

EmerGeo Solutions Worldwide Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

(Expressed in Canadian Dollars)

Management's Responsibility

To the Shareholders of EmerGeo Solutions Worldwide Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee are responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of EmerGeo Solutions Worldwide Inc.'s external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

July 26, 2011

"Rick MacDonald"
Chief Executive Officer

"Gary Craig"
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Emergeo Solutions Worldwide Inc.:

We have audited the accompanying consolidated financial statements of Emergeo Solutions Worldwide Inc. and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2011 and March 31, 2010 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Emergeo Solutions Worldwide Inc. and its subsidiaries as at March 31, 2011 and Mar 31, 2010, and the results of its their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that EmerGeo Solutions Worldwide Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 1, indicate the existence of a material uncertainty which may cast doubt about the ability of EmerGeo Solutions Worldwide Inc. to continue as a going concern.

July 26, 2011

Vancouver, British Columbia



Chartered Accountants

EmerGeo Solutions Worldwide Inc.

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

March 31, 2011 and 2010

	2011	2010
Assets		
Current:		
Cash and cash equivalents	\$ 154,287	\$ 115,564
Accounts receivable	295,051	1,683,289
Prepaid expenses and deposits (Note 5)	88,758	116,958
	538,096	1,915,811
Equipment (Note 6)	23,895	68,198
Intangible assets (Note 7)	-	338,130
	\$ 561,991	\$ 2,322,139
Liabilities		
Current:		
Credit facilities (Notes 8)	\$ 485,938	\$ 507,792
Accounts payable and accrued liabilities (Note 13)	569,029	696,198
Due to a related party (Note 13)	87,357	87,357
Deferred revenue	554,081	536,643
Convertible loan note (Note 9)	154,542	-
	1,850,947	1,827,990
Long-term debt (Note 10)	1,000,000	1,000,000
Shareholders' Equity (Deficiency)		
Share capital (Note 11(b))	2,839,336	2,922,928
Equity component of convertible loan note (Note 9)	48,407	-
Contributed surplus (Note 11(e))	919,219	683,354
Deficit	(5,909,730)	(3,994,787)
	(2,102,768)	(388,505)
Non-controlling interest (Note 12)	(186,188)	(117,346)
	\$ 561,991	\$ 2,322,139

Nature of Operations and Going Concern (Note 1)

Commitments (Note 15)

Subsequent Events (Note 21)

ON BEHALF OF THE BOARD:

“Al Larmour” Chairman
Al Larmour

“Timothy Webb” Director
Timothy Webb

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

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

Years Ended March 31, 2011 and 2010

	2011	2010
Sales	\$ 1,204,399	\$ 2,956,687
Cost of Sales	775,523	2,048,967
	428,876	907,720
Operating expenses:		
General and administration	782,508	1,126,219
Sales and marketing	474,188	844,537
Research and development	448,337	547,415
Stock-based compensation	132,241	191,737
Amortization	210,360	220,480
	2,047,634	2,930,388
Loss before other items	(1,618,758)	(2,022,668)
Other Items:		
Impairment of intangible assets (Note 7)	(172,073)	(38,954)
Foreign exchange	26,779	(37,656)
Interest expense	(223,119)	(66,665)
Interest and other income	3,386	11,883
	(365,027)	(131,392)
Loss before non-controlling interest	(1,983,785)	(2,154,060)
Non-controlling interest	68,842	127,639
Loss before future income taxes	(1,914,943)	(2,026,421)
Future income tax expenses	-	(4,151)
Loss and comprehensive loss for the year	(1,914,943)	(2,030,572)
Deficit, beginning of year	(3,994,787)	(1,964,215)
Deficit, end of year	\$ (5,909,730)	\$ (3,994,787)
Basic and diluted earnings (loss) per share	\$ (0.11)	\$ (0.12)
Weighted average number of Shares outstanding	17,210,147	17,095,796

