

Consolidated financial statements of

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)

December 31, 2008 and 2007

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Auditors' Report

To the Shareholders of
RMS Systems Inc. (formerly C-Data Communications Inc.):

We have audited the consolidated balance sheets of **RMS Systems Inc. (formerly C-Data Communications Inc.)** as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of RMS Systems Inc. (formerly C-Data Communications Inc.) as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "Deloitte & Touche LLP"

April 10, 2009

Chartered Accountants

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Consolidated Balance Sheets

| | December 31, 2008 \$ | December 31, 2007 \$ |
|--|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | 3,386,313 | 99,584 |
| Accounts receivable | 481,298 | 485,733 |
| Prepaid expenses | 49,323 | - |
| | <u>3,916,934</u> | <u>585,317</u> |
| DEFERRED DEVELOPMENT (Note 4) | 831,571 | 785,775 |
| PROPERTY AND EQUIPMENT (Note 5) | 1,621,037 | 168,974 |
| | <u>6,369,542</u> | <u>1,540,066</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | 385,213 | 759,844 |
| Due to related parties (Note 6) | - | 39,307 |
| | <u>385,213</u> | <u>799,151</u> |
| CONVERTIBLE DEBENTURES (Note 7) | - | 1,502,227 |
| | <u>385,213</u> | <u>2,301,378</u> |
| COMMITMENTS (Note 13) | | |
| SHAREHOLDERS' EQUITY | | |
| Equity instruments (Note 9) | 8,319,573 | 404,752 |
| Equity component of convertible debenture (Note 9) | - | 61,649 |
| Contributed surplus (Note 10) | 6,000 | - |
| Deficit | (2,341,244) | (1,227,713) |
| | <u>5,984,329</u> | <u>(761,312)</u> |
| | <u>6,369,542</u> | <u>1,540,066</u> |

Approved on behalf of the Board

Signed "Dave Hall"

Dave Hall, Director

Signed "Bob Webb"

Bob Webb, Director

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Consolidated Statements of Operations, Comprehensive Loss and Deficit

| | For the year ended December 31, 2008 \$ | For the year ended December 31, 2007 \$ |
|---|--|--|
| REVENUE | | |
| Rental | <u>380,477</u> | - |
| EXPENSES | | |
| Rental services | 261,516 | - |
| General and administrative | 1,031,811 | 410,576 |
| Interest | 131,568 | 91,038 |
| Accretion of convertible debentures (Note 7) | 19,813 | 19,729 |
| Amortization | 312,541 | 59,192 |
| Stock-based compensation | 6,000 | - |
| | <u>1,763,249</u> | <u>580,535</u> |
| OTHER | | |
| Interest income | 474 | - |
| Gain for forgiveness of debt (Note 7) | 268,767 | - |
| | <u>269,241</u> | - |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | (1,113,531) | (580,535) |
| DEFICIT, BEGINNING OF YEAR | (1,227,713) | (647,178) |
| DEFICIT, END OF YEAR | (2,341,244) | (1,227,713) |
| LOSS PER SHARE (NOTE 9) | | |
| Basic and diluted | <u>(0.10)</u> | <u>(0.14)</u> |

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Consolidated Statements of Cash Flow

