

# **EmerGeo Solutions Worldwide Inc.**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended September 30, 2011 and 2010**

**(Expressed in Canadian Dollars)**

# **EmerGeo Solutions Worldwide Inc.**

**(the “Company”)**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Three and Six Months Ended September 30, 2011 and 2010

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The management of the EmerGeo Solutions Worldwide Inc. is responsible for the preparation of the accompanying unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed consolidated interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company’s auditor has not performed a review of these condensed interim consolidated 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 29, 2011

# EmerGeo Solutions Worldwide Inc.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)  
(Expressed in Canadian Dollars)

	September 30, 2011	March 31, 2011 (Note 18)	April 1, 2010 (Note 18)
	\$	\$	\$
<b>Assets</b>			
<b>CURRENT</b>			
Cash and cash equivalents	25,346	154,287	115,564
Accounts receivable	193,167	295,051	1,683,289
Prepaid expenses and deposits (Note 4)	74,565	88,758	116,958
	293,078	538,096	1,915,811
Equipment (Note 5)	9,930	23,895	68,198
Intangible assets (Note 6)	-	-	338,130
	303,008	561,991	2,322,139

## Liabilities

<b>CURRENT</b>			
Credit facilities (Note 7)	619,362	485,938	507,792
Accounts payable and accrued liabilities (Note 13)	632,432	569,029	696,198
Loans payable (Note 10)	265,000	-	-
Due to a related party (Note 13)	87,357	87,357	87,357
Deferred revenue	503,320	554,081	536,643
Convertible loan note (Note 8)	157,491	154,542	-
	2,264,962	1,850,947	1,827,990
Long-term debt (Note 9)	1,000,000	1,000,000	1,000,000

## Shareholders' Equity (Deficiency)

Share capital (Note 11)	2,910,003	2,839,336	2,922,928
Reserves (Note 11)	1,005,002	1,025,245	694,706
Deficit	(6,672,989)	(5,967,349)	(4,006,139)
	(2,757,984)	(2,102,768)	(388,505)
Non-controlling interest	(203,970)	(186,188)	(117,346)
	(2,961,954)	(2,288,956)	(505,851)
	303,008	561,991	2,322,139

Nature of Operations and Going Concern (Note 1)

Commitments (Note 14)

Subsequent Event (Note 19)

Approved by the Board of Directors and authorized for issue on November 29, 2011

<u>“Al Larmour”</u>	Chairman	<u>“Timothy Webb”</u>	Director
Al Larmour		Timothy Webb	

- See accompanying notes -

## EmerGeo Solutions Worldwide Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

(Expressed in Canadian Dollars)

	Three months ended September 30,		Six months ended September 30,	
	2011	2010 (Note 18)	2011	2010 (Note 18)
	\$	\$	\$	\$
Sales	173,362	160,136	418,384	363,127
Cost of sales (Note 12)	130,472	201,421	278,320	544,530
	42,890	(41,285)	140,064	(181,403)
Operating expenses:				
General and administration (Note 12)	159,157	241,104	331,592	548,802
Sales and marketing (Note 12)	50,241	85,448	152,964	297,525
Research and development (Note 12)	61,203	130,644	155,787	304,995
	270,601	457,196	640,343	1,151,322
Loss from operations	(227,711)	(498,481)	(500,279)	(1,332,725)
Other items:				
Foreign exchange gain (loss)	(8,849)	(7,981)	(10,680)	(7,673)
Finance expense	(146,572)	(55,943)	(212,993)	(110,499)
Finance and other income	350	217	530	469
	(155,071)	(63,707)	(223,143)	(117,703)
Loss for the period	(382,782)	(562,188)	(723,422)	(1,450,428)
Other comprehensive income (loss):				
Cumulative translation adjustment	(68,172)	21,816	(61,794)	(6,912)
Loss and comprehensive loss for the period	(450,954)	(540,372)	(785,216)	(1,457,340)
Loss and comprehensive loss for the period attributable to:				
Shareholders	(445,038)	(521,589)	(767,434)	(1,396,175)
Non-controlling interest	(5,916)	(18,783)	(17,782)	(61,165)
Loss and comprehensive loss for the period	(450,954)	(540,372)	(785,216)	(1,457,340)
Loss per share – basic and diluted (Note 11(e))	0.02	0.03	0.04	0.08

- See accompanying notes -

## EmerGeo Solutions Worldwide Inc.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)  
(Expressed in Canadian Dollars)

