-	(4,151)
Loss and comprehensive loss for the period	(220,019)	(462,049)	(1,597,149)	(1,398,062)
Deficit, beginning of period	(5,618,631)	(2,900,228)	(4,100,135)	(1,964,215)
Warrant modification (Note 10(c))	-	-	(141,366)	-
Deficit, end of period	\$ (5,838,650)	\$ (3,362,277)	\$ (5,838,650)	\$ (3,362,277)
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ (0.03)	\$ (0.09)	\$ (0.08)
Weighted average number of Shares outstanding	17,210,147	17,210,147	17,210,147	17,058,372

- See accompanying notes -

## EmerGeo Solutions Worldwide Inc.

Consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

	Three months ended December 31,		Nine months ended December, 31	
	2010	2009	2010	2009
Cash provided by (used in):				
Operations:				
Net loss for the period	\$ (220,019)	\$ (462,049)	\$ (1,597,149)	\$(1,398,062)
Adjustments for -				
Amortization	52,058	59,144	159,873	156,952
Stock-based compensation	17,938	31,199	85,911	174,302
Non-controlling interest	1,277	(46,198)	(59,888)	(57,445)
Financing fees	5,049	-	15,092	-
Accretion expense on convertible loan note	9,475	-	9,475	-
Changes in non-cash working capital -				
Accounts receivable	328,219	(420,946)	1,535,411	(60,595)
Work in process	-	205,582	-	-
Income tax recoverable	-	-	-	23,208
Prepaid expenses	10,076	73,791	42,453	619
Accounts payable and accrued liabilities	50,757	(279,933)	(37,352)	8,692
Deferred revenue	(14,882)	42,161	(116,340)	(188,953)
	239,948	(797,249)	37,486	(1,341,282)
Investing:				
Purchase of equipment	-	(2,328)	-	(2,610)
Intangible assets	-	(55,578)	-	(206,991)
	-	(57,906)	-	(209,601)
Financing:				
Proceeds from convertible loan	-	1,000,000	200,000	1,000,000
Increase (decrease) in credit facilities	(17,631)	209,288	(10,468)	209,288
Proceeds from issuance of shares	-	-	-	139,860
Contribution by non-controlling interest	-	-	-	10,293
	(17,631)	1,209,288	189,532	1,359,441
Increase (decrease) in cash and cash equivalents	222,317	354,133	227,018	(191,442)
Cash and cash equivalents, beginning of period	120,265	189,008	115,564	734,583
Cash and cash equivalents, end of period	\$ 342,582	\$ 543,141	\$ 342,582	\$ 543,141
Supplementary information:				
Cash paid for:				
Interest	\$ 30,000	\$ 27,985	\$ 103,977	\$ 30,266
Income taxes	-	-	-	-

- See accompanying notes -

# **EmerGeo Solutions Worldwide Inc.**

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

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## **1. Nature of Operations and Going Concern:**

EmerGeo Solutions Worldwide Inc. (“the Company or “EmerGeo”) was incorporated on October 16, 1997 under the laws of British Columbia. The Company is in the business of developing, integrating, selling and supporting emergency management, environment health and safety, and security software solutions and services. EmerGeo’s 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 nine months ended December 31, 2010, the Company had generated revenues of \$729,757 as compared to \$2,363,274 from the prior period and has accumulated deficit of \$5,838,650, including a loss for the nine months ended December 31, 2010 of \$1,597,149.

The Company currently has credit facilities (Note 8) and 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. 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 or curtail operations and there would be significant uncertainty whether the Company would continue as a going concern, and realize its assets and settle its liabilities and commitments in the normal course of business.

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.**

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

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## **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, 2010.

The accounting policies followed by the Company are set out in note 2 to its audited consolidated financial statements for the year ended March 31, 2010 and have been consistently followed in the preparation of these consolidated financial statements.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, EmerGeo Solutions Inc., 0799998 BC Ltd., EmerGeo Solutions (U.S.) Corporation and its 49% owned subsidiary, EmerGeo Software Solutions Middle East LLC (“EmerGeo Middle East”). The Company is also entitled to 80% of EmerGeo Middle East’s net profit/losses. All intercompany amounts and transactions have been eliminated on consolidation.

## **3. Adoption of New Accounting Standards:**

### (a) Financial Instruments

#### (i) Fair Value Hierarchy

In 2009, the CICA amended 3862, *Financial Instruments – Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosure. This amendment requires a three level hierarchy that reflects the significance of the inputs used in measuring the fair value as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 – Inputs that are not based on observable market data.

The amended section relates to disclosure only and did not have a material impact on the financial results of the Company.

The classification of the Company’s consolidated financial instruments within the fair value hierarchy as at December 31, 2010 is included in Level 1.

# EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

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### 3. Adoption of New Accounting Standards:

(a) Financial Instruments

(ii) Compound Instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the face value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

### 4. Future Accounting Pronouncements:

(a) 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.

### 5. Deposits:

Deposits consist of investments which have maturity dates beyond three months. Included in prepaid expenses and deposits is a guaranteed investment certificate of \$30,000 (March 31, 2010 - \$40,000) which has a maturity date beyond three months and is secured against the Company's corporate credit cards.