| | For the year ended December 31, 2008 \$ | For the year ended December 31, 2007 \$ |
|---|--|--|
| CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES: | | |
| OPERATING | | |
| Net loss | (1,113,531) | (580,535) |
| Adjustment for: | | |
| Amortization | 312,541 | 59,192 |
| Accrued interest on convertible debenture | 100,080 | 91,038 |
| Gain on forgiveness of debt | (268,767) | - |
| Stock-based compensation | 6,000 | - |
| Accretion of convertible debentures | 19,813 | 19,729 |
| | <u>(943,864)</u> | <u>(410,576)</u> |
| Changes in non-cash working capital | | |
| Accounts receivable | (16,840) | 53,321 |
| Prepaid expenses | (43,073) | - |
| Accounts payable and accrued liabilities | (919,270) | 404,951 |
| | <u>(1,923,047)</u> | <u>47,696</u> |
| INVESTING | | |
| Purchase of property and equipment | (1,795,029) | (47,210) |
| Development expenditures (Note 4) | (192,543) | (368,675) |
| Deposit received pre-business combination | 200,000 | - |
| Cash acquired from business combination | 1,316,243 | - |
| Cash received from other receivable (Note 3) | 4,895,400 | - |
| Changes in non-cash investing activities | 37,000 | (192,000) |
| | <u>4,461,071</u> | <u>(607,885)</u> |
| FINANCING | | |
| Advances from related parties | 60,000 | - |
| Repayments to related parties | (38,795) | (10,693) |
| Proceeds from issuance of share capital (Note 9) | 720,000 | 17,750 |
| Proceeds from convertible debentures, net | 7,500 | 634,712 |
| | <u>748,705</u> | <u>641,769</u> |
| INCREASE IN CASH | 3,286,729 | 81,580 |
| CASH, BEGINNING OF YEAR | 99,584 | 18,004 |
| CASH, END OF YEAR | 3,386,313 | 99,584 |

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

1. NATURE OF OPERATIONS

C-Data Communications Inc. was incorporated under the Business Corporation's Act (Alberta) on May 1, 2005. Pursuant to Articles of Amalgamation dated September 29, 2008 C-Data Communications Inc. amalgamated with Tiger-Cat Energy Ltd. to form RMS Systems Inc. (the "Company"). The Company has developed a web-based remote drilling data retrieval software solution. This software allows oil and gas companies to retrieve scientific measurement data in the field and communicate this data in real-time back to a central web-based data warehouse.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements, the reported amounts of revenues and expenses during the reporting period, any contingencies, and impairment of long-lived assets. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in the consolidated financial statements.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, RigManager Services Ltd., BARB Projects Ltd., CDHM Offshore Inc. and Quatros Communications Ltd. All significant inter-company accounts and transactions have been eliminated.

RMS SYSTEMS INC.
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Notes to Consolidated Financial Statements
December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at cost and are amortized using the declining-balance method at the following annual rates:

| | |
|------------------------|--------------------------------------|
| Rental equipment | 10 years |
| Computer hardware | 30% |
| Computer software | 5 years |
| Office furniture | 20% |
| Leasehold improvements | 5 years (over the term of the lease) |

Property and equipment include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken until the asset is completed and available for use.

Measurement uncertainty

The amounts recorded for depreciation and any potential impairment of property and equipment and deferred development costs are based on estimates and other assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option-pricing model requires the input of highly subjective assumptions including the expected stock price volatility.

Computations of provisions and estimates for income taxes involve management making judgments with respect to interpretations of tax regulations and related legislation which is continually changing. In addition, there are tax matters that have not yet been confirmed by taxation authorities. While management believes the provision for income taxes is adequate, these amounts are subject to measurement uncertainty. Adjustments required, if any, to these provisions will be reflected in the period that it is determined that adjustments are warranted.

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Development Expenditures

Development costs, net of related investment tax credits, are expensed as incurred unless they meet the criteria for deferral and amortization under GAAP. Development costs incurred on new product development projects, which in management's view have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and will be amortized over five years commencing in the year in which the new products begin generating rental revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed. There is no impairment of the deferred development expenditures as at December 31, 2008 and 2007.

Revenue Recognition

Revenue is recognized during the reporting period based on completion of each rental day for products and services, provided collectability is reasonably assured.

