



Consolidated Financial Statements of

RMS SYSTEMS INC.

December 31, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of RMS Systems Inc.

We have audited the accompanying consolidated financial statements of RMS Systems Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RMS System Inc. as at December 31, 2010 and 2009 and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "Deloitte & Touche LLP"

Chartered Accountants
Calgary, Alberta
April 26, 2011

RMS SYSTEMS INC.
Consolidated Balance Sheets

	December 31, 2010 \$	December 31, 2009 \$
ASSETS		
CURRENT		
Cash	618,584	725,077
Accounts receivable	1,261,841	472,034
Prepaid expenses	67,169	61,998
	<u>1,947,594</u>	<u>1,259,109</u>
INTANGIBLE ASSETS (Note 4)	489,250	612,073
PROPERTY AND EQUIPMENT (Note 5)	4,500,988	2,712,068
	<u>6,937,832</u>	<u>4,583,250</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,405,263	568,869
Current portion of capital leases (Note 6)	67,248	-
	<u>1,472,511</u>	<u>568,869</u>
CAPITAL LEASES (Note 6)	173,894	-
CONVERTIBLE DEBENTURES (Note 6)	1,874,992	-
	<u>3,521,397</u>	<u>568,869</u>
SHAREHOLDERS' EQUITY		
Equity instruments (Note 8)	9,160,806	8,319,573
Equity component of convertible debenture (Note 6)	135,000	-
Contributed surplus (Note 9)	126,478	75,000
Deficit	(6,005,849)	(4,380,192)
	<u>3,416,435</u>	<u>4,014,381</u>
	<u>6,937,832</u>	<u>4,583,250</u>

COMMITMENTS (Note 12)
SUBSEQUENT EVENT (Note 14)

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, 2010 \$	For the year ended December 31, 2009 \$
REVENUE		
Rental	<u>2,841,419</u>	<u>1,368,272</u>
EXPENSES		
Rental services	1,177,705	1,134,857
General and administrative	2,203,142	1,612,709
Interest	40,963	-
Accretion of convertible debentures	9,992	-
Amortization	999,536	601,695
Stock-based compensation	<u>51,478</u>	<u>69,000</u>
	<u>4,482,816</u>	<u>3,418,261</u>
OTHER		
Interest income	505	10,000
Other	<u>15,235</u>	<u>1,041</u>
	<u>15,740</u>	<u>11,041</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(1,625,657)	(2,038,948)
DEFICIT, BEGINNING OF YEAR	<u>(4,380,192)</u>	<u>(2,341,244)</u>
DEFICIT, END OF YEAR	<u>(6,005,849)</u>	<u>(4,380,192)</u>
LOSS PER SHARE (NOTE 8)		
Basic and diluted	<u>(0.06)</u>	<u>(0.08)</u>

RMS SYSTEMS INC.
Consolidated Statements of Cash Flow

	For the year ended December 31, 2010 \$	For the year ended December 31, 2009 \$
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	(1,625,657)	(2,038,948)
Adjustment for:		
Amortization	999,536	601,695
Gain on forgiveness of debt	-	(1,041)
Stock-based compensation	51,478	69,000
Accretion of convertible debentures	9,992	-
	<u>(564,651)</u>	<u>(1,369,294)</u>
Changes in non-cash working capital		
Accounts receivable	(789,807)	147,101
Prepaid expenses	(5,171)	(12,675)
Accounts payable and accrued liabilities	606,179	(49,133)
	<u>(753,450)</u>	<u>(1,284,001)</u>
INVESTING		
Purchase of property and equipment	(2,259,189)	(1,500,882)
Purchase of intangible assets (Note 4)	(72,445)	27,654
Changes in non-cash investing activities	232,136	95,993
	<u>(2,099,498)</u>	<u>(1,377,235)</u>
FINANCING		
Capital lease payments	(92,858)	-
Proceeds from issuance of share capital (Note 8)	841,233	-
Proceeds from convertible debentures (Note 6)	2,000,000	-
	<u>2,748,375</u>	<u>-</u>
Effect of exchange rate changes on cash held in a foreign currency	<u>(1,920)</u>	<u>-</u>
DECREASE IN CASH	(106,493)	(2,661,236)
CASH, BEGINNING OF YEAR	<u>725,077</u>	<u>3,386,313</u>
CASH, END OF YEAR	<u><u>618,584</u></u>	<u><u>725,077</u></u>

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

RMS Systems Inc. (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 dependent 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with GAAP. The preparation of consolidated financial statements in conformity with GAAP 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
December 31, 2010 and 2009

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. and RigManager, Inc. 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
Rig up costs	2 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 and convertible debentures. 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.