	Share Capital		Reserves				Deficit	Equity attributable to shareholders	Non- controlling Interest	Total shareholders' equity	
	Shares	Amount	Stock options	Warrants	Foreign currency translation	Convertible loan note					Total
	#	\$	\$	\$	\$	\$					\$
<b>Balance, April 1, 2010</b>	<b>17,210,147</b>	<b>2,922,928</b>	<b>581,290</b>	<b>113,416</b>	-	-	<b>694,706</b>	<b>(4,006,139)</b>	<b>(388,505)</b>	<b>(117,346)</b>	<b>(505,851)</b>
Comprehensive loss for the period	-	-	-	-	(6,912)	-	(6,912)	(1,389,263)	(1,396,175)	(61,165)	(1,457,340)
Share-based payments	-	-	87,018	-	-	-	87,018	-	87,018	-	87,018
Warrants issued for long-term debt	-	-	-	10,043	-	-	10,043	-	10,043	-	10,043
Modification to warrants	-	(83,592)	-	83,592	-	-	83,592	-	-	-	-
Issuance of convertible debenture	-	-	-	-	-	48,407	48,407	-	48,407	-	48,407
<b>Balance, September 30, 2010</b>	<b>17,210,147</b>	<b>2,839,336</b>	<b>668,308</b>	<b>207,051</b>	<b>(6,912)</b>	<b>48,407</b>	<b>916,854</b>	<b>(5,295,402)</b>	<b>(1,639,212)</b>	<b>(178,511)</b>	<b>(1,817,723)</b>
Comprehensive loss for the period	-	-	-	-	45,783	-	45,783	(571,947)	(526,164)	(7,677)	(533,841)
Share-based payments	-	-	52,619	-	-	-	52,619	-	52,619	-	52,619
Warrants issued for long-term debt	-	-	-	9,989	-	-	9,989	-	9,989	-	9,989
<b>Balance, March 31, 2011</b>	<b>17,210,147</b>	<b>2,839,336</b>	<b>720,927</b>	<b>217,040</b>	<b>38,871</b>	<b>48,407</b>	<b>1,025,245</b>	<b>(5,967,349)</b>	<b>(2,102,768)</b>	<b>(186,188)</b>	<b>(2,288,956)</b>
Comprehensive loss for the period	-	-	-	-	(61,794)	-	(61,794)	(705,640)	(767,434)	(17,782)	(785,216)
Shares issued for loan financing fees (Note 10)	471,111	70,667	-	-	-	-	-	-	70,667	-	70,667
Share-based payments	-	-	31,508	-	-	-	31,508	-	31,508	-	31,508
Warrants issued for long-term debt	-	-	-	10,043	-	-	10,043	-	10,043	-	10,043
<b>Balance, September 30, 2011</b>	<b>17,681,258</b>	<b>2,910,003</b>	<b>752,435</b>	<b>227,083</b>	<b>(22,923)</b>	<b>48,407</b>	<b>1,005,002</b>	<b>(6,672,989)</b>	<b>(2,757,984)</b>	<b>(203,970)</b>	<b>(2,961,954)</b>

## EmerGeo Solutions Worldwide Inc.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)  
(Expressed in Canadian Dollars)

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
		(Note 18)		(Note 18)
	\$	\$	\$	\$
Cash provided by (used in):				
Operations:				
Net loss for the period	(382,782)	(562,188)	(723,422)	(1,450,428)
Adjustments for -				
Depreciation	6,030	53,561	13,965	107,815
Share-based payments	10,328	27,020	31,508	87,018
Financing fees	75,716	5,049	80,710	10,043
Accretion expense on convertible loan note	1,474	-	2,949	-
Unrealized gain (loss) on credit facilities	37,281	(15,426)	33,424	7,163
Foreign exchange gains (losses)	(68,172)	21,816	(61,794)	(6,912)
Changes in non-cash working capital -				
Accounts receivable	28,562	53,161	101,884	1,207,192
Prepaid expenses and deposits	4,737	10,875	14,193	32,377
Accounts payable and accrued liabilities	10,441	(39,978)	63,403	(88,109)
Deferred revenue	19,083	(36,261)	(50,761)	(101,458)
	(257,302)	(482,371)	(493,941)	(195,299)
Financing:				
Increase (decrease) in credit facilities	(1,000)	-	100,000	-
Loans payable	265,000	200,000	265,000	200,000
	264,000	200,000	365,000	200,000
Increase (decrease) in cash and cash equivalents	6,698	(282,371)	(128,941)	4,701
Cash and cash equivalents, beginning of period	18,648	402,636	154,287	115,564
Cash and cash equivalents, end of period	25,346	120,265	25,346	120,265

- See accompanying notes -

# **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(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<sup>®</sup> 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’s shares are traded on the TSX Venture Exchange (“TSXV”) under the symbol “EMG”.

The head office, principal address and records office of the Company are located at Suite 507 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company’s registered office address is located at Suite 1780 – 400 Burrard Street, Vancouver, BC, Canada V6C 3A6.

These condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in these condensed consolidated interim financial statements.

For the six months ended September 30, 2011, the Company generated revenues of \$418,384 as compared to \$363,127 from the prior period and has accumulated deficit of \$6,672,989 (March 31, 2011 - \$5,967,349; April 1, 2010 - \$4,006,139) including a loss for the six months ended September 30, 2011 of \$723,422 (2010 - \$1,450,428). At September 30, 2011, the Company had working capital deficit of \$1,971,884 (March 31, 2011 - \$1,312,851; April 1, 2010 - \$87,821).

The Company has outstanding credit facilities and short-term and long-term loans. As at September 30, 2011, total debt outstanding was \$2,084,362 (Notes 7, 8, 9 and 10). The US\$500,000 credit facility is past due and the Company is negotiating for an extension to the term of the loan and other repayment terms (Note 7). The Company was in default of its interest payments on its \$200,000 convertible loan note of \$13,333 as at September 30, 2011 and subsequent to September 30, 2011, unpaid interests amounted to of \$16,000 (Note 8). The Company was also in default of its interest payments on its \$1,000,000 long-term debt of \$66,667 as at September 30, 2011 and subsequent to September 30, 2011, unpaid interests amounted to \$80,000 (Note 9). In addition, the Company is not in compliant with the terms of its long-term debt agreement to maintain a minimum cash balance of \$75,000 at all times during the term of the loan (Note 9).

During the six months ended September 30, 2011, the Company obtained loans in the amount of \$265,000 (Note 10). Subsequent to September 30, 2011, the Company has arranged a private placement financing of approximately \$3,800,000 (Note 19). If this financing closes, the Company expects that sufficient liquidity will be available to meet its obligations for the next twelve months.

# **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(Unaudited)

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## **1. Nature of Operations and Going Concern (continued):**

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 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.