Income Taxes

The Company records income taxes using the liability method of accounting. Under this method, future income taxes are recorded based on temporary differences between the accounting value and the income tax value of an asset or liability and on the benefit of losses and other deductions available to be carried forward to future years, for income tax purposes, to the extent they are more likely than not to be realized. Future tax assets and liabilities are determined using substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Impairment of Property and Equipment and Deferred Development Costs

The Company determines whether the net carrying amount of property and equipment and deferred development expenditures (the "Asset") is recoverable from future undiscounted cash flows at least annually at year-end or when indicators of impairment exist. The Company's operations, along with the market and business environment, are continually monitored. Judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the Asset. If the total of the undiscounted future cash flows, excluding finance charges, is less than the carrying amount of the Assets, asset impairment must be recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the Asset. Fair value is the amount at which an item could be bought or sold in a current environment between willing parties, and is estimated by calculating the present value of expected future cash flows related to the Asset.

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Notes to Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Per Share Amounts

Basic earnings per share are computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if options to purchase common shares were exercised.

The Company uses the treasury stock method of computing diluted earnings per share. Under this method, only options having an exercise price greater than the market price are included in the diluted weighted average number of shares. It is also assumed that the proceeds of exercise of those options are used to repurchase the Company's at the average market price experienced during the reporting period. The diluted weighted average number of shares is reduced by the number of shares which could have been repurchased.

Financial instruments

All financial instruments are initially recognized at fair value on the balance sheet. The Company has classified each financial instrument into one of the following categories: held-for-trading, loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities.

Subsequent measurement of financial instruments is based on their classification.

Financial assets "held-for-trading" are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

Cash is classified as "held-for-trading". Accounts receivable is classified as "loans and receivables". Accounts payable and accrued liabilities are designated as "other financial liabilities".

Stock-based compensation

The Company accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged for stock options granted with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company accounts for forfeitures as they occur by reversing stock based compensation expense for unvested stock options.

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Notes to Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

NEW ACCOUNTING POLICIES

Financial Instruments – Disclosures

The Company adopted the new Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862 Financial Instruments – Disclosures which apply to both recognized and unrecognized financial instruments. These disclosures, which include the nature and extent of risks arising from financial instruments, are included in Note 14.

The Company adopted the new CICA Handbook Section 3863 Financial Instruments – Presentation which establishes standards for presentation of financial instruments and non-financial derivatives.

Capital Disclosures

The Company adopted the new recommendations of the CICA Handbook Section 1535 for disclosure of the Company’s objectives, policies and processes for managing capital as discussed in Note 14.

Inventories

The new CICA Handbook Section 3031 is effective. This section provides guidance on the measurement and disclosure requirements for inventories. The Company’s parts and raw materials inventory have been included in property and equipment. The new standard does not have an impact on the financial statements.

General Standards of Financial Statement Presentation

This requirement to assess and disclose the Company’s ability to continue as a going concern under CICA Handbook Section 1400 did not have an impact on the financial statements.

Accounting Pronouncement – Goodwill and Intangible Assets

This new CICA Handbook Section 3064 will be adopted on January 1, 2009. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncement – Business Combinations

In January 2009, the CICA issued new accounting standards, Section 1582 *Business Combinations* and Section 1601 *Consolidated Financial Statements*, replacing Section 1501 *Business Combinations* and Section 1600 *Consolidated Financial Statements*. The CICA also issued new Section 1602 *Non-Controlling Interests*.

Section 1582 establishes standards for accounting for a business combination and represents the Canadian equivalent to IFRS 3, *Business Combinations* (January 2008). Section 1601 establishes standards for the preparation of consolidated financial statements. Finally, Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination and represents the Canadian equivalent to International Accounting Standard 27, *Consolidated and Separate Financial Statements* (January 2008). These new standards become effective for the Corporation's fiscal year beginning on January 1, 2011 and earlier adoption of all three Sections concurrently is permitted. It is expected that the adoption of this new section will not have a material impact on the Company's financial statements.

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. For the Company, the transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been determined at this time.