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible debentures

Convertible debentures are treated as 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 at 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 re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in the Consolidated Statements of Operations.

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, 2010 and 2009.

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.

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and the conversion of the convertible debentures. 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.

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

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, convertible debentures and capital leases 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.

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.

Foreign currency translation

The accounts of integrated operations are translated using the temporal method, whereby monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into its functional currency at the rates of exchange in effect at the period end date. Non-monetary items and statement of operation transactions are translated into its functional currency at the rate of exchange in effect at that time. Any gains or losses are recorded in the consolidated statement of operations.

RMS SYSTEMS INC.
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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*.

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 Company'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 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.

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

FINANCIAL INSTRUMENTS

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 required 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 disclosures, which include the nature and extent of risks arising from financial instruments, are discussed below.

The Company is exposed to financial risk in a range of financial instruments including cash, accounts receivable, accounts payable and accrued liabilities, capital leases and convertible debentures. At December 31, 2010, 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, 2010, the Company valued cash using level 1 inputs. Instruments valued using Level 2 inputs include the Company's capital leases and convertible debentures. The fair value of the convertible debentures approximates book value. The Company did not have any assets or liabilities which are valued using 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, foreign exchange 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.

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.

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)

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	Capital leases	Convertible debentures
	\$	\$	\$	\$
2011	1,405,263	54,654	83,964	160,000
2012	-	54,694	83,964	2,126,247
2013	-	38,449	103,699	-
	<u>1,405,263</u>	<u>147,797</u>	<u>271,627</u>	<u>2,286,247</u>

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, 2010, there was no impairment provision required on any of the financial assets of the Company. The Company has a concentration of credit risk as 69% (2009 – 47%) of the Company's trade receivables are from one customer which contributed to \$879,000 (2009 - \$866,000) of revenues in 2010. 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, the Company has a concentration of credit risk on its cash.

The Company's accounts receivables are aged as follows:

	2010	2009
	\$	\$
Current (less than 30 days)	794,416	348,948
30 to 60 days	285,829	107,752
61 to 90 days	119,721	6,008
Over 90 days	61,875	9,326
Total	1,261,841	472,034

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

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)

Foreign exchange risk

The Company operates in the United States of America and is exposed to exchange risk to the U.S. dollar. The Company is also exposed to exchange risk on the translation of its US subsidiary into Canadian dollars. The Company has not hedged these risks.

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.
Notes to Consolidated Financial Statements
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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.

	December 31, 2010	December 31, 2009
	\$	\$
Total debt	2,116,134	-
Less cash	(618,584)	(725,077)
Net debt	1,497,550	(725,077)
Total equity	3,416,435	4,014,381
Total capital	4,913,985	3,289,304

The Company is not subject to any externally imposed financial requirements, except for certain debt to EBITDA restrictions for the convertible debenture (Note 6). The Company was in compliance with such EBITDA restrictions on December 31, 2010.

4. INTANGIBLE ASSETS

Intangible assets are deferred development costs as detailed below:

	2010	2009
	\$	\$
Carrying amount, beginning of year	612,073	831,571
Additional costs deferred during the year	72,445	-
Adjustment to investment tax credit balance	-	(27,654)
Amortization expense for the year	(195,268)	(191,844)
Carrying amount, end of year	489,250	612,073

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
<u>December 31, 2010</u>			
Parts and raw materials	1,406,958	-	1,406,958
Rental equipment	3,560,471	998,987	2,561,484
Vehicles	550,108	210,415	339,693
Computer hardware	216,789	173,753	43,036
Computer software	131,907	57,509	74,398
Office furniture	34,928	8,170	26,758
Leasehold improvements	78,531	29,870	48,661
	5,979,692	1,478,704	4,500,988
<u>December 31, 2009</u>			
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
	3,386,505	674,437	2,712,068

6. LONG-TERM DEBT

Capital Leases

The Company has entered into capital leases to purchase vehicles. The term of the leases are for 30 months. Interest rate is fixed from 5.7% to 10.5% with monthly payments varying from \$1,137 to \$1,190. The capital leases are secured by the underlying vehicles leased. The net book value of assets held under capital lease and included in property and equipment is approximately \$234,000.

