

## **RMS SYSTEMS INC. MANAGEMENT DISCUSSION and ANALYSIS FOR THE YEAR ENDED MARCH 31, 2009**

The following Management's Discussion and Analysis (MD&A) of the financial results for RMS Systems Inc. (the "Company") should be read in conjunction with the consolidated financial statements for the quarter ended March 31, 2009. This MD&A was prepared as of May 25, 2009. It contains certain forward-looking statements that involve known and unknown risks and uncertainties, such as changes in commodity prices and government regulations, which are beyond the Company's control. Actual results could differ materially from those expressed here.

### Forward-looking Statements

Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond the Company's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits the Company can derive therefrom. Readers should be aware that historical results are not necessarily indicative of future performance.

### **The Company's Financial Strategy in the Current Economic Environment**

The current economic environment is challenging and uncertain amidst a global recession, low commodity prices, volatile financial markets and limited access to capital markets.

In this environment, the Company is highly focused on the key business objectives of maintaining financial strength, continuing to market the Company's products so as to generate significant free cash flow in the future, and further optimizing capital investments. In 2008 the Company entered into a Deed of Variation with Santos Ltd. in regard to the previous sale of the Company's Australian property. As a result the Company has received approximately \$4,895,000 (see "Overall Performance"). This has positioned the Company in a strong financial position with large amount of cash on hand.

The Company has a strong balance sheet and continues to employ a conservative capital structure. In 2008 the Company restructured its capital structure by entering into the Amalgamation with Tiger-Cat Energy Ltd. (see "Overall Performance") and converted substantially all of its debentures into commons shares of the amalgamated company. The accrued interest on these debentures was also forgiven as a result of the Amalgamation. Aside from trade payables, the Company is currently debt free.

In addition, the Company continues to monitor expenses and its capital spending. In light of the current market situation, the Company is aggressively pursuing further contracts for its product. The Company also has planned a measured, flexible approach to its 2009 capital spending with the flexibility to adjust expenditures up or down depending upon how economic circumstances unfold during the year.

## Overall Performance

The Company was formed through Articles of Amalgamation pursuant to the Alberta *Business Corporations Act* (the "Act") on September 29, 2008. On that date the Company amalgamated with Tiger-Cat Energy Ltd. and changed its name from C-Data Communications Inc. ("C-Data") to RMS Systems Inc. (the "Amalgamation"). The Company is a technology company which commenced business in May, 2005. It has four wholly owned subsidiaries (all incorporated pursuant to the Act): BARB Projects Ltd., CDHM Offshore Ltd., RigManager Services Ltd. and Quatros Communications Ltd. Prior to the amalgamation the Company was a private corporation. Subsequent to the Amalgamation the Common Shares of the Company have traded on the TSX Venture Exchange under the symbol RMS.

The Company has developed a drilling rig data analysis product for the drilling industry (the "RigManager System"). This RigManager System has been designed to provide oil and gas producers with accurate and timely drilling feedback during the drilling of an oil or gas well. The RigManager System developed by the Company is anticipated to be of value to oil and gas producers in Alberta and through-out the world. Since its inception in 2005, the Company has developed the RigManager System and related hardware and software. The Company spent approximately \$1.45 million in the development of the RigManager System. Through this drilling rig monitoring software the RigManager System provides real time data acquisition from the drilling rig to both the drilling site and the oil and gas exploration company's offices through a web portal. The Company is the developer of its software and utilizes licensed industry proven data collection sensors in the RigManager System. The Company licenses the RigManager System to its wholly owned subsidiary, RigManager Services Ltd. RigManager Services Ltd. markets and provides support services to industry clients. The RigManager System is usually licensed to the oil and gas exploration company and drilling contractor utilizing it. The Company earns revenue based upon the level of service contracted for by the exploration and drilling company and the days of operation of the drilling rig. In other instances a long term license may be entered into for a one time lump sum fee. As of March 31, 2009 the Company had nine (9) RigManger Units deployed on drilling rigs.