3. BUSINESS COMBINATION

On May 27, 2008, the Company entered into an Amalgamation Agreement pursuant to which the Company and Tiger-Cat Energy Ltd. ("Tiger-Cat") agreed to amalgamate (the "Amalgamation"). This Amalgamation Agreement was subsequently amended on July 29, 2008 (together the original agreement and amended agreement are herein referred to as the "Amalgamation Agreement"). Final closing of the Amalgamation took place on September 29, 2008.

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3. BUSINESS COMBINATION (Continued)

Pursuant to the Amalgamation Agreement, each Tiger-Cat shareholder received one common share ("Amalco Share") of the amalgamated corporation ("Amalco") for each 2.98 common shares of Tiger-Cat held. Each former shareholder of the Company received one Amalco Share for each one common share of the Company held.

As a condition of this combination, the principal amount owing on \$1,529,212 of the Convertible Debentures issued by the Company was converted to common shares resulting in the issuance of 6,920,332 common shares and all interest on these Convertible Debentures was forgiven by agreement of the debenture holder. A total of \$2,500 of the principal amount owed on the C-Data Convertible Debentures (plus accrued interest) was repaid by cash.

Upon completion of the Amalgamation a total of 11,406,655 common shares were issued to the former shareholders of Tiger-Cat and a total of 15,156,060 common shares were issued to the former C-Data shareholders. Subsequent to the Amalgamation, the Company had outstanding 26,562,715 common shares.

The acquisition is an arms length acquisition and was accounted for using the purchase method with C-Data being the acquirer and the purchase price being allocated based on the fair value of the assets acquired and liabilities assumed of Tiger-Cat:

| | |
|---|------------------|
| | \$ |
| Current assets, including cash of \$1,316,243 | 1,538,218 |
| Current liabilities | (898,786) |
| Working capital | <u>639,432</u> |
| Other receivable | 4,895,400 |
| Property, plant and equipment | <u>8,800</u> |
| Net assets acquired at fair value | <u>5,543,632</u> |
| | |
| Purchase price | |
| -value attributed to shares issued (Note 9) | 5,535,932 |
| -value attributed to warrants issued (Note 9) | <u>7,700</u> |
| | <u>5,543,632</u> |

Pursuant to Section 184 of the Alberta Business Corporations Act, as part of the Amalgamation, holders of Tiger-Cat common shares were entitled to exercise rights of dissent in respect of the business combination and, provided the combination became effective, to be paid fair value for such shares by Tiger-Cat, such fair value to be determined as of the close of business on the last business day before the day on which the resolution from which the dissent is made.

RMS SYSTEMS INC.
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Notes to Consolidated Financial Statements
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3. BUSINESS COMBINATION (Continued)

Three shareholders holding an aggregate of 4,070,735 Tiger-Cat common shares (equivalent to 1,366,017 of Amalco common shares) dissented to the combination. As the dissenting shareholders effectively forfeited their shares pursuant to their dissent action, these shares were removed from the number of shares issued and outstanding and an amount of \$648,047 was recorded in current liabilities, which was the amount paid to the dissenting shareholders.

In June 2007 Tiger-Cat completed the sale of its wholly owned Australian subsidiary, Bronco Energy Pty. Ltd. (“Bronco”) (and thereby the sale of its interests in certain Australian lands) to Santos Ltd. (“Santos”) for a sale price of AUD\$10.53 million. This sale price was made up of three payments. AUD\$2,531,220 (approximately CAD\$2,276,000) was paid on June 25, 2007. The second payment in the amount of AUD\$3 million was not payable unless and until Santos’ share of production of the proven plus probable reserves from its interest in the lands would be 100 Peta-joules “PJ” (approximately 95 billion of cubic feet “Bcf”). The third payment in the amount of AUD\$5 million was not payable unless and until Santos’ share of production of the proven plus probable reserves from its interest in the lands would be 200 PJ (approximately 190 Bcf). The Company agreed to amend the original Agreement with Santos such that the second and third payments (totalling AUD\$8 million) were reduced to AUD\$6.15 million in exchange for the immediate payment of AUD\$6.15 million (CAD\$4,895,375). Payment of this amount was received by RMS on December 1, 2008.

