



Condensed Consolidated Interim Financial  
Statements of

**RMS SYSTEMS INC.**

(Unaudited – prepared by management)

September 30, 2011

*In accordance with National Instrument 51-102 released by the Canadian Securities administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended September 30, 2011.*

**RMS SYSTEMS INC.****Condensed Consolidated Interim Statements of Financial Position****(Unaudited - prepared by management)**

	September 30, 2011 \$	December 31, 2010 \$ (Note 18)	January 1, 2010 \$ (Note 18)
<b>ASSETS</b>			
Current			
Cash	1,982,398	618,584	725,077
Accounts receivable	1,399,372	1,261,841	472,034
Prepaid expenses	171,703	67,169	61,998
Total current assets	<u>3,553,473</u>	1,947,594	1,259,109
Intangible assets (Note 5)	666,828	563,648	701,158
Property and equipment (Note 6)	7,215,146	4,426,590	2,622,983
Total assets	<u><u>11,435,447</u></u>	<u><u>6,937,832</u></u>	<u><u>4,583,250</u></u>
<b>LIABILITIES</b>			
Current			
Accounts payable, accruals and provisions	1,071,550	1,405,262	568,869
Current portion of finance leases (Note 7)	182,580	67,248	-
Total current liabilities	<u>1,254,130</u>	1,472,510	568,869
Finance leases (Note 7)	382,281	173,894	-
Convertible debentures (Note 8)	1,576,391	1,874,992	-
Total liabilities	<u>3,212,802</u>	3,521,396	568,869
<b>SHAREHOLDERS' EQUITY</b>			
Equity instruments (Note 9)	16,457,046	9,160,806	8,319,573
Equity component (Note 8)	111,375	135,000	-
Contributed surplus	289,822	175,733	94,804
Deficit	(8,635,598)	(6,055,103)	(4,399,996)
Total equity	<u>8,222,645</u>	3,416,436	4,014,381
Total liabilities and equity	<u><u>11,435,447</u></u>	<u><u>6,937,832</u></u>	<u><u>4,583,250</u></u>
Commitments, provisions and contingencies (Note 16)			
Subsequent events (Note 17)			
Approved on behalf of the Board			
<u>Signed "Dave Hall"</u>		<u>Signed "Willey Wong"</u>	
Dave Hall, Director		Willey Wong, Director	

**RMS SYSTEMS INC.****Consolidated Statements of Operations, Comprehensive Loss and Deficit****(Unaudited - prepared by management)**

	<b>For the three months ended September 30, 2011 \$</b>	<b>For the three months ended September 30, 2010 \$</b>	<b>For the nine months ended September 30, 2011 \$</b>	<b>For the nine months ended September 30, 2010 \$</b>
		(Note 18)		(Note 18)
<b>REVENUE</b>				
Rental revenue	<b>1,411,062</b>	796,534	<b>3,213,152</b>	1,658,999
<b>OPERATING EXPENSES</b>				
Rental services	<b>824,214</b>	267,938	<b>1,871,033</b>	850,101
General and administrative	<b>897,562</b>	479,688	<b>2,450,122</b>	1,395,519
Depreciation and amortization	<b>458,884</b>	233,663	<b>1,061,181</b>	545,996
	<b>2,180,660</b>	981,289	<b>5,382,336</b>	2,791,616
<b>OPERATING PROFIT</b>	<b>(769,598)</b>	(184,755)	<b>(2,169,184)</b>	(1,132,617)
<b>OTHER EXPENSES</b>				
Corporate services	<b>76,561</b>	29,448	<b>175,836</b>	75,791
Stock-based compensation	<b>66,265</b>	24,373	<b>108,631</b>	56,044
Finance costs (Note 10)	<b>42,139</b>	499	<b>145,645</b>	1,422
Other (Note 11)	<b>8,452</b>	-	<b>(18,801)</b>	(15,235)
	<b>193,417</b>	54,320	<b>411,311</b>	118,022
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(963,015)</b>	(239,075)	<b>(2,580,495)</b>	(1,250,639)
DEFICIT, BEGINNING OF PERIOD	<b>(7,672,583)</b>	(5,411,560)	<b>(6,055,103)</b>	(4,399,996)
<b>DEFICIT, END OF PERIOD</b>	<b>(8,635,598)</b>	(5,650,635)	<b>(8,635,598)</b>	(5,650,635)
<b>LOSS PER SHARE (NOTE 9)</b>				
Basic and diluted	<b>(0.02)</b>	(0.01)	<b>(0.07)</b>	(0.05)

**RMS SYSTEMS INC.**  
**Condensed Consolidated Interim Statements of Shareholders' Equity**  
(Unaudited - prepared by management)

