

REAL TIME MEASUREMENTS INC.

INTERIM FINANCIAL STATEMENTS, 2nd Quarter Fiscal 2009

July 31, 2008

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended July 31, 2008.



REAL TIME MEASUREMENTS INC.

Balance Sheets

As at July 31, 2008 (Unaudited) and January 31, 2008 (Audited)

	Note	July 31 2008 \$	January 31 2008 \$
Assets			
Current Assets			
Cash		313,412	-
Accounts receivable		106,200	311,300
Inventory		6,738	7,541
Prepaid expenses and deposits		8,931	17,510
		435,281	336,351
Restricted Cash	3	50,000	-
Equipment and Leaseholds	4	1,062,318	1,038,219
Rights	5	48,940	-
Development Costs	6	480,915	416,659
		2,077,454	1,791,229
Liabilities			
Current Liabilities			
Operating overdraft	7	-	45,845
Accounts payable and accrued		108,620	224,994
Term loans payable - current portion	8	43,926	41,816
		152,546	312,655
Term Loans Payable, net of current portion	8	18,131	40,635
Convertible Debentures Payable	9	737,509	-
		908,186	353,290
Contingent Liability	15		
Shareholders' Equity			
Equity Instruments	10	3,649,854	3,446,917
Contributed Surplus	11	505,200	339,650
Deficit		(2,985,786)	(2,348,628)
		1,169,268	1,437,939
		2,077,454	1,791,229

On Behalf of the Board

"signed"

Director

"signed"

Director

REAL TIME MEASUREMENTS INC.
Statements of Operations
For the Periods Ended July 31 (Unaudited)

	Note	3 Months Ended July 31		6 Months Ended July 31	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue					
Services, rentals and sales		187,113	291,227	292,543	690,951
Expenses					
Operating - Services Division		59,324	110,068	137,254	246,397
Operating - Products Division		37,061	23,706	48,532	58,990
Cost of Goods Sold		63,503	2,364	78,003	2,388
General and administrative		78,635	74,781	147,316	148,899
Marketing		43,382	21,534	86,789	41,654
International		40,410	35,951	71,043	66,102
Development		12,069	-	54,959	-
Information technology		6,386	1,500	6,819	4,236
Public Company costs		34,342	9,161	37,614	11,787
Interest on long term debt		23,024	2,656	24,963	5,538
Foreign exchange		5,813	12,450	6,370	15,369
Amortization of equipment and leaseholds		29,463	34,198	61,667	69,045
Amortization of development costs		-	4,550	5,270	13,675
Amortization of debenture issuance costs		3,352	-	3,352	-
Stock-based compensation	11	-	-	159,750	-
		436,764	332,919	929,701	684,080
Income (loss) and comprehensive income (loss) before income taxes		(249,651)	(41,692)	(637,158)	6,871
Income Taxes		-	-	-	-
Income (Loss) and Comprehensive Income (Loss) for the Period		(249,651)	(41,692)	(637,158)	6,871
Deficit, beginning of period		(2,736,135)	(1,948,521)	(2,348,628)	(1,997,084)
Deficit, end of period		(2,985,786)	(1,990,213)	(2,985,786)	(1,990,213)
Net Income (Loss) per Share					
Basic and diluted	7	(0.008)	(0.002)	(0.021)	0.000

REAL TIME MEASUREMENTS INC.

Statements of Cash Flows

For the Periods Ended July 31

	Note	3 Months Ended July 31		6 Months Ended July 31	
		2008	2007	2008	2007
		\$	\$	\$	\$
Operating					
Net income (loss)		(249,651)	(41,692)	(637,158)	6,871
Non-cash items					
Amortization of:					
Equipment and leaseholds		29,463	34,198	61,667	69,045
Development costs		-	4,550	5,270	13,675
Debenture issuance costs		3,352	-	3,352	-
Stock-based compensation		-	-	159,750	-
Cash flow from operations		(216,836)	(2,944)	(407,119)	89,591
Changes in non-cash working capital		5,875	(48,972)	121,888	(131,160)
		(210,961)	(51,916)	(285,231)	(41,569)
Financing Activities					
Payments on term loans		(10,322)	(9,353)	(20,394)	(18,482)
Issuance of convertible debentures		830,000	-	830,000	-
Issuance costs - debentures		(95,843)	-	(95,843)	-
Issuance of equity instruments		-	-	229,800	200,000
Issuance costs - equity instruments		(4,064)	(3,715)	(21,063)	(17,523)
		719,771	(13,068)	922,500	163,995
Investing Activities					
Cash restricted as a bid bond	3	-	-	(50,000)	-
Purchase of equipment and leaseholds		(45,130)	(14,397)	(85,766)	(42,757)
Development costs incurred		(46,769)	(84,827)	(69,526)	(166,557)
Government funding received		-	21,887	-	52,940
Acquisition of rights		-	-	(48,940)	-
Changes in non-cash working capital		12,808	31,059	(23,780)	(2,817)
		(79,091)	(46,278)	(278,012)	(159,191)
Increase (decrease) in cash for period		429,719	(111,262)	359,257	(36,765)
Cash (operating overdraft), beginning of period		(116,307)	39,374	(45,845)	(35,123)
Cash (operating overdraft), end of period		313,412	(71,888)	313,412	(71,888)
Supplemental Cash Flow Information					
Interest paid		23,024	2,656	24,963	5,538

During the period ended April 30, 2008, the Company also issued finders' warrants, the value of which are included in issuance costs (Note 11)

REAL TIME MEASUREMENTS INC.