## **2. Significant Accounting Policies:**

The financial statements were authorized for issue on November 29, 2011 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### **(a) Statement of compliance and adoption of International Financial Reporting Standards ("IFRS") -**

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" and IFRS 1, "First time adoption of International Financial Reporting Standards ("IFRS")" using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual financial statements of the Company as at and for the year ended March 31, 2011 prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The basis of presentation of these condensed interim financial statements is different to that of the Company's most recent annual financial statements due to the first time adoption of IFRS.

The impact of the conversion from GAAP to IFRS is explained in note 18. Note 18 includes reconciliations of the Company's condensed interim consolidated statements of financial position and statements of comprehensive loss for comparative periods prepared in accordance with GAAP and as previously reported to those prepared and reported in these unaudited condensed interim consolidated financial statements in accordance with IFRS.

### **(b) Basis of presentation and consolidation -**

The condensed interim consolidated financial statements are presented in Canadian dollars. The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, EmerGeo Solutions Inc. ("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.

## **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(Unaudited)

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### **2. Significant Accounting Policies (continued):**

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

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.

The condensed interim consolidated financial statements of the Company have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in Note 2(p).

(c) Use of estimates and judgements -

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 measurements for financial instruments, share-based payments and other equity-based payments and revenue recognition.

(d) Functional and presentation of foreign currency -

(i) Functional and presentation currency -

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The condensed interim consolidated financial statements are presented in Canadian dollars.

(ii) Transactions and balances -

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in profit and loss.

## **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(Unaudited)

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### **2. Significant Accounting Policies (continued):**

(d) Functional and presentation of foreign currency (continued) -

(iii) Subsidiaries -

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as in other comprehensive income as cumulative translation adjustments

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Cash and cash equivalents -

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

(f) 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.

(g) Equipment -

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized at rates calculated to write off the cost of equipment, less their estimated residual value, using the straight-line method. 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

## **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

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(Unaudited)

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### **2. Significant Accounting Policies (continued):**

(h) Revenue recognition -

Revenue is measured at fair value of the consideration received or receivable.

(i) License revenue -

The Company recognizes revenue from the license of software 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 risk of ownership is transferred when title and insurance risk have passed to the customer and the goods have been delivered to a contractually agreed location.

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

(iii) Customer support and maintenance revenue -

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

## **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(Unaudited)

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### **2. Significant Accounting Policies (continued):**

(h) Revenue recognition (continued) -

(iv) Finance income -

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

(i) Cost of sales -

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.

(j) Intangible assets -

Intangible assets consisting of technology assets, website and eLearning programs are recorded at cost less any accumulated depreciation and any accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives. The normal annual depreciation rate is 33%.

(k) Leases -

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair market value of the leased property and the net present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

## **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(Unaudited)

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### **2. Significant Accounting Policies (continued):**

(l) Share-based payments -

The Company has an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(m) Loss per share -

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

(n) Impairment of non-financial assets -

The carrying amount of the Company's non-financial assets (which include equipment and intangible assets) is reviewed at each reporting date at the cash-generating unit level, to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

## **EmerGeo Solutions Worldwide Inc.**

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended September 30, 2011 and 2010  
(Unaudited)

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### **2. Significant Accounting Policies (continued):**

(o) Share capital -

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair value on the date of issue.

(p) Financial instruments -

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, credit facilities, due to related parties, long-term debt and convertible loan note. The fair values of these financial instruments approximate their carrying values because of their short term nature and /or the existence of market related interest rates on the instruments. Fair values were obtained by Level 1 hierarchy inputs.

These financial instruments are classified in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

(i) Financial assets at fair value through profit or loss -

Financial assets are classified at fair value through profit or loss if it is classified as held for trading in the near future or is designated as such upon initial recognition. The Company's cash and cash equivalents are classified as fair value through profit and loss for the period. They are initially and subsequently measured at fair value with changes in carrying value being included in profit or loss for the period.

(ii) Available-for-sale financial assets -

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are initially and subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

(iii) Loans and receivables -

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and such assets are recognized initially at fair value and subsequently measured on an amortized cost basis using the effective interest method, less any impairment losses. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

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### **2. Significant Accounting Policies (continued):**

(p) Financial instruments (continued) -

(iv) Financial liabilities at amortized cost -

Financial liabilities at amortized cost are non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss. The Company's credit facilities, accounts payable and accrued liabilities, due to related parties and convertible loan notes are classified as financial liabilities at amortized cost and are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

(v) Compound financial instruments -

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

(q) Non-controlling Interest -

Non-controlling interests in the Company's less than wholly-owned subsidiaries are classified as a separate component of equity. On initial recognition, non-controlling interests are measured at their proportionate share of the acquisition-date fair value of identifiable net assets of the related subsidiary acquired by the Company. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interests for the non-controlling interests' share of changes to the subsidiary's equity. Adjustments to recognize the non-controlling interests' share of changes to the subsidiary's equity are made even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interests is adjusted to reflect the change in the non-controlling interests' relative interest in the subsidiary and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to shareholders of the Company.

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### **3. Current Accounting Pronouncements:**

The following IFRS standards have been recently issued by the International Accounting Standards Board (“IASB”): Amendments to IFRS 7 - Financial Instruments: Disclosures, IFRS 9 - Financial Instruments, IFRS 10 - Consolidated Financial Statements and IFRS 13 - Fair Value Measurement. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

(a) Amendments to IFRS 7, Financial Instruments: Disclosures -

IFRS 7 Financial Instruments: Disclosures (“IFRS 7”) was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments are effective for annual periods beginning on or after July 1, 2011.

(b) IFRS 9, Financial Instruments -

IFRS 9, Financial Instruments (“IFRS 9”) was issued by the IASB on November 12, 2009, and will replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized costs or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

(c) IFRS 10, Consolidated Financial Statements -

IFRS 10 Financial Statements (“IFRS 10”) provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on April 1, 2013.