4. DEFERRED DEVELOPMENT

| | <u>2008</u> | <u>2007</u> |
|---|----------------|----------------|
| | \$ | \$ |
| Accumulated costs, beginning of year | 785,775 | 417,100 |
| Additional costs deferred during the year | 155,543 | 550,448 |
| Expenses on test project | - | 10,227 |
| Investment tax credits accrued | (35,000) | (192,000) |
| Adjustment to investment tax credit balance | 72,000 | - |
| Accumulated amortization | (146,747) | - |
| Deferred development costs, end of year | <u>831,571</u> | <u>785,775</u> |

General and administrative expenses in the approximate amount of \$156,000 (2007 - \$550,000) have been capitalized into deferred development costs as such costs were costs directly attributable to the development of the software solution.

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
Notes to Consolidated Financial Statements
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5. PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | Net Book Value |
|---------------------------------|------------------|-----------------------------|-------------------|
| | \$ | \$ | \$ |
| <u>December 31, 2008</u> | | | |
| Parts and raw materials | 803,532 | - | 803,532 |
| Rental equipment | 464,952 | 23,248 | 441,704 |
| Computer hardware | 470,734 | 235,731 | 235,003 |
| Computer software | 100,218 | 8,065 | 92,153 |
| Office furniture | 2,961 | 592 | 2,369 |
| Leasehold improvements | 48,712 | 2,436 | 46,276 |
| | 1,891,109 | 270,072 | 1,621,037 |
| <u>December 31, 2007</u> | | | |
| Computer hardware | 262,726 | 102,547 | 160,179 |
| Computer software | 10,527 | 1,732 | 8,795 |
| | 273,253 | 104,279 | 168,974 |

During the year ended December 31, 2008, the Company settled \$185,972 of its trade accounts payable for \$nil, which was recorded against property and equipment.

6. DUE TO RELATED PARTIES

Amounts due to related parties were unsecured, non-interest bearing and had no fixed terms of repayment. During the year, the Company repaid \$38,795 of the balance and was also advanced \$60,000. The \$60,000 advance was converted into commons shares as per Note 9.

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7. CONVERTIBLE DEBENTURES

The Company issued various convertible debentures that bore interest at 8% per annum, compounded annually, with maturity dates ranging from June 30, 2008 to December 31, 2008 secured under a general security agreement. \$497,500 of the debentures had a \$0.50 (\$0.162 post-split) conversion rate; \$616,962 of the debentures had a \$0.75 (\$0.242 post-split) conversion rate and \$414,750 of the debentures had a \$1 (\$0.323 post-split) conversion rate. These debentures were initially all issued to shareholders, officers and directors of the Company. During 2008, the Company repaid \$2,500, plus interest, of the convertible debentures and converted the remaining \$1,529,212 of principal into 6,930,332 (post-split) common shares of the Company (Note 9). All interest on these convertible debentures, except for interest on the \$2,500 repaid, in the amount of \$268,767 was forgiven by the debenture holders.

A reconciliation of the Company's convertible debentures is as follows.

| | <u>2008</u> | <u>2007</u> |
|--|-------------|------------------|
| | \$ | \$ |
| Balance, beginning of year | 1,502,227 | 868,701 |
| Issuance of convertible debenture – debt component | 9,672 | 613,797 |
| Accretion of equity component | 19,813 | 19,729 |
| Repayment of convertible debenture | (2,500) | - |
| Converted into common shares (Note 9) | (1,529,212) | - |
| Balance, end of year | <u>-</u> | <u>1,502,227</u> |

A reconciliation of the equity component of the convertible debenture is as follows

| | <u>2008</u> | <u>2007</u> |
|--|-------------|---------------|
| | \$ | \$ |
| Balance, beginning of year | 61,649 | 40,734 |
| Issuance of convertible debenture – equity component | 328 | 20,915 |
| Conversion (Note 9) | (61,977) | - |
| Balance, end of year | <u>-</u> | <u>61,649</u> |

The equity component was valued using the residual valuation of equity component method, using a discount rate of 12%, with terms varying between 1 year to 2.2 years.

