

*Consolidated financial statements of*

**RMS SYSTEMS INC.**

*December 31, 2009 and 2008*

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## **Auditors' Report**

To the Shareholders of  
**RMS Systems Inc.:**

We have audited the consolidated balance sheets of **RMS Systems Inc.** as at December 31, 2009 and 2008 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. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
April, 2, 2010

*Signed "Deloitte and Touche LLP"*

Chartered Accountants

**RMS SYSTEMS INC.**  
**Consolidated Balance Sheets**

	December 31, 2009 \$	December 31, 2008 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	725,077	3,386,313
Accounts receivable	472,034	481,298
Prepaid expenses	61,998	49,323
	<u>1,259,109</u>	<u>3,916,934</u>
INTANGIBLE ASSETS (Note 5)	612,073	831,571
PROPERTY AND EQUIPMENT (Note 6)	2,712,068	1,621,037
	<u>4,583,250</u>	<u>6,369,542</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	568,869	385,213
<b>SHAREHOLDERS' EQUITY</b>		
Equity instruments (Note 8)	8,319,573	8,319,573
Contributed surplus (Note 9)	75,000	6,000
Deficit	(4,380,192)	(2,341,244)
	<u>4,014,381</u>	<u>5,984,329</u>
	<u>4,583,250</u>	<u>6,369,542</u>

BASIS OF PRESENTATION (Note 1)

COMMITMENTS (Note 12)

SUBSEQUENT EVENT (Note 13)

Approved on behalf of the Board

Signed "Dave Hall"

Dave Hall, Director

Signed "Willey Wong"

Willey Wong, Director

**RMS SYSTEMS INC.****Consolidated Statements of Operations, Comprehensive Loss and Deficit**

	For the year ended December 31, 2009 \$	For the year ended December 31, 2008 \$
<b>REVENUE</b>		
Rental	<u>1,368,272</u>	<u>380,477</u>
<b>EXPENSES</b>		
Rental services	1,134,857	261,516
General and administrative	1,612,709	1,031,811
Interest	-	131,568
Accretion of convertible debentures	-	19,813
Amortization	601,695	312,541
Stock-based compensation	69,000	6,000
	<u>3,418,261</u>	<u>1,763,249</u>
<b>OTHER</b>		
Interest income	10,000	474
Gain for forgiveness of debt	1,041	268,767
	<u>11,041</u>	<u>269,241</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(2,038,948)</b>	<b>(1,113,531)</b>
<b>DEFICIT, BEGINNING OF YEAR</b>	<b>(2,341,244)</b>	<b>(1,227,713)</b>
<b>DEFICIT, END OF YEAR</b>	<b>(4,380,192)</b>	<b>(2,341,244)</b>
<b>LOSS PER SHARE (NOTE 8)</b>		
Basic and diluted	<u>(0.08)</u>	<u>(0.10)</u>

**RMS SYSTEMS INC.**  
**Consolidated Statements of Cash Flow**

	<b>For the year ended December 31, 2009 \$</b>	<b>For the year ended December 31, 2008 \$</b>
<b>CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net loss	(2,038,948)	(1,113,531)
Adjustment for:		
Amortization	601,695	312,541
Accrued interest on convertible debenture	-	100,080
Gain on forgiveness of debt	(1,041)	(268,767)
Stock-based compensation	69,000	6,000
Accretion of convertible debentures	-	19,813
	<u>(1,369,294)</u>	<u>(943,864)</u>
Changes in non-cash working capital		
Accounts receivable	147,101	(16,840)
Prepaid expenses	(12,675)	(43,073)
Accounts payable and accrued liabilities	(49,133)	(919,270)
	<u>(1,284,001)</u>	<u>(1,923,047)</u>
<b>INVESTING</b>		
Purchase of property and equipment	(1,500,882)	(1,795,029)
Purchase of intangible assets (Note 5)	27,654	(192,543)
Deposit received pre-business combination	-	200,000
Cash acquired from business combination	-	1,316,243
Cash received from other receivable (Note 4)	-	4,895,400
Changes in non-cash investing activities	95,993	37,000
	<u>(1,377,235)</u>	<u>4,461,071</u>
<b>FINANCING</b>		
Advances from related parties	-	60,000
Repayments to related parties	-	(38,795)
Proceeds from issuance of share capital (Note 8)	-	720,000
Proceeds from convertible debentures, net	-	7,500
	<u>-</u>	<u>748,705</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(2,661,236)</b>	<b>3,286,729</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>3,386,313</b>	<b>99,584</b>
<b>CASH, END OF YEAR</b>	<b>725,077</b>	<b>3,386,313</b>