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net loss for the year	\$ (1,914,943)	\$(2,030,572)
Adjustments for -		
Amortization	210,360	220,480
Stock-based compensation	132,241	191,737
Impairment of intangible assets	172,073	38,954
Non-controlling interest	(68,842)	(127,639)
Financing fees	20,032	8,068
Accretion expense on convertible loan note	2,949	-
Unrealized gain on credit facilities	(21,854)	-
Changes in non-cash working capital -		
Accounts receivable	1,388,238	(653,290)
Work in process	-	-
Income tax recoverable	-	23,208
Prepaid expenses	28,200	35,679
Accounts payable and accrued liabilities	(127,169)	166,368
Deferred revenue	17,438	68,716
	(161,277)	(2,058,291)
Investing:		
Purchase of equipment	-	(2,610)
Intangible assets	-	(216,063)
	-	(218,673)
Financing:		
Proceeds from loans	200,000	1,000,000
Proceeds from issuance of shares	-	139,860
Increase in credit facilities	-	507,792
Contribution by non-controlling interest	-	10,293
	200,000	1,657,945
Increase (decrease) in cash and cash equivalents	38,723	(619,019)
Cash and cash equivalents, beginning of year	115,564	734,583
Cash and cash equivalents, end of year	\$ 154,287	\$115,564
Supplementary information:		
Cash paid for:		
Interest	\$ 169,996	\$ 66,665
Income taxes	-	-

- See accompanying notes -

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

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 year ended March 31, 2011, the Company had generated revenues of \$1,204,399 as compared to \$2,956,687 from the prior year, has accumulated deficit of \$5,909,730 (2010 - \$3,994,787), including a loss for the year ended March 31, 2011 of \$1,914,943 and had working capital deficit of \$1,312,851 (2010 - \$87,821).

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 2012.

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)

Years Ended March 31, 2011 and 2010

2. Significant Accounting Policies:

(a) Basis of presentation and consolidation -

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

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

(b) Financial Instruments -

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

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

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

2. Significant Accounting Policies (continued):

(b) Financial Instruments (continued) -

- e) 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.

(c) Comprehensive income -

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

(d) Cash and Cash Equivalents -

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

(e) Deposit -

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

(f) Equipment -

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

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

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

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

2. Significant Accounting Policies (continued):

(g) Revenue recognition -

(i) License revenue -

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

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

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

(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.

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

2. Significant Accounting Policies (continued):

(g) Revenue recognition (continued) -

(iii) Customer support and maintenance revenue -

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

(iv) Interest income -

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

(h) Cost of Revenue -

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

(i) Intangibles -

Intangible assets consisting of technology assets, website and eLearning programs are expensed as incurred unless they meet Canadian generally accepted accounting criteria for deferral and subsequent amortization. See Note 7.

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

(j) Leases -

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

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

2. Significant Accounting Policies (continued):

(k) Foreign Currency Translation -

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

(i) The Company

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

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

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

(l) Stock-based Compensation -

The Company has a stock-based compensation plan which is described in note 11(d). The Company accounts for all stock-based payments and awards under the fair value based method.

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

(m) Earnings (loss) per Share -

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings (loss) per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the year ended March 31, 2011, the calculation proved to be anti-dilutive.

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

2. Significant Accounting Policies (continued):

(m) Earnings (loss) per Share (continued) -

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

(n) Impairment of Long-lived Assets

The Company assesses the impairment of long-lived assets, which consist of investments and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of a long-lived asset is then determined by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

(o) Impairment of Intangible Assets

Impairment for intangible assets is tested by comparing the fair value of the asset to its carrying value. Any impairment loss will be charged against current period earnings. During the year ended March 31, 2011, the Company wrote-off its intangible assets (note 7).

(p) 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.

The significant areas requiring management estimates include the estimates of the allowance for doubtful accounts, valuation of equipment, intangible assets, deferred revenue, equity portion of convertible loan note, fair value of stock-based compensation and financial instruments and revenue recognition.