	Equity instruments \$	Equity component on convertible debentures \$	Contributed surplus \$	Deficit \$	Total shareholders' equity \$
<b>Balance at January 1, 2010</b>	8,319,573	-	94,804	(4,399,996)	4,014,381
<b>Total comprehensive loss for the period</b>					
Loss for the period	-	-	-	(1,250,639)	(1,250,639)
<b>Transactions with owners, recorded directly in equity</b>					
Issuance of common shares, net of share issuance costs	800,000	-	-	-	800,000
Exercise of options	13,333	-	-	-	13,333
Exercise of warrants	17,900	-	-	-	17,900
Stock-based compensation	-	-	56,044	-	56,044
<b>Balance at September 30, 2010</b>	<u>9,150,806</u>	<u>-</u>	<u>150,848</u>	<u>(5,650,635)</u>	<u>3,651,019</u>
<b>Balance at December 31, 2010</b>	9,160,806	135,000	175,733	(6,055,103)	3,416,436
<b>Total comprehensive loss for the period</b>					
Loss for the period	-	-	-	(2,580,495)	(2,580,495)
<b>Transactions with owners, recorded directly in equity</b>					
Issuance of common shares, net of share issuance costs	6,570,792	-	-	-	6,570,792
Issue of warrants	157,109	-	-	-	157,109
Conversion of debentures	353,639	(23,625)	5,458	-	335,472
Exercise of options	214,700	-	-	-	214,700
Stock-based compensation	-	-	108,631	-	108,631
<b>Balance at September 30, 2011</b>	<u>16,457,046</u>	<u>111,375</u>	<u>289,822</u>	<u>(8,635,598)</u>	<u>8,222,645</u>

**RMS SYSTEMS INC.**  
**Condensed Consolidated Interim Statements of Cash Flow**  
**(Unaudited - prepared by management)**

	<b>For the three months ended September 30, 2011 \$</b>	<b>For the three months ended September 30, 2010 \$</b>	<b>For the nine months ended September 30, 2011 \$</b>	<b>For the nine months ended September 30, 2010 \$</b>
<b>CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:</b>				
<b>OPERATING</b>				
Net loss	(963,015)	(239,075)	(2,580,495)	(1,250,639)
Adjustment for:				
Amortization	458,884	233,663	1,061,181	545,996
Gain on disposal of property and equipment	-	-	(27,147)	-
Stock-based compensation	66,265	24,373	108,631	56,044
Financing costs	42,139	499	145,645	1,422
Loss on conversion of debenture	-	-	562	-
Cash paid financing costs	(32,450)	(499)	(109,336)	(1,422)
	<u>(428,177)</u>	18,961	<u>(1,400,959)</u>	(648,599)
Changes in non-cash working capital				
Accounts receivable	(484,948)	(540,467)	(137,531)	(271,343)
Prepaid expenses	(78,849)	(30,839)	(104,534)	(9,761)
Accounts payable, accruals and provisions	346,401	274,730	(333,711)	206,354
	<u>(645,573)</u>	(277,615)	<u>(1,976,735)</u>	(723,349)
<b>INVESTING</b>				
Purchase of property and equipment	(1,640,109)	(489,074)	(3,138,674)	(746,950)
Purchase of intangible assets	(188,500)	(4,119)	(327,097)	(11,668)
	<u>(1,828,609)</u>	(493,193)	<u>(3,465,771)</u>	(758,618)
<b>FINANCING</b>				
Proceeds from issuance of equity instruments	199,366	817,900	6,942,601	831,233
Payment of financing leases	(49,947)	(3,483)	(136,281)	(3,483)
	<u>149,419</u>	814,417	<u>6,806,320</u>	827,750
<b>INCREASE (DECREASE) IN CASH</b>	<b>(2,324,763)</b>	43,609	<b>1,363,814</b>	(654,217)
CASH, BEGINNING OF PERIOD	<u>4,307,161</u>	27,251	<u>618,584</u>	725,077
<b>CASH, END OF PERIOD</b>	<b><u>1,982,398</u></b>	70,860	<b><u>1,982,398</u></b>	70,860

## **RMS SYSTEMS INC.**

### **Notes to Condensed Consolidated Interim Financial Statements**

September 30, 2011

(Unaudited - prepared by management)

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

RMS Systems Inc. (the "Company") is a company domicile in Canada and is a publicly-traded company listed on the TSX-V under the symbol RMS. 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.

##### *Statement of Compliance*

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These unaudited condensed interim financial statements are prepared using International Financial Reporting Standards (IFRS) accounting policies which became Canadian generally accepted accounting principles for publicly accountable enterprises and were adopted by the Company for fiscal years beginning on January 1, 2011. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2010.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation for comparative periods and as at January 1, 2010, the date of transition, is provided in note 18.

These condensed consolidated interim financial statements were approved by the Audit Committee on behalf of the Board of Directors on November 28, 2011.