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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6. LONG-TERM DEBT (Continued)

A reconciliation of the Company's capital leases and the minimum principal lease payments over the term of these capital leases are as follows.

	<u>December 31,</u> <u>2010</u>
	<u>\$</u>
2011	<u>67,248</u>
2012	<u>72,655</u>
2013	<u>101,239</u>
Balance	<u>241,142</u>
Current portion	<u>(67,248)</u>
Long-term portion	<u><u>173,894</u></u>

Convertible Debenture

The Company completed an unsecured convertible debenture financing in the amount of \$2,000,000 ("the Debentures"). The Debentures carry interest at a rate of 8% per annum payable each quarter end commencing December 31, 2010. The Debentures are convertible at any time, at the option of the holders, into common shares at a conversion price of \$0.30 per common share. The Debentures are redeemable by the Company at any time provided the Company's common shares are trading at a price in excess of \$0.45 per share, or prior to October 15, 2011, upon the Company paying the amount owing on the Debenture plus 4% of the principal amount. The Debentures will mature on October 15, 2012.

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

	<u>December 31,</u> <u>2010</u>
	<u>\$</u>
Issue of convertible debenture	<u>2,000,000</u>
Equity component of convertible debenture	<u>(135,000)</u>
As at issuance date	<u>1,865,000</u>
Accretion	<u>9,992</u>
Total balance, end of year	<u><u>1,874,992</u></u>

The fair value of the debt was calculated based on present value of expected cash outflows at a discount rate of 12%. The fair value of the convertible debentures approximates book value.

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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6. LONG-TERM DEBT (Continued)

The Company was required to comply with certain debt to EBITDA restrictions for the convertible debenture. The Company was in compliance with such EBITDA restrictions on December 31, 2010

7. INCOME TAXES

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

	<u>2010</u>	<u>2009</u>
Combined tax rate	28.0%	29.0%
	\$	\$
Net loss for the year	(1,625,657)	(2,038,948)
Expected income tax provision at statutory rates	(455,000)	(594,000)
Other	23,000	28,000
Rate difference	47,000	79,000
Change in valuation allowance	385,000	487,000
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>2010</u>	<u>2009</u>
	\$	\$
Scientific research and development	685,000	533,000
Undepreciated capital cost	2,058,000	1,410,000
Non-capital losses carried forward for tax purposes with expiration dates between 2015 and 2030	6,534,000	4,722,000
	9,277,000	6,665,000

RMS SYSTEMS INC.
Notes to Consolidated Financial Statements
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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>2010</u>	<u>2009</u>
	\$	\$
Property and equipment	(185,000)	(48,000)
Scientific research and development	50,000	(20,000)
Unused tax losses carry forward	1,633,000	1,181,000
Valuation allowance	(1,498,000)	(1,113,000)
Future income tax asset	<u>-</u>	<u>-</u>

8. EQUITY INSTRUMENTS

Authorized

Unlimited number of common voting shares

Issued

	<u>Number of Shares</u>	<u>Amount \$</u>
Common shares		
Balance at December 31, 2009 and 2008	26,562,715	8,311,873
Exercise of stock options	100,000	23,333
Exercise of warrants	100,000	25,600
Private placement for cash	4,000,000	800,000
Balance at December 31, 2010	<u>30,762,715</u>	<u>9,160,806</u>
Common share purchase warrants		
Balance at December 31, 2009 and 2008	100,000	7,700
Exercise of warrants	(100,000)	(7,700)
Balance at December 31, 2010	<u>-</u>	<u>-</u>
Total equity instruments at December 31, 2010		<u>9,160,806</u>
Total equity instruments at December 31, 2009		<u>8,319,573</u>

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8. EQUITY INSTRUMENTS (Continued)

Private placement

During the year ended December 31, 2010, the Company completed a private placement of 4,000,000 common shares at \$0.20 per share for total consideration of \$800,000. Directors and officers subscribed to 1,500,000 of these shares for total consideration of \$300,000.

Warrants

On September 29, 2008 the company issued 100,000 common share purchase warrants to its financial advisor for services rendered as part of a business combination. In 2010, these warrants were exercised.