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8. INCOME TAXES

The effective tax rate of income tax varies from the statutory rate as follows:

| | <u>2008</u> | <u>2007</u> |
|--|--------------------|-------------|
| Combined tax rate | 29.5 | 30.0 |
| | \$ | \$ |
| Net loss for the year | (1,113,531) | (580,535) |
| Expected income tax provision at statutory rates | (328,000) | (173,000) |
| Other | (106,000) | (1,000) |
| Difference in enacted rate and effective rate | 62,000 | 49,000 |
| Change in valuation allowance | 372,000 | 125,000 |
| Actual income tax provision | - | - |

At the end of the year, subject to confirmation by income tax authorities, the Company has approximately the following undeducted tax pools:

| | <u>2008</u> | <u>2007</u> |
|--|------------------|-------------|
| | \$ | \$ |
| Scientific research and development | 485,000 | 762,000 |
| Undepreciated capital cost | 931,000 | 121,000 |
| Non-capital losses carried forward for tax purposes with expiration dates between 2015 and 2028 | 2,733,000 | 1,470,000 |
| | 4,149,000 | 2,353,000 |

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

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8. INCOME TAXES (Continued)

The components of the Company's future income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|------------------|-------------|
| | <u>\$</u> | <u>\$</u> |
| Property and equipment | 44,000 | (11,000) |
| Scientific research and development | (87,000) | (103,000) |
| Unused tax losses carry forward | 669,000 | 368,000 |
| Valuation allowance | (626,000) | (254,000) |
| Future income tax asset | <u>-</u> | <u>-</u> |

9. EQUITY INSTRUMENTS

Authorized

Unlimited number of common voting shares

RMS SYSTEMS INC.
(formerly C-Data Communications Inc.)
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9. EQUITY INSTRUMENTS (Continued)

Issued

| | <u>Number of Shares</u> | <u>Amount \$</u> |
|---|--------------------------|--------------------------------|
| Common shares | | |
| Balance at December 31, 2006 | 4,299,703 | 387,002 |
| Issued for cash | 55,025 | 17,750 |
| Balance at December 31, 2007 | 4,354,728 | 404,752 |
| Issued for cash | 31,000 | 10,000 |
| Private placement for cash | 3,550,000 | 710,000 |
| Conversion of related party loans | 300,000 | 60,000 |
| Conversion of convertible debentures | 6,920,332 | 1,529,212 |
| Issued for business combination (Note 3) | 11,406,655 | 5,535,932 |
| Equity component on conversion of convertible debentures (Note 7) | - | 61,977 |
| Balance at December 31, 2008 | <u>26,562,715</u> | <u>8,311,873</u> |
| Common share purchase warrants | | |
| Balance at December 31, 2007 | - | - |
| Issued for business combination (Note 3) | 100,000 | 7,700 |
| Balance at December 31, 2008 | <u>100,000</u> | <u>7,700</u> |
| Total equity instruments at December 31, 2008 | | <u><u>8,319,573</u></u> |

Private placements

On January 31, 2008, the Company issued 31,000 shares for total consideration of \$10,000. On May 15, 2008, the Company issued 3,550,000 common shares of the Company for total consideration of \$710,000.

Stock split

On January 31, 2008, the shares of the Company split 3.1 shares for every one share of the Company and have been reflected in the issued and outstanding shares and per share information.

Conversion of related party loans

On May 15, 2008, the Company converted \$60,000 of related party loans in exchange for 300,000 common shares of the Company.

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9. EQUITY INSTRUMENTS (Continued)

Conversion of convertible debentures

On September 29, 2008, in conjunction with the business combination (Note 3), the Company converted \$1,529,212 of its convertible debentures into 6,920,332 common shares of the Company.