(q) 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.

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

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 March 31, 2011 is included in Level 1.

4. Current Accounting Pronouncements:

(a) Adoption of International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises. Effective April 1, 2011, the Company will adopt IFRS as the basis for preparing its financial statements. The Company will issue its financial statements prepared on an IFRS basis commencing with the quarter ended June 30, 2011, and provide comparative data on an IFRS basis as required.

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.

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

6. Equipment:

March 31, 2011	Cost	Accumulated Amortization	Net
Computer hardware	\$ 136,121	\$ 117,440	\$ 18,681
Computer software	43,014	43,014	-
Office furniture	9,645	5,254	4,391
Office equipment	6,786	5,963	823
	\$ 195,566	\$ 171,671	\$ 23,895

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:

March 31, 2011	Cost	Accumulated Amortization	Impairment loss	Net
Technology assets	\$ 498,262	\$ 326,189	\$ 172,073	\$ -
Website	33,750	17,813	15,937	-
eLearning programs	51,400	28,383	23,017	-
	\$ 583,412	\$ 372,385	\$ 211,027	\$ -

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, 2011, the Company wrote off its technology assets. As a result, an impairment loss of \$172,073 was recognized during the year ended March 31, 2011.

During the year ended March 31, 2010, the Company re-developed the Company's website. As a result, an impairment loss of \$38,954 was recognized during the year ended March 31, 2010.

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 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 March 31, 2011, the line of credit had a balance of \$485,938 (2010 - \$507,792) and has accrued interest owing of \$27,554 (2010 - \$10,157).
- (b) The Company has an operating line of credit with a maximum limit of \$150,000. As at March 31, 2011, the line of credit had a balance of \$nil (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. 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 March 31, 2011, the carrying value of the debt portion was \$154,542 (2010 - \$nil), and during the year ended March 31, 2011, accretion expense and interest expense related to the Note were \$2,949 (2010 - \$nil) and \$18,949 (2010 - \$nil) respectively.

10. 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 11(c)). During the year ended March 31, 2011, the Company paid or accrued interest of \$159,996 (2010 - \$66,665) on this loan.

EmerGeo Solutions Worldwide Inc.

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years Ended March 31, 2011 and 2010

11. 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
Modification to warrants	-	(105,348)
Balance, March 31, 2010	17,210,147	2,922,928
Modification to warrants (Note 11(c))	-	(83,592)
Balance, March 31, 2011	17,210,147	\$ 2,839,336

(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	\$ 0.43
Issued (Note 10)	400,000	0.50
Cancelled	(696,500)	0.31
Exercised	(499,500)	0.28
Balance, March 31, 2010 and 2011	2,235,325	\$ 0.51

During the year ended March 31, 2011, 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.

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11. Share Capital (continued):

(c) Warrants (continued) -

The Company calculated the fair value of the warrant amendment using the Black-Scholes valuation model to be \$83,592. The effect of this was to increase contributed surplus and decrease share capital by \$83,592. The following weighted average assumptions were used in the valuation:

Risk-free interest rate	1.67%
Expected life	3 years
Annualized volatility	61.39%
Dividend rate	0.00%

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 decrease share capital 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 10). During the year ended March 31, 2011, \$20,032 (2010 - \$8,068) in financing fees was recorded in the statements of operations for these warrants. The fair value of the warrants was determined using the Black-Scholes option pricing formula based on the following assumptions:

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

Share purchase warrants outstanding at March 31, 2011 are as follows:

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

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

⁽²⁾ 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).