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 \$51,478 was recorded in 2010 (2009 - \$69,000) for amortization of the value of the options granted. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield of \$nil (2009 - \$nil), expected volatility of 51% (2009 - 41%), risk-free interest rate of 2.5% (2009 - 2.5%), and weighted average life of 5 years (2009 - 5 years).

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8. 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, 2008	1,845,000	0.20	0.20	0.08
Granted	100,000	0.20	0.20	0.08
Options outstanding, December 31, 2009	1,945,000	0.20	0.20	0.08
Granted	1,530,000	0.20 – 0.285	0.247	0.11
Exercised	(100,000)	0.20 – 0.30	0.23	
Expired	(480,000)	0.20 – 0.30	0.22	
Options outstanding, December 31, 2010	2,895,000	0.20 – 0.285	0.225	0.10

The following table summarizes information about the stock options outstanding at December 31, 2010:

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 \$
1,595,000	0.20	0.20	3.06 years	1,063,333	0.20
100,000	0.205	0.205	4.50 years	-	-
670,000	0.245	0.245	4.08 years	-	-
30,000	0.26	0.26	4.67 years	-	-
180,000	0.27	0.27	4.63 years	-	-
260,000	0.28	0.28	4.74 years	-	-
60,000	0.285	0.285	4.92 years	-	-
2,895,000	0.285	0.225	3.65 years	1,063,333	0.20

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8. EQUITY INSTRUMENTS (Continued)

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

	<u>2010</u>	<u>2009</u>
Weighted average common shares outstanding – basic and diluted	28,416,140	26,562,715

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, 2,895,000 options, 100,000 warrants and 6,666,667 shares on the conversion of the convertible debenture have been excluded from the diluted weighted average common shares.

9. CONTRIBUTED SURPLUS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
	\$	\$
Balance, beginning of year	75,000	6,000
Stock based compensation	51,478	69,000
Balance, end of year	126,478	75,000

10. RELATED PARTY TRANSACTION

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

- During 2010, the Company paid to a related company \$60,000 (2009 – 60,000) for the reimbursement of general and administrative expenses. A director of the Company is also an officer of the related company.

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.

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11. SUPPLEMENTAL CASH FLOW DISCLOSURE

a)

	<u>For the year ended December 31, 2010</u>	<u>For the year ended December 31, 2009</u>
	<u>\$</u>	<u>\$</u>
Taxes paid	-	-
Cash interest paid	40,963	-

b) Capital leases

During the year, the Company entered into capital leases with a total value of \$334,000.

12. COMMITMENTS

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

	<u>\$</u>
2011	54,654
2012	54,694
2013	38,449
	<u>147,797</u>

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

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13. SEGMENT DISCLOSURES

The Company operates in two geographic segments which are Canada and the United States of America. The amounts relating to each segments are as follows:

December 31, 2010	Canada	USA	TOTAL
	\$	\$	\$
Rental revenue	2,841,419	-	2,841,419
Operating costs	(3,096,935)	(138,228)	(3,235,163)
Amortization	(990,582)	(6,745)	(997,327)
Segment operating loss	(1,246,098)	(144,973)	(1,391,071)
Stock based compensation			(51,478)
Foreign exchange			9,206
Corporate services			(192,314)
Earnings			(1,625,657)
Total assets	6,779,990	157,842	6,937,832
Capital expenditures	2,152,250	106,939	2,259,189

December 31, 2009	Canada	USA	TOTAL
	\$	\$	\$
Rental revenue	1,368,272	-	1,368,272
Operating costs	(2,549,808)	-	(2,549,808)
Amortization	(601,695)	-	(601,695)
Segment operating loss	(1,783,231)	-	(1,783,231)
Stock based compensation			(69,000)
Corporate services			(186,717)
Earnings			(2,038,948)
Total assets	4,583,250	-	4,583,250
Capital expenditures	1,500,882	-	1,500,882

14. SUBSEQUENT EVENT

Subsequent to the year ended December 31, 2010, the Company entered into an arrangement with an institutional brokerage firm (the "Underwriter") to raise \$7.36 million in equity capital, on a bought deal private placement basis to assist the Company with its growth initiatives. The equity will be raised at \$0.68 per share. The fees to the Underwriter will be 7% of the gross proceeds raised and 7% broker warrants entitling the Underwriter to acquire one common share of the Company for a period of 24 months following the close of the transaction at an exercise price of \$0.68 per share. It is anticipated that this transaction will close in May 2011.