**RMS SYSTEMS INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009 and 2008**

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**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

RMS Systems Inc. (the “Company”) was formed by an Amalgamation dated September 29, 2008. Pursuant to Articles of Amalgamation dated September 29, 2008, C-Data Communications Inc. amalgamated with Tiger-Cat Energy Ltd. to form 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.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The continued success of the Company is dependant on the Company increasing its market share and thereby its revenues, successfully raising equity financings to invest in capital assets, and generating profits from its operations.

The financial statements do not include any adjustments, which could be material, relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern

**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 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.

**RMS SYSTEMS INC.**  
**Notes to Consolidated Financial Statements**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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 inter-company accounts and transactions have been eliminated.

*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%
Vehicles	30%
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 intangible assets 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 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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Intangible assets*

Intangible assets, 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 intangible asset is expensed. Investment tax credits are recorded only when received. There is no impairment of intangible assets as at December 31, 2009 and 2008.

*Revenue Recognition*

Revenue is recognized 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 Intangible Assets*

The Company determines whether the net carrying amount of property and equipment and intangible assets (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.**  
**Notes to Consolidated Financial Statements**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Government assistance*

Government assistance, consisting of grants and research and experimental development tax credits, is recorded as a reduction of either the related expense or the cost of the asset to which it relates. The assistance is recorded in the accounts when reasonable assurance exists that the Company has complied with the terms and conditions of the approved government assistance program and when there is reasonable assurance that the assistance will be realized.

*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

*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".

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial Instruments – Disclosures*

In May 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company on December 31, 2009. These disclosures, which include the nature and extent of risks arising from financial instruments, are included in Note 3.

*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.

*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.

*Inventories*

The Company's parts and raw materials inventory have been included in property and equipment. Inventory is carried at the lower of average cost and replacement cost.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NEW ACCOUNTING POLICIES**

*Goodwill and Other Intangible Assets*

On January 1, 2009, the Company retrospectively adopted the Canadian Institute of Chartered Accountants (CICA) Section 3064, Goodwill and Intangible Assets issued by the Accounting Standards Board (“AcSB”). The new section states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward the requirements of the old Section 3062 “*Goodwill and Other Intangible Assets*”. The adoption of the guideline did not have any material effect on the Company’s consolidated financial statements.

*Financial instruments - disclosures*

In June, 2009 the CICA issued amendments to Handbook Section 3862, Financial Instruments – Disclosures. The amendments provide for enhanced disclosures on liquidity risk and require disclosures on fair value measurements of financial instruments. These requirements harmonize Canadian standards with International Financial Reporting Standards (“IFRS”) and apply to annual financial statements for the fiscal years ending on or after September 30, 2009.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

Effective January 1, 2009, the Company adopted CICA Emerging issues Committee Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Company’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

**NEW ACCOUNTING PRONOUNCEMENTS**

*Business Combinations*

In January 2009, the CICA issued new accounting standards, Section 1582 *Business Combinations* and Section 1601 *Consolidated Financial Statements*, replacing Section 1581 *Business Combinations* and Section 1600 *Consolidated Financial Statements*. The CICA also issued new Section 1602 *Non-Controlling Interests*.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 ("IFRS")*

In February 2008, the CICA's Accounting Standards Board confirmed that Canadian publicly accountable entities will be required to adopt IFRS as promulgated by the International Accounting Standards Board in place of generally accepted accounting principles in Canada ("GAAP") effective January 1, 2011. The Company is currently assessing which accounting policies will be affected by the change to IFRS and the potential impact of these changes on its financial position and results of operations.

**3. 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, 2009, the fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their relatively short term nature. At December 31, 2009, the Company valued cash using level 1 inputs. The Company did not have any assets or liabilities which are valued using level 2 or level 3 inputs. 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 liquidity, credit and market risks.

*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.

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**3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)**

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.