(d) IFRS 13, Fair Value Measurement -

IFRS 13, Fair Value Measurement (“IFRS 13”) was issued by the IASB on May 12, 2011. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

### **4. 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, 2011 - \$30,000; April 1, 2010 - \$40,000) which has a maturity date beyond three months and is secured against the Company’s corporate credit cards.

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### 5. Equipment:

	Computer hardware	Computer software	Office furniture	Office equipment	Total
	\$	\$	\$	\$	\$
<b>Costs:</b>					
Balance, April 1, 2010, March 31, 2011 and September 30, 2011	136,121	43,014	9,645	6,786	195,566
<b>Depreciation:</b>					
Balance, April 1, 2010	86,649	33,693	3,325	3,701	127,368
Depreciation	30,791	9,321	1,929	2,262	44,303
Balance, March 31, 2011	117,440	43,014	5,254	5,963	171,671
Depreciation	12,220	-	965	780	13,965
Balance, September 30, 2011	129,660	43,014	6,219	6,743	185,636
<b>Net Book Value:</b>					
April 1, 2010	49,472	9,321	6,320	3,085	68,198
March 31, 2011	18,681	-	4,391	823	23,895
September 30, 2011	6,461	-	3,426	43	9,930

### 6. Intangible Assets:

	Technology assets	Website	eLearning programs	Total
	\$	\$	\$	\$
<b>Costs:</b>				
Balance, April 1, 2010, March 31, 2011 and September 30, 2011	498,262	33,750	51,400	583,412
<b>Depreciation:</b>				
Balance, April 1, 2010	160,132	17,813	28,383	206,328
Depreciation	166,057	-	-	166,057
Balance, March 31, 2011 and September 30, 2011	226,189	17,813	28,383	272,385
<b>Impairment:</b>				
Balance, April 1, 2010	-	15,937	23,017	38,954
Impairment	172,073	-	-	172,073
Balance, March 31, 2011 and September 30, 2011	172,073	15,937	23,017	211,027
<b>Net Book Value:</b>				
April 1, 2010	338,130	-	-	338,130
March 31, 2011 and September 30, 2011	-	-	-	-

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### **6. Intangible Assets (continued):**

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.

### **7. 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 September 30, 2011, the line of credit had a balance of \$519,362 (March 31, 2011 - \$485,938; April 1, 2010 - \$507,792) and has accrued interest owing of \$41,955 (March 31, 2011 - \$27,554; April 1, 2010 - \$10,157).
- (b) The Company has an operating line of credit with a maximum limit of \$150,000. As at September 30, 2011, the line of credit had a balance of \$100,000 (March 31, 2011 - \$nil; April 1, 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. During the six months ended September 30, 2011, the Company accrued \$1,400 (2010 - \$nil) in interest on this loan.

### **8. 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 Company has valued the debt component of the debenture at \$151,593 at inception, utilizing the effect interest rate method at a 25% discount rate. The discount is being accreted over five years. The residual value of \$48,407, representing the value ascribed to the holder's option to convert the principal amount into common shares, is classified in shareholders' equity as "reserves".

As at September 30, 2011, the carrying value of the debt portion was \$157,491 (March 31, 2011 - \$154,542; April 1, 2010 - \$nil), and during the six months ended September 30, 2011, accretion expense and interest expense related to the Note were \$2,949 (2010 - \$nil) and \$18,949 (2010 - \$nil) respectively. As at September 30, 2011, the Company was in default of its interest payments of \$13,333 and subsequent to September 30, 2011, unpaid interests amounted to \$16,000.

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### 9. 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 EmerGeo Solutions and by a guarantee from EmerGeo Solutions ("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 six months ended September 30, 2011, the Company paid or accrued interest of \$79,998 (2010 - \$79,998) on this loan.

As at September 30, 2011, the Company was in default of its interest payments of \$66,667 and subsequent to September 30, 2011, unpaid interests amounted to \$80,000. In addition, the Company is not in compliance with the terms of the loan agreement to maintain a minimum cash balance of \$75,000 at all times during the term of the loan.

### 10. Loans Payable:

On July 6, 2011, the Company obtained loans totaling \$265,000 from four lenders ("Lenders"), of which, \$15,000 was from an officer of the Company. EmerGeo Solutions issued unsecured promissory notes for an aggregate principal amount of \$265,000 (the "Notes") to the Lenders. The Notes have a term of one year and bear interest at 12% per annum, compounded annually and payable annually in arrears. The Company issued an aggregate of 471,111 common shares as bonus shares to the Lenders in consideration for the loans at a fair value of \$70,667, of which, 26,667 common shares at a fair value of \$4,000 were issued to an officer of the Company. During the six months ended September 30, 2011, the Company accrued interest of 7,950 (2010 - \$nil) on this loan.

### 11. Share Capital and Reserves:

(a) Authorized -

Unlimited Common shares without par value.

(b) Issued and Fully Paid -

At September 30, 2011, there were 17,681,258 issued and fully paid common shares (March 31, 2011 - 17,210,147; April 1, 2010 - \$17,210,147).

(c) Warrants -

The continuity of warrants for the period ended September 30, 2011 is as follows:

	Warrants	Weighted Average Exercise Price
	#	\$
Balance, September 30, 2011, March 31, 2011 and April 1, 2010	2,235,325	0.51

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## 11. Share Capital and Reserves (continued):

### (c) Warrants (continued) -

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.

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 warrant reserve 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%

Share purchase warrants outstanding at September 30, 2011 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).

