



Management Discussion and Analysis of

RMS SYSTEMS INC.

March 31, 2011

**RMS SYSTEMS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 condensed consolidated interim financial statements for the three months ended March 31, 2011. This MD&A was prepared as of May 27, 2011. 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, environmental risks, competition from other competitors, 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.

SIGNIFICANT EVENTS

On May 12, 2011, the Company completed a \$7.36 million bought deal common share private placement through an institutional brokerage firm (the "Underwriter"). The proceeds of this private placement will be used to assist the Company with its growth initiatives. 10,825,000 common shares were issued at a price of \$0.68 per common share. The fees to the Underwriter were 7% of the gross proceeds raised and 7% common share 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.

On May 20, 2011, the Company completed the installation of a RigManager System on the first drilling rig located in the United States.

Subsequent to the period ended March 31, 2011, a holder of the Convertible Debentures previously issued by the Company in October, 2010, has elected to convert the Convertible Debenture held by it at the stated conversion price of \$0.30 per common share. As a result a total of 838,812 common shares have been issued in satisfaction of the principal amount of the Convertible Debenture (in the amount of \$250,000) and accrued interest to April 30, 2011 (in the amount of \$1,644). The principal amount owed by the Company on the Convertible Debentures is currently \$1,750,000.

OVERVIEW OF PERFORMANCE

Segment Financial Performance

March 31, 2011

	<u>Canada</u>	<u>USA</u>	<u>TOTAL</u>
	\$	\$	\$
Rental revenue	1,242,773	-	1,242,773
Operating costs	(1,030,594)	(150,667)	(1,181,261)
Segment EBITDA	212,179	(150,667)	61,512
Amortization	(227,872)	(1,150)	(229,022)
Segment operating loss	(15,693)	(151,817)	(167,510)
Stock based compensation			(12,394)
Foreign exchange			1,293
Financing costs			(53,694)
Corporate services			(37,516)
Earnings			(269,821)
Total assets	6,823,446	50,124	6,873,570
Capital expenditures	551,414	10,017	561,431

March 31, 2010

	<u>Canada</u>	<u>USA</u>	<u>TOTAL</u>
	\$	\$	\$
Rental revenue	740,845	-	740,845
Operating costs	(893,149)	-	(893,149)
Segment EBITDA	(152,304)	-	(152,304)
Amortization	(142,124)	-	(142,124)
Segment operating loss	(294,428)	-	(294,428)
Stock based compensation			(7,334)
Financing costs			(833)
Corporate services			(5,177)
Earnings			(307,772)
Total assets	4,102,652	-	4,102,652
Capital expenditures	96,841	-	96,841

Canadian operations

For the three months ended March 31, 2011, the Company earned \$212,179 in EBITDA compared to a loss of \$152,304 for the three months ended March 31, 2010. The large increase in EBITDA from 2010 is due to:

- The development and deployment of the Company's communication system which brought in additional revenues from services that was outsourced previously.
- The Company has entered into additional contracts for the supply of the RigManager System.
- The Company has set up its cost infrastructure and as the Company deploys additional RigManager Units on drilling rigs, EBITDA is expected to increase with minimal additional cost.

For the three months ended March 31, 2011, the Company incurred \$551,415 in property and equipment expenditures compared to \$96,841 for the three months ended March 31, 2010. The large increase in property and equipment expenditures was for the manufacturing and assembly of the required RigManager Units to satisfy the rig installation requests from customers, this increase in installations also resulted in an increase in revenues.

United States operations

For the three months ended March 31, 2011, the Company incurred negative EBITDA of \$150,667. The Company commenced set up of their United States office and preliminary marketing of the RigManager Units in the United States in the latter part of the 3rd Quarter, 2010 and as such, no revenue has been earned in the United States during 2010 and the first quarter of 2011. Subsequent to the period ended March 31, 2011, the Company has installed its first RigManager Unit in the United States.

Overall Financial Performance

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
	(\$)	(\$)
Rental revenue	1,242,773	740,845
Rental services expense	520,160	458,991
General & administrative expenses	684,025	433,479
Net income (loss)	(269,821)	(307,772)
Per share - basic and diluted	(0.01)	(0.01)
EBITDA	25,676	(156,929)
Property and equipment expenditures	561,431	96,841
Weighted average shares outstanding		
Basic	30,796,049	26,604,937
Diluted	30,796,049	26,604,937
Total assets	6,873,570	4,102,652

Rental revenue

Revenue for the three months ended March 31, 2011 was \$1,242,773 compared to \$740,845 for the three months ended March 31, 2010. The increase in revenue is a result of increasing the number of RigManager Units deployed on drilling rigs compared to Q1, 2010 and the deployment of the Company's communications system. Revenue is anticipated to increase as the Company deploys additional RigManager Units with the Company's current customers and as the Company enters into additional contracts for the supply of the RigManager System. The Company continues to execute pilot projects (providing customers with the opportunity to test the RigManager equipment) with oil and gas producers to expand its customer base.