### 6. Equipment:

December 31, 2010	Cost	Accumulated Amortization	Net
Computer hardware	\$ 136,121	\$ 109,742	\$ 26,379
Computer software	43,014	42,787	227
Office furniture	9,645	4,772	4,873
Office equipment	6,786	5,397	1,389
	<u>\$ 195,566</u>	<u>\$ 162,698</u>	<u>\$ 32,868</u>

## EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

### 6. Equipment (continued):

March 31, 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

### 7. Intangible Assets:

December 31, 2010	Cost	Accumulated Amortization	Impairment loss	Net
Technology assets	\$ 498,262	\$ 284,675	\$ -	\$ 213,587
Website	33,750	17,813	15,937	-
eLearning programs	51,400	28,383	23,017	-
	\$ 583,412	\$ 330,871	\$ 38,954	\$ 213,587

  

March 31, 2010	Cost	Accumulated Amortization	Impairment loss	Net
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

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 was recognized during the year ended March 31, 2010.

### 8. Credit Facilities:

- (a) EmerGeo Middle East has been granted a US\$500,000 line of credit facility by its joint venture partner, Atlas Communications Establishment. The loan has an initial term of one year and bears interest at 4.5% over and above Emirates interbank offered rate per annum compounded daily. The loan and accrued interest were not repaid on the prescribed settlement date of September 30, 2010. Per terms of the loan agreement, interest of an additional 2% will be charged on the net outstanding balance. The Company is currently in negotiations with the lender to modify the repayment terms of this facility. The loan is secured by a guarantee from the Company. As at December 31, 2010, the line of credit had a balance of \$497,324 (March 31, 2010 - \$507,792) and has accrued interest owing of \$50,258 (2009 - \$14,669).

# **EmerGeo Solutions Worldwide Inc.**

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

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## **8. Credit Facilities (continued):**

- (b) The Company has an operating line of credit with a maximum limit of \$150,000. As at December 31, 2010, the line of credit had a balance of \$nil (March 31, 2010 - \$nil) and bears interest at the rate equal to Royal Bank prime rate plus 1.8%. The credit facility is 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.

## **9. Long-Term Debt:**

- (a) 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. ("Security Agreements"). 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 10(c)). During the nine months ended December 31, 2010, the Company paid or accrued interest of \$119,997 (2009 - \$26,666) on this loan.

- (b) Convertible Loan Note:

On September 28, 2010, the Company issued a convertible loan note ("Note") for proceeds of \$200,000. The Note bears interest at a rate of 16% per annum, payable monthly and is secured by Security Agreements. The Note is payable on demand and in case of a default, the principal and final interest amount will accrue interest at a rate of 25% per annum.

The lender may, at its option, convert the principal amount of the Note into common shares of the Company at a price of \$0.25 per share.

The face value of the Note was allocated between debt and equity components at initial recognition for accounting purposes. The fair value of the debt portion of \$151,593 was estimated using a discounted cash flow model method. The fair value of the equity component of \$48,407 was estimated using the residual value method. The debt component of the Note is accreted over an expected life of 5 years using the effective interest method.

As at December 31, 2010, the carrying value of the debt portion was \$161,068 (March 31, 2010 - \$nil), and during the nine months ended December 31, 2010, accretion expense and interest expense related to the Note were \$9,475 (2009 - \$nil) and \$8,000 (2009 - \$nil) respectively.

# EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

## 10. Share Capital:

(a) Authorized -

Unlimited Common shares without par value.

(b) Issued and Fully Paid -

	Number of Shares	Amount
Balance, March 31, 2009	16,710,647	\$ 2,888,416
Exercise of warrants	499,500	139,860
Balance, March 31, 2010 and December 31, 2010	17,210,147	\$ 3,028,276

(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, 2009	3,031,325	\$ 0.87
Issued (Note 9(a))	400,000	0.50
Cancelled	(696,500)	0.31
Exercised	(499,500)	0.28
Balance, March 31, 2010 and December 31, 2010	2,235,325	\$ 1.11

During the nine months ended December 31, 2010, 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.

The Company calculated the fair value of the warrant amendment using the Black-Scholes valuation model to be \$141,366. The effect of this was to increase contributed surplus and deficit by \$141,366. The following weighted average assumptions were used in the valuation:

Risk-free interest rate	1.67%
Expected life	3 years
Annualized volatility	91.04%
Dividend rate	0.00%

# EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

## 10. Share Capital (continued):

### (c) Warrants (continued) -

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%

On November 5, 2009, the Company issued 400,000 share purchase warrants at a fair value of \$0.15 per share (Note 9(a)). During the nine months ended December 31, 2010, \$15,092 (2009 - \$nil) 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:

Risk-free interest rate	1.30%
Expected life	3 years
Annualized volatility	96.93%
Dividend rate	0.00%

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

Number of Shares	Exercise Price	Expiry Date
615,000	\$0.75	December 7, 2012 <sup>(1)</sup>
1,220,325	\$0.40 <sup>(2)</sup>	June 18, 2013 <sup>(2)</sup>
400,000	\$0.50	November 5, 2012
2,235,325		

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

<sup>(2)</sup> The price of these warrants was reduced from \$1.50 per share and the term was extended from June 18, 2010 (two years) to June 18, 2013 (five years).

# EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

## 10. 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, 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
Granted	1,610,500	0.21
Cancelled	(730,000)	0.47
Balance, December 31, 2010	2,335,500	\$ 0.29

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

Outstanding	Exercise Price	Expiry Date	Exercisable
465,000	\$0.34	July 8, 2017 <sup>(1)</sup>	465,000
15,000	\$1.12	May 13, 2013	15,000
50,000	\$0.95	September 2, 2013	50,000
300,000	\$0.50	January 21, 2014	300,000
10,000	\$0.50	April 13, 2019	10,000
920,000	\$0.18	May 19, 2020	460,000
575,500	\$0.25	December 16, 2020	143,875
2,335,500			1,443,875

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

## EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

### 10. Share Capital (continued):

(d) Options (continued) -

During the nine months ended December 31, 2010, under the fair-value-based method \$85,911 (2009 - \$174,302) 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	1.60%	1.59%
Expected dividend yield	0%	0%
Expected stock price volatility	87.31%	120.88%
Expected life of options	3 years	5 years

The weighted average fair value of options granted during the nine months ended December 31, 2010 was \$0.08 (2009 - \$0.40) per share.

(e) Contributed Surplus -

A continuity of contributed surplus is as follows:

	December 31, 2010	March 31, 2010
Balance, beginning of period	\$ 683,354	\$ 378,021
Stock-based compensation	85,911	191,737
Warrant modification (Note 10(c))	141,366	105,348
Warrants issued for long-term debt (Note 9(a))	15,092	8,068
Balance, end of period	\$ 925,723	\$ 683,354

(f) Escrow Shares -

As at December 31, 2010, 3,150,000 (March 31, 2010 - 4,725,000) common shares of the Company are subject to escrow.

### 11. Non-Controlling Interest:

The following details the non-controlling interest balance in EmerGeo Middle East at December 31, 2010:

	December 31, 2010	March 31, 2010
Balance, beginning of period	\$ (117,346)	\$ -
Investment in EmerGeo Solutions Middle East LLC	-	10,293
Net loss attributable to non-controlling interest	(59,888)	(127,639)
Balance, end of period	\$ (177,234)	\$ (117,346)

# **EmerGeo Solutions Worldwide Inc.**

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

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## **12. Related Party Transactions:**

During the nine months ended December 31, 2010 and 2009, the Company entered into the following transactions with related parties:

- (a) Paid or accrued \$13,450 (2009 - \$54,000) for professional fees to a company controlled by a former officer of the Company.
- (b) Paid or accrued \$96,896 (2009 - \$95,000) for wages to two officers and a former director of the Company.
- (c) Paid or accrued \$69,625 (2009 - \$95,000) for wages to a director and an officer of the Company.
- (d) Paid or accrued \$24,553 (2009 - \$42,688) for legal fees to a company controlled by an officer of the Company.
- (e) Paid or accrued \$21,500 (2009 - \$42,000) for office, rent and administration to companies having an officer in common.
- (f) Paid or accrued \$105,583 (2009 - \$30,833) for consulting fees to a director of the Company.

As at December 31, 2010, included in accounts payable and accrued liabilities was \$97,866 (March 31, 2010 - \$8,549) due to directors, officers, related companies of directors and officers and to companies having a director and officer in common.

As at December 31, 2010, the amount due to a company owned by a former director of \$87,357 (March 31, 2010 - \$87,357) was 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.

## **13. Commitments:**

The Company has an operating lease agreement for the rental of premises. The minimum future annual rental payments under the leases are as follows:

2011 (calendar year)	\$ 11,167
<hr/>	
	\$ 11,167
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# EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements  
(Expressed in Canadian Dollars)

Three and Nine Months Ended December 31, 2010 and 2009  
(Unaudited)

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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 December 31, 2010, accounts receivable are net of an allowance for doubtful accounts of \$nil (March 31, 2010 - \$nil).

### (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 December 31, 2010, the Company had cash and cash equivalents of \$342,582 and account receivable of \$147,878 to settle liabilities of \$658,846 which mainly consist of accounts payable that are considered short term and settled within 30 days. The amount due to a related party is non-interest bearing and has no fixed terms of repayment. Other liabilities consist of credit facilities of which \$497,324 has been drawn at December 31, 2010 (Note 8) and deferred revenues of \$420,303. 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 terms for our long-term credit facilities are included in notes 8 and 9.

# EmerGeo Solutions Worldwide Inc.

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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 low at present, 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 December 31, 2010, the denomination of the Company's financial instruments were as follows:

	US	Canadian	AED	Total
Cash	\$ 22,606	\$ 115,428	\$ 204,548	\$ 342,582
Accounts receivable	20,800	53,555	73,523	147,878
Accounts payable and Accrued liabilities	48,648	421,836	188,362	658,846

At December 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 and long-term debt outlined in notes 8(a) and 9 respectively. The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the nine months ended December 31, 2010.