### (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.

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### 11. Share Capital and Reserves (continued):

(d) Options (continued) -

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

	Options	Weighted Average Exercise Price
	#	\$
Balance, April 1, 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
Granted	213,000	0.25
Cancelled	(447,000)	0.36
Balance, September 30, 2011	2,101,500	0.28

Stock options outstanding and exercisable at September 30, 2011 are as follows:

Outstanding	Exercise Price	Expiry Date	Exercisable
#	\$		#
325,000	0.34	July 8, 2017 <sup>(1)</sup>	325,000
15,000	1.12	May 13, 2013	15,000
250,000	0.50	January 21, 2014	250,000
10,000	0.50	April 13, 2019	10,000
745,000	0.18	May 19, 2020	651,875
543,500	0.25	December 16, 2020	339,688
213,000	0.25	May 19, 2021	79,875
2,101,500			1,671,438

<sup>(1)</sup> 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, 2011, the Company recorded \$31,508 (2010 - \$87,018) in share-based payments for stock options granted and vested during the period and charged to operations.

The fair value of stock options awarded to directors, officers, employee and consultants were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2011	2010
Risk free interest rate	2.22%	2.42%
Expected dividend yield	0%	0%
Expected stock price volatility	116.76%	102.88%
Expected life of options	5 years	5 years

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### 11. Share Capital and Reserves (continued):

(d) Options (continued) -

The weighted average fair value of options granted during the six months ended September 30, 2011 was \$0.12 (2010 - \$0.14) per option.

(e) Loss per share -

Basic loss per share is computed by dividing net loss for the period, applicable to common shareholders, by the weighted average number of common shares outstanding for the period, including contingently issuable shares when the conditions necessary for the issuance have been met. Diluted loss per share is calculated in a similar number except that the weighted average number of common shares outstanding is increased to include potential common shares from the assumed exercise of options, warrants and convertible securities, if dilutive.

Due to the losses for the three and six months ended September 30, 2011 and 2010, basic loss per share is equal to dilutive loss per share for the periods presented.

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Loss per share - basic and diluted	0.02	0.03	0.04	0.08
Loss for the period	382,782	562,188	723,422	1,450,428
	#	#	#	#
Weighted average number of shares - basic and diluted	17,624,930	17,210,147	17,418,672	17,210,147

(f) Escrow Shares -

As at September 30, 2011, Nil (March 31, 2011 – 3,150,000; April 1, 2010 – 4,725,000) common shares of the Company are subject to escrow.

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### 12. Operating Costs by Nature:

(a) Cost of sales –

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	78,501	103,408	172,857	271,911
Depreciation	-	41,514	-	83,028
Other cost of sales	51,971	56,499	105,463	189,591
	130,472	201,421	278,320	544,530

(b) General and administration –

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	62,205	81,631	141,353	213,486
Share-based payments	9,540	15,768	26,264	50,198
Consulting and professional fees	43,516	44,380	75,197	85,460
Depreciation	6,030	12,047	13,965	24,787
Other expenses	42,915	92,327	84,856	184,914
	164,206	246,153	341,635	558,845

(c) Sales and marketing –

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	38,645	59,727	111,523	201,036
Share-based payments	701	3,309	2,739	13,502
Other expenses	10,895	22,412	38,702	82,987
	50,241	85,448	152,964	297,525

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### 12. Operating Costs by Nature (continued):

(d) Research and development –

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and benefits	50,556	106,726	134,957	256,069
Share-based payments	87	7,943	2,505	23,318
Other expenses	10,560	15,975	18,325	25,608
	61,203	130,644	155,787	304,995

### 13. Related Party Transactions:

(a) Related party transactions -

The Company incurred the following transactions with companies having directors and officers in common:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Office, rent and administration	6,000	6,000	12,000	15,500
Legal fees	15,206	6,004	16,773	11,403
	21,206	12,004	28,773	14,899

(b) Compensation of key management personnel -

The Company's key management personnel has authority and responsibility for planning, directing and controlling the activities of the Company and consists of its Directors, Chief Executive Officer and Chief Financial Officer.

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term benefits - management fees	116,018	45,619	234,418	191,620
Share-based payments	9,642	14,785	25,717	23,646
	125,660	60,404	260,135	215,266

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### 13. Related Party Transactions (continued):

(c) Related party balances -

The following related party amounts were included in accounts payable and accrued liabilities:

	September 30, 2011	March 31, 2011	April 1, 2010
	\$	\$	\$
Directors and officers	79,600	84,780	8,549
Shareholder	87,357	87,357	87,357
Company having an officer in common	4,480	2,240	-
	<u>171,437</u>	<u>174,377</u>	<u>95,906</u>

These transactions are in the normal course of operations and are measured at the fair value amount of consideration established and agreed to by the related parties. Any amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

### 14. 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>

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### 15. 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:

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Canada	61,235	96,618	188,985	198,642
United States	65,700	30,750	114,104	65,565
Middle East and Australia	46,427	32,768	115,295	98,920
	173,362	160,136	418,384	363,127

For the six months ended September 30, 2011, four customers accounted for 66% of the Company's revenues. For the six months ended September 30, 2010, two customers accounted for 24% of the Company's revenues.

<b>September 30, 2011</b>	Canada	Middle East	United States	Total
	\$	\$	\$	\$
Current assets	153,995	66,651	72,432	293,078
Equipment	9,930	-	-	9,930
Intangible assets	-	-	-	-
	163,925	66,651	72,432	303,008
<b>March 31, 2011</b>	Canada	Middle East	United States	Total
	\$	\$	\$	\$
Current assets	482,165	54,268	1,663	538,096
Equipment	23,895	-	-	23,895
Intangible assets	-	-	-	-
	506,060	54,268	1,663	561,991
<b>April 1, 2010</b>	Canada	Middle East	United States	Total
	\$	\$	\$	\$
Current assets	591,801	1,288,807	35,203	1,915,811
Equipment	68,198	-	-	68,198
Intangible assets	338,130	-	-	338,130
	998,129	1,288,807	35,203	2,322,139

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### **16. 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 September 30, 2011, 63% of the Company's accounts receivable was due from two 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 September 30, 2011, the Company had cash and cash equivalents of \$25,346 and account receivable of \$193,167 to settle liabilities of \$632,432 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, \$619,362 has been drawn at September 30, 2011 (Note 7) and deferred revenues of \$503,320. 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 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 of the long-term credit facilities are included in notes 7 and 9. Subsequent to September 30, 2011, the Company entered into arrangements to raise \$3,800,000 (Note 19).