Rental services expense

Rental services expenses for the three months ended March 31, 2011 was \$520,160 compared to \$458,991 for the three months ended March 31, 2010. The increase in rental service is due to the increase in third party charges (auto-digger, gas detectors and chokes) and increase in service staff, netted with the implementation of the Company's communication system, which decreased the costs required to outsource the Company's communication needs. This decrease was off-set by a smaller increase in rental service expenses from increasing service staff.

The Company is also deploying resources to develop solutions to replace other services that are outsourced. This is anticipated to decrease the rental service expenses per RigManager Unit.

General and administrative

The Company general and administrative expense (“G&A”) for the three months ended March 31, 2011 was \$684,025, compared to \$433,479 for the three months ended March 31, 2010. With the increase in RigManager Units deployed, the Company has also increased staffing, which contributed to the increase in G&A. The Company also incorporated a US subsidiary, which increased G&A by approximately \$150,000 in Q1, 2011. As at March 31, 2011, consulting and salaries contributed to 55% of the general and administrative costs and travel contributed to 7% of total general and administrative costs. The Company’s administrative payroll has increased to approximately \$110,000 monthly (an increase of \$35,000 per month from that last year). This increase is as a result of the Company hiring additional staff to prepare for anticipated growth, and as a result of expansion into the United States. General and administrative costs are anticipated to increase as the Company increases the number of RigManager Systems deployed, however G&A is expected to decrease on a per RigManager Unit basis.

Property and equipment expenditures

During the three month period ended March 31, 2011, the Company spent \$561,431 on property and equipment. These amounts relate to the purchase of raw materials for the RigManager Units for the deployment. As at March 31, 2011, \$1,419,243 of the amounts in property and equipment remains as parts and raw materials for the manufacture of RigManager Units. In the future, as additional RigManager Units are deployed, the property and equipment expenditures are anticipated to increase as a result of the necessity to deliver the Units themselves and ancillary expenses required to service new Units. However, it is anticipated that the cost per Unit will decrease as a result of economies of scale and due to the development of in-house technology that will replace externally purchased components required on the Units.

LIQUIDITY

The consolidated working capital deficiency at March 31, 2011 was \$204,385 compared to a working capital of \$475,083 at December 31, 2010. The decrease is due mainly to the following factors:

- Decrease due to the cash outflow from operations, excluding working capital items, in the approximate amount of \$43,000,
- Decrease due to property and equipment expenditures of approximately \$561,000,
- Decrease due to development expenditures of approximately \$61,000, and
- Decrease due to capital lease principle payments of approximately \$13,000.

Other than the agreements pursuant to which the Company supplies the RigManager Units, (“Supply Contracts”), the Company currently does not have any material contractual obligations at March 31, 2011. The number of RigManager Units deployed is anticipated to increase; this will result in an increase in the required capital expenditures of the Company.

SUMMARY OF QUARTERLY RESULTS

	Jan. to Mar. 2011	Sep. to Dec. 2010	Jul. to Sep. 2010	Apr. to Jun. 2010
	\$	\$	\$	\$
Rental revenue	1,242,773	1,182,420	796,534	121,620
Net loss for period	(269,821)	(402,584)	(231,132)	(686,503)
Basic loss per share	(0.01)	(0.02)	(0.01)	(0.03)
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding	30,796,049	30,734,454	29,636,991	26,629,382

	Jan. to Mar. 2010	Oct. to Dec. 2009	Jul. to Sep. 2009	Apr. to Jun. 2009
	\$	\$	\$	\$
Rental revenue	740,845	538,221	446,563	96,181
Net loss for period	(305,438)	(554,371)	(439,513)	(591,113)
Basic loss per share	(0.01)	(0.02)	(0.02)	(0.02)
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding	26,604,907	26,562,715	26,562,715	26,562,715

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 months ended March 31, 2011, the Company paid to a related company \$15,000 (March 31, 2010 – 15,000) for the reimbursement of general and administrative expenses. A director of the Company is also an officer of the related company.

SUBSEQUENT EVENT

On May 12, 2011, the Company closed 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 was raised at \$0.68 per share. The fees to the Underwriter were 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.

Subsequent to the period ended March 31, 2011, a holder of the Convertible Debentures previously issued by the Company in October, 2010, has elected to convert the Convertible Debenture held by it at the stated conversion price of \$0.30 per common share. As a result a total of 838,812 common shares have been issued in satisfaction of the principal amount of the Convertible Debenture (in the amount of \$250,000) and accrued interest to April 30, 2011 (in the amount of \$1,643.84). The principal amount owed by the Company on the Convertible Debentures is currently \$1,750,000.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Company is exposed to financial risk in a range of financial instruments including cash, accounts receivable, accounts payable and accrued liabilities, finance leases and convertible debentures. 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.