The Company's registered address is 2248 – 9<sup>th</sup> Avenue SE, Calgary, Alberta T2G 5P7.

##### *Functional and presentation currency*

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

##### *Use of estimates and judgments*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The condensed consolidated interim 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## **RMS SYSTEMS INC.**

### **Notes to Condensed Consolidated Interim Financial Statements**

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(Unaudited - prepared by management)

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#### **1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION (Continued)**

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in the following notes:

- Note 7 – lease classification and accounting for an arrangement containing a lease
- Note 8 – compound financial instrument classification on convertible debentures

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 6 – valuation of property, plant and equipment
- Note 5 – impairment of intangibles
- Note 16 – provisions and contingencies

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out in the Company's September 30, 2011 condensed consolidated interim financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by the Company.

##### **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The following are IFRS changes that have been issued by the International Accounting Standards Board, which may affect the Company, but are not yet effective:

IAS 12, Income taxes, was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is assessing the effect of the changes to IAS 12 on its financial results and financial position.

IFRS 7, Financial Instruments: Disclosures, was amended in October 2010 to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains. These amendments are effective as of July 1, 2011. The Company is assessing the effect of the changes to IFRS 7 on its financial statement disclosures.

## **RMS SYSTEMS INC.**

### **Notes to Condensed Consolidated Interim Financial Statements**

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

IFRS 9, Financial Instruments, was issued in November 2009 and is the first step to replace current IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the effect of IFRS 9 on its financial results and financial position; however any changes are not expected to be material.

IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation—Special Purpose Entities, and is effective for annual periods beginning on or after January 1, 2013. Earlier application will be permitted once this standard is adopted into part one of the CICA handbook. The Company is assessing the effect of the changes to IFRS 10 on its financial results and financial position.

IFRS 12, Disclosure of Interests in Other Entities, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 12 on its financial statement disclosures.

IFRS 13, Fair Value Measurements, defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is assessing the effect of the changes to IFRS 13 on its financial results and financial position.

#### **3. 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.

**RMS SYSTEMS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
**(Unaudited - prepared by management)**

**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	Finance lease obligations	Convertible debenture obligations including interest payments	Office premises
	\$	\$	\$	\$
2011	1,071,550	52,134	33,000	20,720
2012	-	208,537	1,754,153	83,494
2013	-	323,159	-	52,849
2014	-	21,673	-	-
	<u>1,071,550</u>	<u>605,503</u>	<u>1,787,153</u>	<u>157,063</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 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 nine months ended September 30, 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 54% of the Company's trade receivables are from one customer which contributed to approximately 66% of revenues in the nine months ended September 30, 2011. As such, the Company is economically dependent on this one customer.

The majority 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)	784,060	-
30 to 60 days	280,332	-
61 to 90 days	114,612	-
Over 90 days	220,368	-
<u>Total</u>	<u>1,399,372</u>	<u>-</u>

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.

## RMS SYSTEMS INC.

### Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited - prepared by management)

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

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.

	<b>September 30, 2011</b>	December 31, 2010
	\$	\$
Total debt	<b>2,141,252</b>	2,116,134
Less cash	<b>(1,982,398)</b>	(618,584)
Net debt	<b>158,854</b>	1,497,550
Total equity	<b>8,222,645</b>	3,416,436
Total capital	<b>8,381,499</b>	4,913,986

The Company is not subject to any externally imposed financial requirements as at September 30, 2011 except for the financial requirements under the convertible debenture agreement (Note 8).

## **RMS SYSTEMS INC.**

### **Notes to Condensed Consolidated Interim Financial Statements**

September 30, 2011

(Unaudited - prepared by management)

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#### **4. FAIR VALUES**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### *Property and equipment*

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

##### *Intangible assets*

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

##### *Share-based payment transactions*

The fair value of the employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

**RMS SYSTEMS INC.**  
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**5. INTANGIBLE ASSETS**

Intangible assets are detailed below:

	<b>Development expenditures</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost or deemed cost</b>			
Balance at January 1, 2010	950,664	120,239	1,070,903
Additions	72,445	11,668	84,113
Balance at December 31, 2010	1,023,109	131,907	1,155,016
Additions	<b>302,547</b>	<b>22,399</b>	<b>324,946</b>
Balance at September 30, 2011	<b>1,325,656</b>	<b>154,306</b>	<b>1,479,962</b>
<b>Amortization and impairment losses</b>			
Balance at January 1, 2010	338,591	31,154	369,745
Depreciation for the year	195,268	26,355	221,623
Balance at December 31, 2010	533,859	57,509	591,368
Depreciation for the period	<b>198,848</b>	<b>22,918</b>	<b>221,766</b>
Balance at September 30, 2011	<b>732,707</b>	<b>80,427</b>	<b>813,134</b>
<b>Carrying amounts</b>			
Balance at January 1, 2010	612,073	89,085	701,158
Balance at December 31, 2010	489,250	74,398	563,648
Balance at September 30, 2011	<b>592,949</b>	<b>73,879</b>	<b>666,828</b>