## EmerGeo Solutions Worldwide Inc.

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### 16. 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 September 30, 2011, the denomination of the Company's financial instruments were as follows:

	US	Canadian	AED	Total
	\$	\$	\$	\$
Cash	5,151	16,479	3,716	25,346
Accounts receivable	67,281	62,951	62,935	193,167
Accounts payable and Accrued liabilities	31,598	431,358	169,476	632,432

At September 30, 2011, the Company had no hedging agreements in place with respect to foreign exchange rates.

### 17. 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 7(a) and 9 respectively.

There were no changes in the Company's management of capital during the six months ended September 30, 2011.

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### **18. Transition to International Financial Reporting Standards:**

The Company adopted IFRS on April 1, 2011, with the transition date of April 1, 2010 representing the Company's opening IFRS balance sheet. As required by IFRS 1, *First-time Adoption of IFRS*, the Company will apply the IFRS in effect as at March 31, 2012 on a full retrospective basis, except where permitted or required under an IFRS 1 exemption.

On adoption of IFRS 1, the Company elected to apply the following exemptions:

IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to February 1, 2010 (date of transition date to IFRS), which have been accounted for in accordance with Canadian GAAP.

IAS 16 "Property, Plant and Equipment" allows for property, plant and equipment to continue to be carried at cost less depreciation, same as under GAAP.

IAS 21 "The Effects of Changes in Foreign Exchange Rates" has not been applied to cumulative translation differences that existed at the date of transition to IFRS. The Company has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening balance sheet dated February 1, 2010:

Estimates - In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as at February 1, 2010 are consistent with its previous estimates under GAAP for the same date.

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### **18. Transition to International Financial Reporting Standards (continued):**

The financial information prepared under IFRS and that prepared under GAAP have the following major differences as referenced in the tables:

(a) Reserves -

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. Under IFRS, "Reserves" has taken the place of "Contributed Surplus" and as such the Company examined its contributed surplus and other equity accounts and separated those components relating to share purchase warrant, share-based compensation, equity component of convertible debentures and foreign currency translation reserves.

(b) Share-based payments -

Under GAAP, the Company recognized an expense related to share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple on the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

Accordingly, upon transition to IFRS, the Company recorded a fair value adjustment of \$11,352 as at April 1, 2010 to increase reserves with a corresponding increase in deficit. In addition to the April 1, 2010 adjustment, the IFRS adjustments subsequent to transition increased reserves and net loss by \$7,396 for the year ended March 31, 2011 and by \$19,045 for the six months September 30, 2010.

(c) Functional currency and cumulative translation adjustment account -

Under GAAP, the Company determines whether a subsidiary is an integrated operation or a self-sustaining entity which determines the method of translation into the presentation currency of the Company. IFRS requires that an entity determine the functional currency of each subsidiary individually, prior to consolidation into the Company's presentation currency.

The Company determined that two subsidiaries had a functional currency other than the Canadian dollar, which under GAAP had been classified as being integrated operations. Those subsidiaries under GAAP were consolidated using the temporal method (i.e. monetary assets and liabilities translated at the current rate and non-monetary assets and liabilities at historic exchange rates with gains or losses being charged to income), whereas under IFRS those entities with non-Canadian dollar functional currencies are translated to Canadian dollars using the current rate method (whereby all assets and liabilities are translated using the reporting date exchange rates with any gains or losses recorded in equity).

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### **18. Transition to International Financial Reporting Standards (continued):**

- (c) Functional currency and cumulative translation adjustment account (continued) -

The Company elected to take the IFRS 1 exemption to deem cumulative translation adjustments to be zero at the date of transition to IFRS. Hence all existing currency translation adjustment (“CTA”) balances and the impact of the above adjustments as of April 1, 2010 were recorded against the brought forward deficit.

For the year ended March 31, 2011, the impact was an increase in net loss by \$38,871, offset by a charge to CTA and for the six months September 30, 2010, the impact was a decrease in net loss by \$6,912.

- (d) Amortization/Depreciation and share-based payments -

Under Canadian GAAP, the Company separately presented amortization expense and share-based payments under operating expenditures. IFRS requires to either present expenditures based on their nature or function and does not allow the two to be mixed. As a result, depreciation and share-based payments have been allocated to the underlying functions of the Company.