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	Finance lease obligations	Convertible debenture obligations including interest payments	Office premises
	\$	\$	\$	\$
2011	1,599,167	62,973	120,000	40,991
2012	-	83,964	2,126,247	54,694
2013	-	103,699	-	38,449
	1,599,167	250,636	2,246,247	134,134

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 statement of financial position 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 three months ended March 31, 2011, there was no impairment provision required on any of the financial assets of the Company. The Company has a concentration of credit risk as approximately 76% of the Company's trade receivables are from one customer which contributed to approximately 78% of revenues in the three months ended March 31, 2011. 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:

	Gross \$	Impairment \$
Current (less than 30 days)	662,589	-
30 to 60 days	363,939	-
61 to 90 days	203,662	-
Over 90 days	58,321	-
Total	1,288,511	-

The maximum exposure to credit risk is represented by the carrying amount on the statement of financial position.

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.

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.

	March 31, 2011	December 31, 2010
	\$	\$
Total debt	2,115,397	2,116,134
Less cash	(99,253)	(618,584)
Net debt	2,016,144	1,497,550
Total equity	3,159,009	3,416,435
Total capital	5,175,153	4,913,985

The Company is not subject to any externally imposed financial requirements as at December 31, 2011 except for the financial requirements under the convertible debenture agreement.

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Canada's Accounting Standards Board ratified a plan that resulted in Canadian GAAP being converged with IFRS on January 1, 2011. The Company was required to report its financial results under IFRS effective January 1, 2011, with quarterly comparatives for 2010. Management completed a detailed assessment, with involvement and input from the Company's Board of Directors (including the Audit Committee) and its external auditors. The Company focused primarily on the areas with the highest potential impact to the Company: including the choices under IFRS 1 (First Time Adoption), capital assets, impairment of assets and stock-based compensation. The areas with the greatest impact were the retroactive application of IFRS and stock-based compensation expense.

A more detailed explanation of the impact of the adoption of IFRS can be found in note 16 to the Condensed Consolidated Interim Financial Statements as of March 31, 2011.

SEDAR

Additional information relating to the Company can be accessed on the Company's website at www.rigmanager.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at 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 activities of the Company are directly affected by oil and gas drilling activities in north America. In turn, oil and gas drilling activities tend to be directly related to oil and gas commodity prices. Lower commodity prices are likely to result in decreased drilling activity which in turn is likely to result in a decrease in the utilization of RigManager Units. Such reductions negatively impact the Company's cash flow and negatively impact the Company's ability to enter into other contracts for the supply of RigManager Units.

Agreements for the supply of RigManager Units are not for a prolonged duration and may be cancelled by a RigManager customer, essentially, at any time.

Drilling activity in Canada is seasonal due to weather that limits surface access in the spring and summer, this results in higher levels of drilling activity during the last half of the year and in turn results in increased demand for the RigManager system during these periods. Weather conditions such as rain may also worsen ground conditions through-out the year further limiting surface access and shortening the drilling season. Through expansion into the United States the Company anticipates that it will be able to offset some of this risk, although not eliminate it.

The Company is exposed to credit risk to the extent that its customers may experience financial difficulty and would be unable to meet their obligations. This exposure is increased given that over two-thirds of the RigManager Units currently deployed are deployed to one customer. If this customer were to incur financial difficulty or to otherwise cease to lease the Company's products it would have a negative material effect on the Company.

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.

Due to the specialized and technical nature of the Company's business, it is necessary for RMS to attract and retain qualified or key personnel. There is competition for qualified personnel in the areas where the Company operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the Company. A key to the operations of the Company is its ability to install and service its equipment on a timely basis, should the company be unable to provide these services it would negatively effect the revenues of the Company.

There continues to be considerable world wide discussions concerning global warming and the reduction in the burning of fossil fuels. Some political parties in Canada have pronounced policies that would likely result in a reduction in drilling for fossil fuels. If these policies are put in place in Canada, or elsewhere, the reduction in drilling activity will negatively effect RMS. In addition, global pushes for the use of alternative fuels continue to gain momentum. The availability of alternative fuel sources, reductions in global consumption or government regulations aimed at reducing the use of fossil fuels could negatively impact energy companies, which could in turn reduce drilling programs, the reduction in drilling activity will negatively effect RMS.

The Company has recently opened an office in the United States and some of the materials used in the RigManager System are sourced from the United States. To the extent of such operations and material supplies in the U.S. the Company is exposed to exchange risk relative to the US dollar. Canadian operations are exposed to currency risk on US denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the Consolidated Statements of Operations. The Company's US subsidiary exposes the Company to exchange rate risk on the translation of their financial assets and liabilities to Canadian dollars for consolidation purposes. Adjustments arising when translating the US subsidiary into Canadian dollars are reflected in the Consolidated Statements of Comprehensive Income (Loss) as unrealized foreign currency translation adjustments. The Canadian dollar has recently been strong as compared to the U.S. dollar. A decrease in the value of the Canadian dollar vis-à-vis the U.S. Dollar may result in an increase in the material costs incurred by RMS. The Company has not hedged any of its currency risks.

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, 2011 are incorporated by reference herein and form an integral part of this MD&A.

"signed: Dave Hall"
Dave Hall
Chief Executive Officer

"signed: Denny Chow"
Denny Chow
Chief Financial Officer