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

	Parts and raw materials	Rental equipment	Other	Total
	\$	\$	\$	\$
<b>Cost or deemed cost</b>				
Balance at January 1, 2010	1,051,894	1,746,706	467,666	3,266,266
Additions	355,064	1,813,765	412,690	2,581,519
Balance at December 31, 2010	1,406,958	3,560,471	880,356	5,847,785
Additions	-	2,476,691	641,932	3,118,623
Disposals	-	-	(54,690)	(54,690)
Net purchases (transfers to rental equipment)	538,318	-	-	538,318
Effects of exchange rate changes	-	929	-	929
Balance at September 30, 2011	<u>1,945,276</u>	<u>6,038,091</u>	<u>1,467,598</u>	<u>9,450,965</u>
<b>Accumulated depreciation</b>				
Balance at January 1, 2010	-	405,768	237,515	643,283
Depreciation for the year	-	593,219	184,693	777,912
Balance at December 31, 2010	-	998,987	422,208	1,421,195
Depreciation for the period	-	622,450	219,671	842,121
Disposals	-	-	(27,554)	(27,554)
Effects of exchange rate changes	-	57	-	57
Balance at September 30, 2011	<u>-</u>	<u>1,621,494</u>	<u>614,325</u>	<u>2,235,819</u>
<b>Carrying amounts</b>				
Balance at January 1, 2010	1,051,894	1,340,938	230,151	2,622,983
Balance at December 31, 2010	1,406,958	2,561,484	458,148	4,426,590
Balance at September 30, 2011	<u>1,945,276</u>	<u>4,416,597</u>	<u>853,273</u>	<u>7,215,146</u>

**7. FINANCE 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 1.0% to 10.5% with monthly payments varying from \$1,137 to \$1,833. 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 \$710,000.

**RMS SYSTEMS INC.**  
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**(Unaudited - prepared by management)**

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**7. FINANCE LEASES (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.

	<b>September 30,</b>	December 31,	January 1,
	<b>2011</b>	2010	2010
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2011	<b>44,704</b>	67,248	-
2012	<b>185,126</b>	72,655	-
2013	<b>313,480</b>	101,239	-
2014	<b>21,551</b>	-	-
Balance	<b>564,861</b>	241,142	-
Current portion	<b>(182,580)</b>	(67,248)	-
Long-term portion	<b>382,281</b>	173,894	-

**8. CONVERTIBLE DEBENTURES**

On October 15, 2010, 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. Subsequent to October 15, 2011, the Company can redeem the Debentures with no penalty. The Debentures will mature on October 15, 2012.

A reconciliation of the Debentures is as follows.

	<b>September 30,</b>	December 31,	January 1, 2010
	<b>2011</b>	2010	
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of period	<b>1,874,992</b>	-	-
Conversion of debentures	<b>(331,271)</b>	-	-
Issue of Debentures	-	2,000,000	-
Equity component of convertible debentures	-	(135,000)	-
Accretion of equity component of convertible debentures	<b>32,670</b>	9,992	-
Balance, end of period	<b>1,576,391</b>	1,874,992	-

The fair value of the debt was calculated based on present value of expected cash outflows at a discount rate of 15%.

During the period ended September 30, 2011, \$350,000 of the convertible debentures, including \$3,639 of accrued interest payable, was converted into 1,178,795 common shares.

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**9. EQUITY INSTRUMENTS**

*Authorized*

Unlimited number of common voting shares

*Issued*

	<b>Shares</b>	<b>Amount \$</b>
<b>Common shares</b>		
Balance at January 1, 2010	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	30,762,715	9,160,806
Private placement for cash	<b>10,825,000</b>	<b>7,361,000</b>
Conversion of convertible debentures	<b>1,178,795</b>	<b>353,639</b>
Exercise of stock options	<b>1,040,000</b>	<b>214,700</b>
Share issuance costs	-	<b>(790,208)</b>
Balance at September 30, 2011	<b>43,806,510</b>	<b>16,299,937</b>
<b>Common share purchase warrants</b>		
Balance at January 1, 2010	100,000	7,700
Exercise of warrants	(100,000)	(7,700)
Balance at December 31, 2010	-	-
Issued in conjunction with private placement	<b>757,750</b>	<b>157,109</b>
Balance at September 30, 2011	<b>757,750</b>	<b>157,109</b>
<b>Total equity instruments at September 30, 2011</b>		<b>16,457,046</b>
Total equity instruments at December 31, 2010		9,160,806
Total equity instruments at January 1, 2010		8,319,573

*Private placement*

On May 12, 2011, the Company completed a \$7,361,000 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 (757,750 common share 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.