A maturity analysis for the company's undiscounted financial liabilities, including interest, and contractual maturities is summarized in the following table.

	Accounts payable and accrued liabilities	Office premises
	\$	
2010	568,869	27,312
2011	-	28,128
2012	-	28,800
2013	-	16,800
	568,869	101,040

*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. This credit risk is mitigated by the use of approved credit policies to limit the amount of transactions according to the counter party's credit quality. The Company assesses quarterly if there has been any impairment of the financial assets of the Company. During the year ended December 31, 2009, there was no impairment provision required on any of the financial assets of the Company. The Company has a concentration of credit risk as 47% of the Company's trade receivables are from one customer which contributed to \$866,600 of revenues in 2009. As such, the Company is economically dependent on this one customer.

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

The Company's accounts receivables are aged as follows:

	Total \$
Current (less than 30 days)	348,948
30 to 60 days	107,752
61 to 90 days	6,008
Over 90 days	9,326
Total	472,034

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**3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)**

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

*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 is beyond the control of the Company and its customers.

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. The spring thaw makes the ground unstable and less capable of supporting heavy weights. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing drilling and well servicing activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues.

There is greater demand for oilfield services provided by the Company in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Company may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. Volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**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.

**RMS SYSTEMS INC.**  
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**3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)**

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. Total net debt includes any potential long term debt, bank indebtedness or capital leases of the Company.

	<b>December 31, 2009</b>	December 31, 2008
	\$	\$
Total debt	-	-
Less cash	<b>(725,077)</b>	(3,386,313)
Net debt	<b>(725,077)</b>	(3,386,313)
Total equity	<b>4,014,381</b>	5,984,329
Total capital	<b>3,289,304</b>	2,598,016

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

**RMS SYSTEMS INC.**  
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**4. 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.

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	8,800
Net assets acquired at fair value	<u>5,543,632</u>
Purchase price	
-value attributed to shares issued (Note 8)	5,535,932
-value attributed to warrants issued (Note 8)	7,700
	<u>5,543,632</u>

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**4. BUSINESS COMBINATION (Continued)**

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.

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.

**5. INTANGIBLE ASSETS**

Intangible assets are deferred development costs as detailed below:

	<u>2009</u>	<u>2008</u>
	\$	\$
Carrying amount, beginning of year	<b>831,571</b>	785,775
Additional costs deferred during the year	-	155,543
Investment tax credits accrued	-	(35,000)
Adjustment to investment tax credit balance	<b>(27,654)</b>	72,000
Amortization expense for the year	<b>(191,844)</b>	(146,747)
Carrying amount, end of year	<b><u>612,073</u></b>	<u>831,571</u>

**RMS SYSTEMS INC.**  
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**6. PROPERTY AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
<b><u>December 31, 2009</u></b>			
Parts and raw materials	1,051,894	-	1,051,894
Rental equipment	1,746,706	405,768	1,340,938
Vehicles	216,108	64,832	151,276
Computer hardware	180,291	155,556	24,735
Computer software	120,239	31,154	89,085
Office furniture	12,631	2,964	9,667
Leasehold improvements	58,636	14,163	44,473
	<b>3,386,505</b>	<b>674,437</b>	<b>2,712,068</b>
<b><u>December 31, 2008</u></b>			
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
	<b>1,891,109</b>	<b>270,072</b>	<b>1,621,037</b>

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.

**RMS SYSTEMS INC.**  
**Notes to Consolidated Financial Statements**  
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**7. INCOME TAXES**

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

	<u>2009</u>	<u>2008</u>
Combined tax rate	<b>29.0%</b>	29.5%
	\$	\$
Net loss for the year	<b>(2,038,948)</b>	(1,113,531)
Expected income tax provision at statutory rates	<b>(594,000)</b>	(328,000)
Other	<b>28,000</b>	(106,000)
Rate difference	<b>79,000</b>	62,000
Change in valuation allowance	<b>487,000</b>	372,000
Actual income tax provision	<b>-</b>	-

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Scientific research and development	<b>533,000</b>	485,000
Undepreciated capital cost	<b>1,410,000</b>	931,000
Non-capital losses carried forward for tax purposes with expiration dates between 2015 and 2028	<b>4,722,000</b>	2,733,000
	<b>6,665,000</b>	4,149,000