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### NOTE 18 – Transition to International Financial Reporting Standards (continued)

#### IFRS Reconciliation of Statements of Financial Position

Note	As at April 1, 2010			As at September 30, 2010			As at March 31, 2011		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>									
Current:									
Cash and cash equivalent	115,564	-	<b>115,564</b>	120,265	-	<b>120,265</b>	154,287	-	<b>154,287</b>
Accounts receivable	1,683,289	-	<b>1,683,289</b>	476,097	-	<b>476,097</b>	295,051	-	<b>295,051</b>
Prepaid expenses and deposits	116,958	-	<b>116,958</b>	84,581	-	<b>84,581</b>	88,758	-	<b>88,758</b>
	1,915,811	-	<b>1,915,811</b>	680,943	-	<b>680,943</b>	538,096	-	<b>538,096</b>
Equipment	68,198	-	<b>68,198</b>	43,411	-	<b>43,411</b>	23,895	-	<b>23,895</b>
Intangible assets	338,130	-	<b>338,130</b>	255,102	-	<b>255,102</b>	-	-	<b>-</b>
	406,328	-	<b>406,328</b>	298,513	-	<b>298,513</b>	23,895	-	<b>23,895</b>
	2,322,139	-	<b>2,322,139</b>	979,456	-	<b>979,456</b>	561,991	-	<b>561,991</b>

## EmerGeo Solutions Worldwide Inc.

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### NOTE 18 – Transition to International Financial Reporting Standards (continued)

#### IFRS Reconciliation of Statements of Financial Position (continued)

Note	As at April 1, 2010			As at September 30, 2010			As at March 31, 2011		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Liabilities</b>									
Current:									
Credit facilities	507,792	-	507,792	608,089	-	608,089	485,938	-	485,938
Accounts payable and accrued liabilities	696,198	-	696,198	514,955	-	514,955	569,029	-	569,029
Due to a related party	87,357	-	87,357	87,357	-	87,357	87,357	-	87,357
Deferred revenue	536,643	-	536,643	435,185	-	435,185	554,081	-	554,081
Convertible loan note	-	-	-	151,593	-	151,593	154,542	-	154,542
	1,827,990	-	1,827,990	1,797,179	-	1,797,179	1,850,947	-	1,850,947
Long-term debt	1,000,000	-	1,000,000	1,000,000	-	1,000,000	1,000,000	-	1,000,000
<b>Shareholders' Equity (Deficiency)</b>									
Share capital	2,922,928	-	2,922,928	2,839,336	-	2,839,336	2,839,336	-	2,839,336
Equity component of convertible debenture	(a)	-	-	48,407	(48,407)	-	48,407	(48,407)	-
	(a)(b)	-	-	-	-	-	-	-	-
Reserves	(c)	-	694,706	-	916,854	916,854	-	1,025,245	1,025,245
Contributed surplus	(a)	683,354	(683,354)	844,962	(844,962)	-	919,219	(919,219)	-
Deficit	(b)(c)	(3,994,787)	(11,352)	(5,371,917)	(23,485)	(5,395,402)	(5,909,730)	(57,619)	(5,967,349)
		(388,505)	-	(388,505)	(1,639,212)	-	(1,639,212)	-	(2,102,768)
Non-controlling interest		(117,346)	-	(178,511)	-	(178,511)	(186,188)	-	(186,188)
		(505,851)	-	(505,851)	(1,817,723)	-	(2,288,956)	-	(2,288,956)
		2,322,139	-	2,322,139	(979,456)	-	561,991	-	561,991

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### NOTE 18 – Transition to International Financial Reporting Standards (continued)

#### IFRS Reconciliation of Statements of Loss and Comprehensive Loss

	Note	Three months ended September 30, 2010			Six months ended September 30, 2010			Year ended March 31, 2011		
		GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Sales		160,136	-	<b>160,136</b>	363,127	-	<b>363,127</b>	1,204,399	-	<b>1,204,399</b>
Cost of Sales	(d)	159,907	41,514	<b>201,421</b>	461,502	83,028	<b>544,530</b>	775,523	166,057	<b>941,580</b>
		229	(41,514)	<b>(41,285)</b>	(98,375)	(83,028)	<b>(181,403)</b>	428,876	(166,057)	<b>262,819</b>
Operating expenses:										
General and administration	(b)(d)	213,289	27,815	<b>241,104</b>	473,817	74,985	<b>548,802</b>	762,476	128,731	<b>891,207</b>
Sales and marketing	(b)	82,139	3,309	<b>85,448</b>	284,023	13,502	<b>297,525</b>	474,188	23,572	<b>497,760</b>
Research and development	(b)	122,701	7,943	<b>130,644</b>	281,677	23,318	<b>304,995</b>	448,337	31,637	<b>479,974</b>
Share-based payments	(b)(d)	20,187	(20,187)	-	67,973	(67,973)	-	132,241	(132,241)	-
Depreciation	(d)	53,561	(53,561)	-	107,815	(107,815)	-	210,360	(210,360)	-
		491,877	(34,681)	<b>457,196</b>	1,215,305	(63,983)	<b>1,151,322</b>	2,027,602	(158,661)	<b>1,868,941</b>
Loss from operations		(491,648)	(6,833)	<b>(498,481)</b>	(1,313,680)	(19,045)	<b>(1,332,725)</b>	(1,598,726)	(7,396)	<b>(1,606,122)</b>
Other items:										
Impairment of intangible assets		-	-	-	-	-	-	(172,073)	-	<b>(172,073)</b>
Foreign exchange	(c)	13,835	(21,816)	<b>(7,981)</b>	(14,585)	6,912	<b>(7,673)</b>	26,779	(38,871)	<b>(12,092)</b>
Finance expense		(55,943)	-	<b>(55,943)</b>	(110,499)	-	<b>(110,499)</b>	(243,151)	-	<b>(243,151)</b>
Finance and other income		217	-	<b>217</b>	469	-	<b>469</b>	3,386	-	<b>3,386</b>
		(41,891)	(21,816)	<b>(63,707)</b>	(124,615)	6,912	<b>(117,703)</b>	(385,059)	(38,871)	<b>(423,930)</b>
Loss for the period		(533,539)	(28,649)	<b>(562,188)</b>	(1,438,295)	(12,133)	<b>(1,450,428)</b>	(1,983,785)	(46,267)	<b>(2,030,052)</b>

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### NOTE 18 – Transition to International Financial Reporting Standards (continued)