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**9. 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 \$108,631 was recorded during the nine months ended September 30, 2011 (September 30, 2010 - \$56,044) for amortization of the value of the options granted. The fair value of the options were estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield of \$nil (September 30, 2010 - \$nil), expected volatility of 52% (September 30, 2010 - 51%), risk-free interest rate of 2.5% (September 30, 2010 - 2.5%), forfeiture rate of 5% (September 30, 2010 - 0%) and weighted average life of 5 years (September 30, 2010 - 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	Weighed average exercise price	Weighed average grant date fair value
		\$	\$	\$
Options outstanding, January 1, 2010	1,945,000	0.200	0.200	
Granted	1,530,000	0.17 - 0.30	0.247	0.110
Exercised	(100,000)	0.20 - 0.30	0.230	
Expired	(480,000)	0.20 - 0.30	0.220	
Options outstanding, December 31, 2010	2,895,000	0.17 - 0.285	0.225	
Granted	<b>2,178,330</b>	<b>0.39 - 1.05</b>	<b>0.782</b>	<b>0.371</b>
Exercised	<b>(1,040,000)</b>	<b>0.17 - 0.28</b>	<b>0.206</b>	
Expired	<b>(390,000)</b>	<b>0.245 - 0.26</b>	<b>0.389</b>	
Options outstanding, September 30, 2011	<b>3,643,330</b>	<b>0.17 - 1.05</b>	<b>0.542</b>	

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**9. EQUITY INSTRUMENTS (Continued)**

The following table summarizes information about the stock options outstanding at September 30, 2011:

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
	\$	\$			\$
133,333	0.170	0.170	3.40 years	-	-
564,998	0.200	0.200	2.17 years	100,000	0.200
100,000	0.205	0.205	3.73 years	33,333	0.205
413,333	0.240	0.240	3.39 years	100,000	0.240
60,000	0.265	0.265	4.09 years	-	-
130,000	0.270	0.270	4.90 years	-	-
223,333	0.280	0.280	4.04 years	-	-
125,000	0.390	0.390	4.27 years	-	-
20,000	0.480	0.480	4.32 years	-	-
20,000	0.590	0.590	4.34 years	-	-
90,000	0.690	0.690	4.53 years	-	-
1,053,333	0.740	0.740	4.97 years	-	-
265,000	0.950	0.950	4.72 years	-	-
395,000	0.990	0.990	4.79 years	-	-
50,000	1.050	1.050	4.65 years	-	-
<b>3,643,330</b>	<b>0.542</b>	<b>0.542</b>	<b>3.95 years</b>	<b>233,333</b>	<b>0.218</b>

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**9. EQUITY INSTRUMENTS (Continued)**

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

Options outstanding	Option price	Weighted average exercise price	Weighted average contractual life	Number of options currently exercisable	Weighted average exercise price of options currently exercisable
	\$	\$			\$
1,595,000	0.200	0.200	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	0.260	0.260	4.67 years	-	-
180,000	0.270	0.270	4.63 years	-	-
260,000	0.280	0.280	4.74 years	-	-
60,000	0.285	0.285	4.92 years	-	-
<b>2,895,000</b>	<b>0.225</b>	<b>0.225</b>	<b>3.65 years</b>	<b>1,063,333</b>	<b>0.20</b>

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

	<b>For the 3 months ended September 30, 2011</b>	For the 3 months ended September 30, 2010	<b>For the nine months ended September 30, 2011</b>	For the nine months ended September 30, 2010
Weighted average common shares outstanding – basic and diluted	<b>49,368,168</b>	29,636,991	<b>37,032,685</b>	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, 3,643,330 options, 757,750 warrants, and the effect of the conversion of the Debentures into 5,500,000 common shares have been excluded from the diluted weighted average common shares.

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**10. FINANCE COSTS**

Finance costs can be specified as follows:

	<b>For the three months ended September 30, 2011 \$</b>	For the three months ended September 30, 2010 \$	<b>For the nine months ended September 30, 2011 \$</b>	For the nine months ended September 30, 2010 \$
Interest on long-term debt	32,261	-	102,304	-
Interest expense	189	499	10,671	1,422
Accretion of equity component of convertible debentures	-	-	32,670	-
	<b>42,139</b>	499	<b>145,645</b>	1,422

**11. OTHER INCOME**

Other income can be specified as follows:

	<b>For the three months ended September 30, 2011 \$</b>	For the three months ended September 30, 2010 \$	<b>For the nine months ended september 30, 2011 \$</b>	For the nine months ended September 30, 2010 \$
Gain on disposal of property and equipment	-	-	27,147	-
Loss on conversion of debenture	-	-	(562)	-
Interest income	6,897	-	9,752	-
Other	(15,349)	-	(17,536)	15,235
	<b>(8,452)</b>	-	<b>18,801</b>	15,235

**RMS SYSTEMS INC.****Notes to Condensed Consolidated Interim Financial Statements**

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**12. RELATED PARTY TRANSACTION**

Except as disclosed elsewhere in these condensed consolidated interim financial statements, the Company had the following related party transactions with key management personnel:

- During the nine months ended September 30, 2011, the Company paid to a related company \$27,500 (September 30, 2010 – 45,000) 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 condensed consolidated interim 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.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Executive officers also participate in the Company's share option program (Note 9).

**13. COMPANY ENTITIES**

	Country of incorporation	Ownership interest		
		September 30, 2011	December 31, 2010	January 1, 2010
RigManager Services Ltd.	Canada	100%	100%	100%
RigManager Inc.	United States	100%	100%	0%

**14. SUPPLEMENTAL CASH FLOW DISCLOSURE**

- a) For the nine months ended September 30, 2011, the Company paid \$109,336 (September 30, 2010 - \$1,422) in cash interest and \$nil (September 30, 2010 - \$nil) in cash taxes.

**RMS SYSTEMS INC.**  
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**15. 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:

<b>3 Months Ended September 30, 2011</b>	<b>Canada</b>	<b>USA</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Rental revenue	1,355,275	55,787	1,411,062
Operating costs	(1,500,973)	(220,867)	(1,721,840)
Amortization	(440,691)	(18,193)	(458,884)
Segment operating loss	(586,389)	(183,273)	(769,662)
Stock based compensation			(66,265)
Foreign exchange			(15,352)
Financing costs			(42,139)
Corporate services			(69,597)
Earnings			(963,015)
Total assets	10,719,335	716,112	11,435,447
Capital expenditures	1,557,374	82,735	1,640,109

  

<b>3 Months Ended September 30, 2010</b>	<b>Canada</b>	<b>USA</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Rental revenue	796,534	-	796,534
Operating costs	(720,120)	(29,671)	(749,791)
Amortization	(233,663)	-	(233,663)
Segment operating loss	(157,249)	(29,671)	(186,920)
Stock based compensation			(24,373)
Financing costs			(499)
Corporate services			(27,283)
Earnings			(239,075)
Total assets	4,531,922	19,837	4,551,759
Capital expenditures	489,074	-	489,074

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**15. SEGMENT DISCLOSURES**

<b>9 Months Ended September 30, 2011</b>	<b>Canada</b>	<b>USA</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Rental revenue	3,141,396	71,756	3,213,152
Operating costs	(3,787,911)	(533,308)	(4,321,219)
Amortization	(1,017,719)	(43,462)	(1,061,181)
Segment operating loss	(1,664,234)	(505,014)	(2,169,248)
Stock based compensation			(108,631)
Foreign exchange			(17,652)
Financing costs			(145,645)
Corporate services			(139,319)
Earnings			(2,580,495)
Total assets	10,719,335	716,112	11,435,447
Capital expenditures	2,629,647	509,027	3,138,674

  

<b>9 Months Ended September 30, 2010</b>	<b>Canada</b>	<b>USA</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Rental revenue	1,658,999	-	1,658,999
Operating costs	(2,218,114)	(29,671)	(2,247,785)
Amortization	(545,996)	-	(545,996)
Segment operating loss	(1,105,111)	(29,671)	(1,134,782)
Stock based compensation			(56,044)
Financing costs			(1,422)
Corporate services			(58,391)
Earnings			(1,250,639)
Total assets	4,531,922	19,837	4,551,759
Capital expenditures	746,950	-	746,950

**16. COMMITMENTS, PROVISIONS AND CONTINGENCIES**

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

	<b>\$</b>
2011	20,720
2012	83,494
2013	52,849
	<u>157,063</u>

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

## **RMS SYSTEMS INC.**

### **Notes to Condensed Consolidated Interim Financial Statements**

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#### **17. SUBSEQUENT EVENT**

- (a) Subsequent to the period ended September 30, 2011, the Company converted in the amount of \$1,686,968 (principal and interest) of the Convertible Debentures previously issued on October 15, 2010 and having a conversion price of \$0.30 per common share. As a result of these conversions a total of 5,623,227 common shares were issued. Following these conversions all of the Company's Convertible Debentures have been extinguished.