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11. 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, March 31, 2011	2,335,500	\$ 0.29

Stock options outstanding and exercisable at March 31, 2011 are as follows:

Outstanding	Exercise Price	Expiry Date	Exercisable
465,000	\$0.34	July 8, 2017 ⁽¹⁾	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	575,000
575,500	\$0.25	December 16, 2020	215,813
2,335,500			1,630,813

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

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11. Share Capital (continued):

(d) Options (continued) -

During the year ended March 31, 2011, under the fair-value-based method \$132,241 (2010 - \$191,737) 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:

	2011	2010
Risk free interest rate	3.55%	1.59%
Expected dividend yield	0%	0%
Expected stock price volatility	64.92%	120.88%
Expected life of options	10 years	5 years

The weighted average fair value of options granted during the year ended March 31, 2011 was \$0.11 (2010 - \$0.40) per share.

(e) Contributed Surplus -

A continuity of contributed surplus is as follows:

	March 31, 2011	March 31, 2010
Balance, beginning of year	\$ 683,354	\$ 378,201
Stock-based compensation	132,241	191,737
Warrant modification (Note 11(c))	83,592	105,348
Warrants issued for long-term debt (Note 10)	20,032	8,068
Balance, end of year	\$ 919,219	\$ 683,354

(f) Escrow Shares -

As at March 31, 2011, 3,150,000 (March 31, 2010 - 4,725,000) common shares of the Company are subject to escrow.

12. Non-Controlling Interest:

The following details the non-controlling interest balance in EmerGeo Middle East at March 31, 2011:

	March 31, 2011	March 31, 2010
Balance, beginning of year	\$ (117,346)	\$ -
Investment in EmerGeo Solutions Middle East LLC	-	10,293
Net loss attributable to non-controlling interest	(68,842)	(127,639)
Balance, end of year	\$ (186,188)	\$ (117,346)

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13. Related Party Transactions:

During the year ended March 31, 2011 and 2010, the Company entered into the following transactions with related parties:

- (a) Paid or accrued \$13,450 (2010 - \$72,000) for professional fees to a company controlled by a former officer of the Company.
- (b) Paid or accrued \$155,561 (2010 - \$130,000) for wages to two officers and a former director of the Company.
- (c) Paid or accrued \$98,125 (2010 - \$130,000) for wages to a director and an officer of the Company.
- (d) Paid or accrued \$26,173 (2010 - \$47,227) for legal fees to a company controlled by an officer of the Company.
- (e) Paid or accrued \$27,500 (2010 - \$56,000) for office, rent and administration to companies having an officer in common.
- (f) Paid or accrued \$108,583 (2010 - \$65,833) for consulting fees to a director of the Company.

As at March 31, 2011, included in accounts payable and accrued liabilities was \$87,020 (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 March 31, 2011, the amount due to a company owned by a former director of \$87,357 (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.

14. Income Taxes:

Income tax expense differs from that calculated by applying statutory rates of 27.88% (2010 – 30%) for the following reasons:

	2011	2010
Loss before income taxes	\$ (1,914,943)	\$ (2,026,421)
Expected income tax recovery at statutory rates	\$ (535,593)	\$ (607,926)
Effect of reduction in tax rates	41,182	70,200
Effect of expiry of non-capital losses	-	5,842
Difference between foreign tax rate and average statutory rate	76,332	152,350
Stock based compensation not deductible for tax	42,454	57,521
Change in prior year estimates	8,084	-
Expenses not deductible for tax	6,210	121
Change in valuation allowance	361,332	326,043
	-	4,151

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14. Income Taxes (continued):

The components of net future income tax assets at March 31, 2011 and 2010 are as follow:

	2011	2010
Canada		
Non-capital loss available for future periods	\$ 1,073,238	\$ 813,866
Capital loss available for future periods	150,606	150,606
Share issuance cost	22,254	33,807
Equipment and intangible assets	180,634	85,026
Valuation allowance	(1,426,731)	(1,083,305)
Canada net future income tax asset	-	-
United States		
Non-capital loss available for future periods	54,052	36,146
Valuation allowance	(54,052)	(36,146)
United States net future income tax asset	-	-