## Overview of Financial Information

<b>Financial Highlights</b>	<b>For the three months ended March 31, 2009 \$</b>	<b>For the three months ended March 31, 2008 \$</b>
Revenue	<b>287,307</b>	-
Rental services	<b>209,093</b>	-
General and administrative expense	<b>403,517</b>	84,736
Net income/(loss)	<b>(453,951)</b>	(153,881)
Per share – basic and diluted	<b>(0.02)</b>	(0.04)
EBITDA	<b>(325,303)</b>	(84,736)
Deferred development costs	-	155,543
Property and equipment expenditures	<b>887,004</b>	50,711
Weighted average shares outstanding		
Basic	<b>26,562,715</b>	4,374,486
Diluted	<b>27,631,464</b>	4,374,486
Total assets	<b>5,834,859</b>	6,369,542

### Revenue

Revenue for the three months ended March 31, 2009 was \$287,307 (no revenue was earned during the three months ended March 31, 2008). This revenue is from a total of 9 RigManager Systems. The Company deployed the RigManager System that have been deployed as of March 31, 2009 pursuant to the Supply Contract. Revenue is anticipated to increase as the Company deploys additional RigManager Units under the Supply Contract and as the Company enters into additional contracts for the supply of the RigManager System. However, the economic downturn, weakening of oil and gas prices, and the resulting decrease in oil and gas drilling activity through-out North America is expected to have a negative impact on the Company's revenue in the future. Although the Company believes it will at least maintain the current number of RigManager units deployed, the Company is paid based on the daily usage of the drilling rigs, decreased drilling activity may result in decreased revenues from the deployed RigManager units. The Company is also actively pursuing additional contracts which will increase revenues.

### General and Administrative

General and administrative expenses for the three months ended March 31, 2009 was \$403,517, compared to \$84,736 for the three months ended March 31, 2008. General and administrative expenses have increased. This increase is mainly due to increased staffing and expenditures required in order for the Company to position itself such that it is capable of executing on its obligations under the Supply Contract and potential future contracts. Additional expenses associated with the Company being listed on the TSX-Venture Exchange have been incurred. These expenses include the hiring of a Chief Financial Officer and controller, and the salary associated with same. As at March 31, 2009, consulting and salaries contributed to 68% of the general and administrative costs, telephone and networked telecommunications contributed 3%, and motor vehicle expenses contributed to 4% to the General and Administrative Costs. General and administrative costs are anticipated to increase as the Company increases the number of RigManager Systems deployed.

### **Liquidity**

The consolidated working capital at March 31, 2009 was \$2,319,871 compared to a working capital deficiency of \$3,531,721 at December 31, 2008. The decrease is due mainly to the below factors:

- Costs spent on production of additional units in the approximate amount of \$708,000, including parts and raw materials.
- Cash outflow from operations, excluding working capital items, in the approximate amount of \$326,000.

Other than the Supply Contract, the Company currently does not have any material contractual obligations at March 31, 2009.

### **Property and Equipment Expenditures**

During the three months ended March 31, 2009, the Company spent \$887,004 on property and equipment. As at March 31, 2009, \$1,228,956 of the amounts in property and equipment remains as parts and raw materials. These amounts relate to the 9 RigManager Units which have been deployed pursuant to the Supply Contract. In the future, as additional RigManager Units are deployed, the property and equipment expenditures are anticipated to increase from the units themselves and the purchase of a fleet of trucks needed to service the units. However, it is anticipated that the cost per Unit will decrease due to the development of in-house technology that will replace externally purchased components required on the Units.

The Company's current manufacturer of the RigManager Units is located in the United States. As a result, changes in the exchange rate between the United States dollar and the Canadian dollar will have an impact on the Company's cost to supply RigManager Units in the future. In order to decrease this exposure, the Company is exploring other options for the manufacture of its products. The Company has not entered into any currency hedge contracts.

## Summary of Quarterly Results

	Jan. to Mar. 2009	Oct. to Dec. 2008	Jul. to Sep. 2008	Apr. to Jun. 2008
	\$	\$	\$	\$
Rental revenue	287,307	211,667	148,640	20,170
Net loss for period	(453,951)	(555,802)	(82,232)	(321,616)
Basic loss per share	(0.02)	(0.021)	(0.010)	(0.055)
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding	26,562,715	26,562,715	8,434,934	5,866,497

	Jan. to Mar. 2008
	\$
Rental revenue	-
Net loss for period	(153,881)
Basic loss per share	(0.035)
Diluted income (loss) per share	N/A
Weighted average number of shares outstanding	4,374,486

The Company has adopted Section 1751 – “Interim Financial Statements” effective January 1, 2008 and as such, has not disclosed the comparative financial information for 2007.