Warrants

On September 29, 2008 the company issued 100,000 common share purchase warrants to its financial advisor for services rendered as part of the business combination (Note 3). These warrants entitle the holder to acquire up to 100,000 common shares of the Company at a price of \$0.179 per common share. These warrants expire on September 29, 2010. An amount of \$7,700 was recorded for the value of the warrants issued. The fair value of the warrants at \$0.077 per warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (\$ nil), expected volatility 78%, risk-free interest rate (2.0%), and weighted average life of 2 years.

Business combination

On May 26, 2008, the Company entered into an amalgamation agreement with Tiger-Cat for the amalgamation as per Note 3. The Company's shareholders received one common share ("Amalco Share") of the amalgamated corporation ("Amalco") for each one common share of the Company held, and each Tiger-Cat shareholder received one Amalco Share for each 2.98 common shares of Tiger-Cat held. The fair value of the common shares are based on the fair value of the assets and liabilities acquired.

Stock options

The Company has established a stock option plan for its directors, officers, employees, consultants and other personnel. The total number of common shares issuable under the Plan may not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the plan have a term of five years and vest 1/3 on the first anniversary from the date of grant and 1/3 each of the two anniversaries thereafter. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of grant.

An amount of \$6,000 was recorded in 2008 for amortization of the value of the options issued. The fair value of the options at \$0.08 per option was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (\$ nil), expected volatility 41%, risk-free interest rate (2.5%), and weighted average life of 5 years.

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9. EQUITY INSTRUMENTS (Continued)

The Company has granted stock options to various officers, directors, and employees of the Company and other parties as follows:

| | Number of Shares | Option Price per Share \$ | Weighted Average Exercise Price \$ | Weighted Average Grant-Date Fair Value \$ |
|---|---------------------|---------------------------------|--|---|
| Options outstanding, December 31, 2006 and 2007 | - | - | - | - |
| Granted | 1,845,000 | 0.20 | 0.20 | 0.08 |
| Options outstanding, December 31, 2008 | 1,845,000 | 0.20 | 0.20 | 0.08 |

The following table summarizes information about the stock options outstanding at December 31, 2008:

| Options Outstanding | Option price \$ | Weighted Average Exercise Price \$ | Weighted Average Remaining Contractual Life | Number of Options Currently Exercisable | Weighted Average Exercise Price of Options Currently Exercisable \$ |
|------------------------|--------------------|--|---|--|--|
| 1,845,000 | 0.20 | 0.20 | 4.92 years | - | - |

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9. EQUITY INSTRUMENTS (Continued)

The weighted average number of shares used in calculating net loss per share is as follows.

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|------------------|
| Weighted average common shares outstanding – basic and diluted | <u>11,459,359</u> | <u>4,299,703</u> |

As the Company is in a loss position, basic weighted average common shares outstanding equals diluted weighted average common shares outstanding. Diluted loss per share has not been disclosed as the effect would be anti-dilutive and as such, 1,845,000 options and 100,000 warrants have been excluded from the diluted weighted average common shares.

10. CONTRIBUTED SURPLUS

| | <u>December 31,</u> <u>2008</u> | <u>December 31,</u> <u>2007</u> |
|----------------------------|------------------------------------|------------------------------------|
| | <u>\$</u> | <u>\$</u> |
| Balance, beginning of year | - | - |
| Stock based compensation | <u>6,000</u> | - |
| Balance, end of year | <u>6,000</u> | - |

11. RELATED PARTY TRANSACTION

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions:

- During 2008, the Company accrued \$100,080 (2007 - \$91,038) of interest on the convertible debentures which was forgiven by agreement of most parties (Note 9).
- During 2007, the Company issued convertible debentures to directors and officers of the Company in the amount of \$616,962. All debentures, except for \$2,500 of debentures, were converted to common shares (Note 9).