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

As at March 31, 2011, the Company has, for tax purposes, non-capital losses of approximately \$4,292,952 (2010 - \$3,199,236) and capital loss of \$1,204,848 which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities. The non-capital losses expire as follows:

2014	\$ 66,608
2015	196,094
2026	186,346
2027	41,819
2028	228,449
2029	1,443,914
2030	1,036,006
2031	1,093,716
	<u>4,292,952</u>

As at March 31, 2011, the Company has, for tax purposes, net-operating losses of approximately \$158,977 (2010 - \$123,885) which may be carried forward to apply against future years income tax for United States income tax purposes, subject to final determination by taxation authorities and expiring as follows:

2028	\$ 21,615
2029	64,273
2030	37,997
2031	35,092
	<u>158,977</u>

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15. 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)	\$ 54,255
2012	72,956
2013	72,956
2014	30,398
	<u>\$ 230,565</u>

16. Segmented Information:

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

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

<u>Year ended March 31,</u>	<u>2011</u>	<u>2010</u>
Canada	\$ 468,502	\$ 819,731
United States	154,077	196,062
Middle East and Australia	581,820	1,940,894
	<u>\$ 1,204,399</u>	<u>\$ 2,956,687</u>

For the year ended March 31, 2011, three customers accounted for 41% of the Company's revenues. For the year ended March 31, 2010, two customers accounted for more than 10% of the Company's revenues. These customers accounted for \$1,538,243 of revenues.

<u>2011</u>	<u>Canada</u>	<u>Middle East</u>	<u>United States</u>	<u>Total</u>
Current assets	\$ 482,165	\$ 54,268	\$ 1,663	\$ 538,096
Equipment	23,895	-	-	23,895
Intangible assets	-	-	-	-
	<u>\$ 506,060</u>	<u>\$ 54,268</u>	<u>\$ 1,663</u>	<u>\$ 561,991</u>

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

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17. 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. As at March 31, 2011, 80% of the Company's accounts receivable were due from three customers. 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.

(b) Liquidity Risk -

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at March 31, 2011, the Company had cash and cash equivalents of \$154,287 and account receivable of \$295,051 to settle liabilities of \$569,029 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 \$485,938 has been drawn at March 31, 2011 (Note 8(a)) and deferred revenues of \$554,081. 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 2012. The repayment terms for our long-term credit facilities are included in notes 8 and 10.

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17. 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 March 31, 2011, the denomination of the Company's financial instruments were as follows:

	US	Canadian	AED	Total
Cash	\$ 1,663	\$ 122,010	\$ 30,614	\$ 154,287
Accounts receivable	-	271,396	23,655	295,051
Accounts payable and Accrued liabilities	15,741	411,016	142,272	569,029

At March 31, 2011, the Company had no hedging agreements in place with respect to foreign exchange rates.

18. Significant Customers:

During 2011, three customers individually comprised 15%, 14% and 12% of total revenues. At March 31, 2011, two customers represented 50% and 22% of total accounts receivable.

During 2010, two customers individually comprised 33%, and 20% of total revenues. At March 31, 2010, one customer represented 73% of total accounts receivable.

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19. 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 year ended March 31, 2011.

20. Comparative Figure

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

21. Subsequent Events:

The following events occurred subsequent to March 31, 2011:

- a) The Company granted 251,000 stock options to officers and employees of the Company, exercisable at \$0.25 per share for a period of ten years from the date of grant.
- b) The Company arranged a \$265,000 debt facility with four lenders (the "Lenders"), including CEO Rick MacDonald. The Company's wholly-owned subsidiary, EmerGeo Solutions Inc., will issue \$265,000 principal amount of unsecured promissory notes (the "Notes") to the Lenders. The Notes will bear interest at 12% per annum, compounded annually and payable annually in arrears and will have a one year term. As a bonus to the Lenders, the Company will also issue 471,111 common shares to the Lenders.