### Off-Balance Sheet Arrangements

The Company does not have any special purpose entities nor is it party to any arrangement that would be excluded from the balance sheet.

### Related Party Transactions

During the three month period ended March 31, 2009, the Company paid, to a company related by virtue of common directors and officers, the amount of \$15,000 for reimbursement of general and administrative expenses.

### Changes in Accounting Policies Including Initial Adoption

#### Goodwill and Other Intangible Assets

In the first quarter of 2009, the Company adopted the Section 3064 “Goodwill and Other Intangible Assets”. 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.

#### 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.

## 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 March 31, 2009, 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 period ended March 31, 2009, 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 73% of the Company's trade receivables are from one customer which contributed to \$217,925 of revenues in the three month period ended March 31, 2009. As such, the Company is economically dependent on this one customer. As at March 31, 2009, the Company's receivables consisted of \$161,667 of trade receivables and \$24,790 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.

The Company's accounts receivables are aged as follows:

	Total \$
Current (less than 30 days)	93,425
30 to 60 days	91,778
61 to 90 days	-
Over 90 days	1,254
<u>Total</u>	<u>186,457</u>

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 three months ended March 31, 2009, 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 March 31, 2009. 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.

## 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.

	<u>March 31, 2009</u>
	\$
Total debt	-
Less cash	<u>(2,352,953)</u>
Net debt	<u>(2,352,953)</u>
Total equity	<u>5,548,378</u>
Total capital	<u>3,195,425</u>

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

## **Financial Instruments**

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

### *Fair Value*

The carrying values of financial instruments, which include cash, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

### *Credit Risk*

The Company is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and would be unable to meet their obligations. However, the Company assesses the credit worthiness of its customers on a continual basis. The credit exposure is effectively monitored as there are a minimal amount of customers.

## **International Financial Reporting Standards**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The Company has completed its high-level IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company. External advisors have been retained and will assist management with the project on an as needed basis. The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

## **SEDAR**

Additional information relating to the Company can be accessed on the Company's website at [www.rigmanager.com](http://www.rigmanager.com) and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## **Risks and Uncertainties**

An insurance program is maintained to mitigate risks and to protect against significant losses, while maintaining levels of risk within the Company, which management believes to be acceptable. While the Company believes that its liability, property and business interruption insurance is adequate and consistent with industry participants of the Company's size, the Company is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

The Company's operations may be adversely affected by changes in governmental policies, regulations or taxation concerning the Canadian oil and natural gas industry. Changes in any of these areas may significantly increase the Company's costs or adversely affect its ability to conduct business.

The recent economic downturn has resulted in lower oil and gas prices. It is anticipated that should these lower prices prevail, they will result in lower drilling activity. The Company has begun to see a reduction in planned drilling programs. Such reductions will negatively impact the Company's cash flow from the Supply Contract and will negatively impact the Company's ability to enter into other contracts for the supply of RigManager Units.

The Company's operations are highly dependent on its executive officers and key personnel. The loss of the services of any of these people could have an adverse effect on the Company.

The Company's main competitor is Pason Systems Inc. (TSX: PSI ). Pason has a very significant share of the North American market for products such as the RigManager. Pason is a mature company with significantly more financial resources than the Company. In the event that Pason was to materially decrease the costs of its goods and services or were to otherwise attempt to utilize its size to its advantage the Company may not be able to compete with Pason. The ability of the Company to grow in the future will depend significantly on the ability of the Company to compete with Pason.

The financial statements for the period ended March 31, 2009 are incorporated by reference herein and form an integral part of this MD&A.

*“signed: Robert Webb”*  
Robert Webb  
Chief Executive Officer

*“signed: Denny Chow”*  
Denny Chow  
Chief Financial Officer