#### **18. EXPLANATION OF TRANSITION TO IFRS**

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the nine months ended September 30, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

IFRS is applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP recorded to deficit unless certain exceptions and exemptions are applied.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", permits first-time adopters of IFRS a number of exemptions. The Company has elected to utilize the following exemptions for first-time adoption of IFRS:

- a) *Business combinations*, which allows for an implementation of the IFRS business combination rules on a prospective basis, therefore, business combinations entered into prior to January 1, 2010 will not be retrospectively restated;
- b) *Share-based payments*, whereby stock options that vested prior to January 1, 2010 are not required to be retrospectively restated. Therefore, IFRS requirements apply only to those options that were unvested at the date of transition;

The Company utilized the following mandatory exemption for first-time adoption of IFRS related to estimates, whereby hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

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**18. EXPLANATION OF TRANSITION TO IFRS (Continued)**

Reconciliation of equity:

		September 30, 2010		
	Note	Canadian GAAP \$	Effect of IFRS transition \$	IFRS \$
<b>ASSETS</b>				
Current				
Cash		70,860	-	70,860
Accounts receivable		743,377	-	743,377
Prepaid expenses		71,759	-	71,759
Total current assets		<u>885,996</u>	-	<u>885,996</u>
Intangible assets	b	471,055	80,986	552,041
Property and equipment	b	3,194,708	(80,986)	3,113,722
Total assets		<u>4,551,759</u>	-	<u>4,551,759</u>
<b>LIABILITIES</b>				
Current				
Accounts payable, accruals, and provisions		775,223	-	775,223
Current portion of financial lease obligations		34,403	-	34,403
		<u>809,626</u>	-	<u>809,626</u>
Financial lease obligations		91,114	-	91,114
		<u>900,740</u>	-	<u>900,740</u>
<b>SHAREHOLDERS' EQUITY</b>				
Equity instruments		9,150,806	-	9,150,806
Contributed surplus	a	103,478	47,370	150,848
Deficit	a	(5,603,265)	(47,370)	(5,650,635)
Total equity		<u>3,651,019</u>	-	<u>3,651,019</u>
Total liabilities and equity		<u>4,551,759</u>	-	<u>4,551,759</u>

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**18. EXPLANATION OF TRANSITION TO IFRS (Continued)**

Reconciliation of equity:

		December 31, 2010		
	Note	Canadian GAAP \$	Effect of IFRS transition \$	IFRS \$
<b>ASSETS</b>				
Current				
Cash		618,584	-	618,584
Accounts receivable		1,261,841	-	1,261,841
Prepaid expenses		67,169	-	67,169
Total current assets		<u>1,947,594</u>	-	<u>1,947,594</u>
Intangible assets	b	489,250	74,398	563,648
Property and equipment	b	<u>4,500,988</u>	<u>(74,398)</u>	<u>4,426,590</u>
		<u>6,937,832</u>	-	<u>6,937,832</u>
<b>LIABILITIES</b>				
Current				
Accounts payable, accruals, and provisions		1,405,262	-	1,405,262
Current portion of finance leases		67,248	-	67,248
Total current liabilities		<u>1,472,510</u>	-	<u>1,472,510</u>
Finance leases		173,894	-	173,894
Convertible debentures		<u>1,874,992</u>	-	<u>1,874,992</u>
Total liabilities		<u>3,521,396</u>	-	<u>3,521,396</u>
<b>SHAREHOLDERS' EQUITY</b>				
Equity instruments		9,160,806	-	9,160,806
Equity component		135,000	-	135,000
Contributed surplus	a	126,479	49,254	175,733
Deficit	a	<u>(6,005,849)</u>	<u>(49,254)</u>	<u>(6,055,103)</u>
Total equity		<u>3,416,436</u>	-	<u>3,416,436</u>
Total liabilities and equity		<u>6,937,832</u>	-	<u>6,937,832</u>

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**18. EXPLANATION OF TRANSITION TO IFRS (Continued)**

Reconciliation of equity:

		January 1, 2010		
	Note	Canadian GAAP \$	Effect of IFRS transition \$	IFRS \$
<b>ASSETS</b>				
Current				
Cash		725,077	-	725,077
Accounts receivable		472,034	-	472,034
Prepaid expenses		61,998	-	61,998
Total current assets		<u>1,259,109</u>	-	<u>1,259,109</u>
Intangible assets	b	612,073	89,085	701,158
Property and equipment	b	<u>2,712,068</u>	<u>(89,085)</u>	<u>2,622,983</u>
Total assets		<u><u>4,583,250</u></u>	-	<u><u>4,583,250</u></u>
<b>LIABILITIES</b>				
Current				
Accounts payable, accruals and provisions		<u>568,869</u>	-	<u>568,869</u>
<b>SHAREHOLDERS' EQUITY</b>				
Equity instruments		8,319,573	-	8,319,573
Contributed surplus	a	75,000	19,804	94,804
Deficit	a	<u>(4,380,192)</u>	<u>(19,804)</u>	<u>(4,399,996)</u>
Total equity		<u>4,014,381</u>	-	<u>4,014,381</u>
Total liabilities and equity		<u><u>4,583,250</u></u>	-	<u><u>4,583,250</u></u>