These transactions have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties and represents actual values charged to the related parties.

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12. SUPPLEMENTAL CASH FLOW DISCLOSURE

- a) For the year ended December 31, 2008 and 2007, there have been no cash taxes or interest paid.
- b) During the year ended December 31, 2008, \$60,000 of related party loans were converted into common shares of the Company (Note 9).
- c) During the year ended December 31, 2008, \$1,529,212 of convertible debentures were converted into common shares of the Company (Note 7).
- d) During the year ended December 31, 2008, \$268,767 of interest on convertible debentures was forgiven (Note 7).
- e) During the year ended December 31, 2008, \$185,972 of trade accounts payable was forgiven.
- f) During the year ended December 31, 2008, the Company completed a business combination (Note 3) and issued 100,000 warrants (Note 9) for financial advisory services in conjunction with the business combination.

13. COMMITMENTS

The Company has entered into a lease for its premises which calls for the following base rent payments:

| | |
|------|----------------|
| | \$ |
| 2009 | 27,072 |
| 2010 | 27,312 |
| 2011 | 28,128 |
| 2012 | 28,800 |
| 2013 | 16,800 |
| | <u>128,112</u> |

The Company will also be responsible for its share of operating costs.

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

FINANCIAL INSTRUMENTS

The Company is exposed to financial risk in a range of financial instruments including cash, accounts receivable, accounts payable and accrued liabilities. At December 31, 2008, the fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the relatively short term nature. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are:

- a) Liquidity Risk
- b) Credit Risk
- c) Currency Risk
- d) Market Risk

Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements are continuously monitored and adjusted as input variables change. As variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing. Management has assessed this risk as minimal.

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. During the year ended December 31, 2008, there was no impairment provision required on any of the financial assets of the Company. The Company does have a concentration of credit risk as 80% of the Company's trade receivables are from one customer which contributed to \$307,415 of revenues in 2008. As such, the Company is economically dependent on this one customer. As at December 31, 2008, the Company's receivables consisted of \$129,183 of trade receivables and \$352,000 from the government for investment tax credits.

All of the Company's cash is held at one financial institution and as such, has a concentration of credit risk on its cash.

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)

The Company's accounts receivables are aged as follows:

| | Total \$ |
|-----------------------------|----------|
| Current (less than 30 days) | 43,686 |
| 30 to 60 days | 82,494 |
| 61 to 90 days | 3,118 |
| Over 90 days | 352,000 |
| Total | 481,298 |

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company.

During the year ended December 31, 2008, there was no impairment provision required on any of the financial assets of the Company due to historical success of collecting receivables.

Currency Risk

Currency risk will impact the value of the financial assets and liabilities on the balance sheet at December 31, 2008. Currently the RigManager System Unit is deployed only in Canada (and therefore all revenue is in Canadian currency), but the majority of the manufacture of the RigManager System Unit occurs in the United States (and therefore these expenses are in United States currency). Changes in the U.S. to Canadian exchange rate will impact the realization of certain assets and payment of certain liabilities.

Market risk

The major area of uncertainty for the Company is that the demand for its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of the Company and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices. In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. In addition a large majority of the market place for the Company's product is held by one competitor, much larger in size than the Company. The Company is subject to the risks and uncertainties arising from the fact that one competitor controls such a large market share.

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)

CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

The Board of Directors does not establish quantitative return on capital criteria for the Company; but rather promotes year over year sustainable growth in net income and funds flow. The Company defines capital as total equity plus net debt.

| | December 31, 2008 | December 31, 2007 |
|---------------|------------------------------|----------------------|
| | \$ | \$ |
| Total debt | - | 1,541,534 |
| Less cash | (3,386,313) | (99,584) |
| Net debt | (3,386,313) | 1,441,950 |
| Total equity | 5,984,329 | (761,312) |
| Total capital | 2,598,016 | 680,638 |

The Company is not subject to any externally imposed financial requirements.