#### IFRS Reconciliation of Statements of Loss and Comprehensive Loss (continued)

	Note	Three months ended September 30, 2010			Six months ended September 30, 2010			Year ended March 31, 2011		
		GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	
Loss for the period		(533,539)	(28,649)	<b>(562,188)</b>	(1,438,295)	(12,133)	<b>(1,450,428)</b>	(1,983,785)	(46,267)	<b>(2,030,052)</b>
Other comprehensive income (loss):										
Cumulative translation adjustment	(c)	-	21,816	<b>21,816</b>	-	(6,912)	<b>(6,912)</b>	-	38,871	<b>38,871</b>
Loss and comprehensive loss for the period		(533,539)	(6,833)	<b>(540,372)</b>	(1,438,295)	(19,045)	<b>(1,457,340)</b>	(1,983,785)	(7,396)	<b>(1,991,181)</b>
Loss and comprehensive loss for the period attributable to:										
Shareholders		(514,756)	(6,833)	<b>(521,589)</b>	(1,377,130)	(19,045)	<b>(1,396,175)</b>	(1,914,943)	(7,396)	<b>(1,922,339)</b>
Non-controlling interest		(18,783)	-	<b>(18,783)</b>	(61,165)	-	<b>(61,165)</b>	(68,842)	-	<b>(68,842)</b>
Loss and comprehensive loss for the period		(533,539)	(6,833)	<b>(540,372)</b>	(1,438,295)	(914,968)	<b>(1,457,340)</b>	(1,983,785)	(7,396)	<b>(1,991,181)</b>
Basic and diluted loss per share		(0.03)	-	<b>(0.03)</b>	(0.08)	-	<b>(0.08)</b>	(0.11)	-	<b>(0.11)</b>

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### NOTE 18 – Transition to International Financial Reporting Standards (continued)

#### IFRS Reconciliation of Statements of Cash Flows

	Note	Three months ended September 30, 2010			Six months ended September 30, 2010			Year ended March 31, 2011		
		GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	
Cash provided by (used in):										
Operations:										
Net loss for the period		(533,539)	(28,649)	<b>(562,188)</b>	(1,438,295)	(12,133)	<b>(1,450,428)</b>	(1,983,785)	(46,267)	<b>(2,030,052)</b>
Adjustments for -										
Depreciation		53,561	-	<b>53,561</b>	107,815	-	<b>107,815</b>	210,360	-	<b>210,360</b>
Share-based payments	(b)	20,187	6,833	<b>27,020</b>	67,973	19,045	<b>87,018</b>	132,241	7,396	<b>139,637</b>
Impairment of intangible assets		-	-	<b>-</b>	-	-	<b>-</b>	172,073	-	<b>172,073</b>
Financing fees		5,049	-	<b>5,049</b>	10,043	-	<b>10,043</b>	20,032	-	<b>20,032</b>
Accretion expense on convertible loan note		-	-	<b>-</b>	-	-	<b>-</b>	2,949	-	<b>2,949</b>
Unrealized gain (loss) on credit facilities		(15,426)	-	<b>(15,426)</b>	7,163	-	<b>7,163</b>	(21,854)	-	<b>(21,854)</b>
Foreign exchange gains (losses)	(c)	-	21,816	<b>21,816</b>	-	(6,912)	<b>(6,912)</b>	-	38,871	<b>38,871</b>
Change in non-cash working capital -										
Accounts receivable		53,161	-	<b>53,161</b>	1,207,192	-	<b>1,207,192</b>	1,388,238	-	<b>1,388,238</b>
Prepaid expenses		10,875	-	<b>10,875</b>	32,377	-	<b>32,377</b>	28,200	-	<b>28,200</b>
Accounts payable and accrued liabilities		(39,978)	-	<b>(39,978)</b>	(88,109)	-	<b>(88,109)</b>	(127,169)	-	<b>(127,169)</b>
Deferred revenue		(36,261)	-	<b>(36,261)</b>	(101,458)	-	<b>(101,458)</b>	17,438	-	<b>17,438</b>
		(482,371)	-	<b>(482,371)</b>	(195,299)	-	<b>(195,299)</b>	(161,277)	-	<b>(161,277)</b>
Financing:										
Proceeds from loan		200,000	-	<b>200,000</b>	200,000	-	<b>200,000</b>	200,000	-	<b>200,000</b>
Increase (decrease) in cash		(282,371)	-	<b>(282,371)</b>	4,701	-	<b>4,701</b>	38,723	-	<b>38,273</b>
Cash, beginning of period		402,636	-	<b>402,636</b>	115,564	-	<b>115,564</b>	115,564	-	<b>115,564</b>
Cash, end of period		120,265	-	<b>120,265</b>	120,265	-	<b>120,265</b>	154,287	-	<b>154,287</b>

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### **19. Subsequent Event:**

Subsequent to September 30, 2011, the Company has arranged and agreed to a series of transactions (the “Transaction”) by which SAI InfoSystems (India) Ltd. (“SIS”) will acquire 85% of the issued and outstanding common shares of the Company on an undiluted basis, and up to 80% of the Shares on a fully diluted basis.

The Transaction will consist of i) a non-brokered private placement of 63,333,333 shares at a price of \$0.06 per share for gross proceeds of \$3,800,000.00, and ii) the purchase by SIS of an aggregate of 5,572,728 shares from four shareholders of the Company for \$0.0359 per share. A finder’s fee is payable on the private placement.

Completion of the Transaction is subject to but not limited to regulatory and disinterested shareholder approvals and satisfactory due diligence.

On November 24, 2011, the Company announced that it has been unable to obtain the necessary regulatory approvals to proceed with the transaction as agreed above. Despite extensive and ongoing negotiations, no alternative agreement has yet been reached with SIS, and there can be no assurance that any agreement will be reached in the near term or at all.