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**18. EXPLANATION OF TRANSITION TO IFRS (Continued)**

Reconciliation of comprehensive loss for the 3 and 9 months ended September 30, 2010:

	For the three months ended September 30, 2010			For the nine months ended September 30, 2010		
	Canadian GAAP \$	Effect of IFRS transition \$	IFRS \$	Canadian GAAP \$	Effect of IFRS transition \$	IFRS \$
<b>REVENUE</b>						
Rental revenue	796,534	-	796,534	1,658,999	-	1,658,999
<b>OPERATING EXPENSES</b>						
Rental services	267,938	-	267,938	850,101	-	850,101
General and administrative	479,688	-	479,688	1,395,519	-	1,395,519
Depreciation and amortization	233,663	-	233,663	545,996	-	545,996
	981,289	-	981,289	2,791,616	-	2,791,616
<b>OPERATING PROFIT</b>	(184,755)	-	(184,755)	(1,132,617)	-	(1,132,617)
<b>OTHER EXPENSES</b>						
Corporate services	29,448	-	29,448	75,791	-	75,791
Stock-based compensation	16,430	7,943	24,373	28,478	27,566	56,044
Financing costs	499	-	499	1,422	-	1,422
Other	-	-	-	(15,235)	-	(15,235)
	46,377	7,943	54,320	90,456	27,566	118,022
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	(231,132)	(7,943)	(239,075)	(1,223,073)	(27,566)	(1,250,639)

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**18. EXPLANATION OF TRANSITION TO IFRS (Continued)**

Reconciliation of comprehensive loss for the year ended December 31, 2010:

	<b>Note</b>	<b>Canadian GAAP \$</b>	<b>Effect of IFRS transition \$</b>	<b>IFRS \$</b>
<b>REVENUE</b>				
Rental revenue		2,841,419	-	2,841,419
<b>OPERATING EXPENSES</b>				
Rental services		1,177,705	-	1,177,705
General and administrative		2,010,828	-	2,010,828
Depreciation and amortization		999,536	-	999,536
		<u>4,188,069</u>	-	<u>4,188,069</u>
<b>OPERATING PROFIT</b>		<u>(1,346,650)</u>	-	<u>(1,346,650)</u>
<b>OTHER EXPENSES</b>				
Corporate services		192,314	-	192,314
Stock-based compensation	a	51,478	29,450	80,928
Financing costs		50,955	-	50,955
Other		(15,740)	-	(15,740)
		<u>279,007</u>	<u>29,450</u>	<u>308,457</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		<u>(1,625,657)</u>	<u>(29,450)</u>	<u>(1,655,107)</u>

**RMS SYSTEMS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**September 30, 2011**  
**(Unaudited - prepared by management)**

**18. EXPLANATION OF TRANSITION TO IFRS (Continued)**

Notes to the reconciliations:

*Material adjustments to the statement of cash flows for 2010*

There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

- (a) Stock-based compensation requires the expense related to share-based payments to be recognized as the options vest. For options with different vesting periods, each vesting tranche must be treated as a separate option grant which accelerates the expense recognition ("Graded Vesting Amortization") in comparison to Canadian GAAP which allows the expense to be recognized on a straight-line basis over the period the options vests. The Company must also apply an estimated forfeiture rate at the initial grant date for each option tranche. The forfeiture rate is taken into account by adjusting the number of options expected to vest under each tranche and subsequently revising this estimate throughout the vesting period, as necessary. As a result, contributed surplus was increased by \$19,804 at January 1, 2010 (December 31, 2010 - \$49,254) and deficit was increase by \$19,804 at January 1, 2010 (December 31, 2010 - \$49,254).

	For the nine months ended September 30, 2010	
Increase in stock based compensation expense		\$ 27,566
Adjustment before income tax		\$ 27,566
	January 1, 2010	December 31, 2010
Increase in contributed surplus	\$ (19,804)	\$ (49,254)
Increase in deficit	\$ (19,804)	\$ (49,254)

- (b) Under IAS 38, computer software has been reclassified from property and equipment to intangible assets. As a result, intangible assets was increased by \$89,085 at January 1, 2010 (December 31, 2010 - \$74,398) and property and equipment was decrease by \$89,085 at January 1, 2010 (December 31, 2010 - \$74,398).

	For the nine months ended September 30, 2010	
Consolidated statement of comprehensive income		\$ -
Adjustment before income tax		\$ -
	January 1, 2010	December 31, 2010
Increase in intangible assets	\$ 89,085	\$ 74,398
Decrease in property and equipment	(89,085)	(74,398)
Increase in deficit	\$ -	\$ -