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

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**7. 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>2009</u>	<u>2008</u>
	\$	\$
Property and equipment	(48,000)	44,000
Scientific research and development	(20,000)	(87,000)
Unused tax losses carry forward	1,181,000	669,000
Valuation allowance	(1,113,000)	(626,000)
Future income tax asset	-	-

**8. EQUITY INSTRUMENTS**

*Authorized*

Unlimited number of common voting shares

*Issued*

	<u>Number of Shares</u>	<u>Amount \$</u>
<b>Common shares</b>		
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, 2009 and 2008	<u>26,562,715</u>	<u>8,311,873</u>
<b>Common share purchase warrants</b>		
Balance at December 31, 2007	-	-
Issued for business combination (Note 3)	<u>100,000</u>	<u>7,700</u>
Balance at December 31, 2009 and 2008	<u>100,000</u>	<u>7,700</u>
<b>Total equity instruments at December 31, 2009 and 2008</b>		<u><u>8,319,573</u></u>

**RMS SYSTEMS INC.**  
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**8. EQUITY INSTRUMENTS (Continued)**

*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 proceeded with a reverse stock split and consolidated the shares from 3.1 old shares to 1 new 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.

*Conversion of convertible debentures*

On September 29, 2008, in conjunction with the business combination (Note 4), 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 4). 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 4. 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 is based on the fair value of the assets and liabilities acquired.

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**8. EQUITY INSTRUMENTS (Continued)**

*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 \$69,000 was recorded in 2009 (\$6,000 – 2008) for amortization of the value of the options granted. 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 of \$nil (2008 - \$nil), expected volatility of 41% (2008 – 41%), risk-free interest rate of 2.5% (2008 – 2.5%), and weighted average life of 5 years (2008 – 5 years).

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, 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
Granted	100,000	0.20	0.20	0.08
Options outstanding, December 31, 2009	<b>1,945,000</b>	<b>0.20</b>	<b>0.20</b>	<b>0.08</b>

**RMS SYSTEMS INC.**  
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**8. EQUITY INSTRUMENTS (Continued)**

The following table summarizes information about the stock options outstanding at December 31, 2009 and 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 \$
1,945,000	0.20	0.20	3.95 years	614,999	0.20

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

	<b>2009</b>	2009
Weighted average common shares outstanding – basic and diluted	<b>26,562,715</b>	11,459,359

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, 1,945,000 options and 100,000 warrants have been excluded from the diluted weighted average common shares.

**9. CONTRIBUTED SURPLUS**

	<b>December 31, 2009</b>	December 31, 2008
	\$	\$
Balance, beginning of year	<b>6,000</b>	-
Stock based compensation	<b>69,000</b>	6,000
Balance, end of year	<b>75,000</b>	6,000

**RMS SYSTEMS INC.**  
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**10. RELATED PARTY TRANSACTION**

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

- During 2009, the Company paid, to a company related by virtue of common directors and officers, the amount of \$60,000 for reimbursement of general and administrative expenses.
- During 2008, the Company accrued \$100,080 of interest on the convertible debentures which was forgiven by agreement of most parties.

Revenue and expense transactions are in the normal course of operations and 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 the fair value.

**11. SUPPLEMENTAL CASH FLOW DISCLOSURE**

- a) For the year ended December 31, 2009 and 2008, 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.
- c) During the year ended December 31, 2008, \$1,529,212 of convertible debentures were converted into common shares of the Company.
- d) During the year ended December 31, 2008, \$268,767 of interest on convertible debentures was forgiven.
- e) During the year ended December 31, 2008, \$185,972 of trade accounts payable was forgiven.

**RMS SYSTEMS INC.**  
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**12. COMMITMENTS**

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

	<u>\$</u>
2010	27,312
2011	28,128
2012	28,800
2013	16,800
	<u>101,040</u>

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

**13. SUBSEQUENT EVENTS**

- (a) Subsequent to the year end, 66,667 options were exercised for total consideration of \$13,333.
- (b) Subsequent to the year end, the Company granted 870,000 options with exercise prices between \$0.20 to \$0.245 per share to officers, directors and employees of the Company with expiry dates between February 18, 2015 to March 1, 2015. In addition, 283,333 options expired due to the departure of two officers of the Company.