Notes to Interim Financial Statements

July 31, 2008

1. NATURE OF OPERATIONS

Real Time Measurements Inc. ("the Company" or "RTM") was incorporated on December 7, 1995 under the Business Corporations Act (Alberta). The Company provides electronic measurement equipment and services to the oil and gas industry.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim financial statements conform to those used in the Company's annual audited financial statements. These interim financial statements do not include all of the disclosures included in the annual financial statements and accordingly, these interim financial statements should be read in conjunction with the annual financial statements.

CHANGES IN ACCOUNTING POLICIES

On February 1, 2008 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

Capital Disclosures (CICA Handbook Section 1535)

This standard specifies requirements for disclosing information regarding an entity's objectives, policies and procedures for managing capital, including disclosure of any externally imposed capital requirements, and the consequence of non-compliance with such requirements.

Financial Instruments – Disclosures and Presentation (CICA Handbook Sections 3862 and 3863)

The standards require an increased emphasis on disclosures regarding the nature and extent of risk arising from financial instruments and how the risks are managed.

General Standards of Financial Presentation (CICA Handbook Section 1400)

The standard requires management to assess and disclose the ability of the Company to continue as a going concern.

Inventories (CICA Handbook Section 3031)

This standard provides revised guidance on the measurement of cost and cost formulas for inventories, and increased disclosures.

As a result of the adoption of this standard, equipment and leaseholds now include a parts inventory that will be used in the assembly and repair of field equipment. The cost of the parts is not amortized. If used for repairs, the cost of the parts is expensed when consumed. The adoption of this accounting standard resulted in reclassification of parts inventory to equipment and leaseholds, as described in Note 4. Inventories now include only items in the nature of shop supplies.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

FUTURE CHANGES IN ACCOUNTING POLICIES

Effective for fiscal years beginning on or after January 1, 2009, the Company will be required to adopt this standard which replaces GAAP section 3062 and 3450 and provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is currently assessing the impact of this standard.

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

3. RESTRICTED CASH

The Company has set aside funds as a security bond for a bid to provide services.

4. PROPERTY AND EQUIPMENT

	July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Field equipment	1,738,770	897,561	841,209
Office equipment	178,759	130,233	48,526
Lab equipment	81,593	18,038	63,555
Shop equipment	43,199	18,338	24,861
Automotive equipment	17,308	6,873	10,435
Leaseholds	11,725	7,297	4,428
Parts	69,304	-	69,304
	2,140,658	1,078,340	1,062,318

	January 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Field equipment	1,694,473	849,951	844,522
Office equipment	176,725	123,515	53,210
Lab equipment	67,439	15,286	52,153
Shop equipment	43,199	16,684	26,515
Automotive equipment	17,308	5,112	12,196
Leaseholds	11,725	6,125	5,600
Parts	44,023	-	44,023
	2,054,892	1,016,673	1,038,219

4. PROPERTY AND EQUIPMENT, continued

The amounts show as Parts were previously included in inventories and have been reclassified in accordance with the adoption of new CICA Handbook Section 3031, as described in Note 2. No amounts were expensed during the period ended July 31, 2008.

5. RIGHTS

During the period ended July 31, 2008, the Company acquired rights to certain technologies. The Rights are perpetual and, accordingly, the cost thereof is not subject to amortization. The Rights must be reviewed, at least annually, to determine if there has been any impairment in the value thereof.

The Rights were acquired from a non-resident corporation in which an officer and shareholder of the Company is a shareholder (Note 13).

6. DEVELOPMENT COSTS

The Company is developing electronic equipment which is intended to be used in the provision of services to the Company's customers and is also intended to be sold to other users. The first such piece of equipment, a pressure temperature gauge, entered into commercial production and use during the current year and the costs thereof are being amortized over the first 1,000 units produced (95 units as of July 31, 2008).

A portion of the Company's costs for that project were funded by contributions from the National Research Council Industrial Research Assistance Program (IRAP). The Company capitalizes government funding related to capitalized development costs. In total, \$205,302 of such assistance was applied to the cost of the project.

Development of a number of new gauges commenced in the last quarter of the prior fiscal year.

Development costs are summarized as follows:

	July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Pressure Temperature Gauges	438,824	41,690	397,134
Quartz Gauges	29,684	-	29,684
High Temperature Gauges	18,064	-	18,064
Second Generation Pressure Temperature Gauges	33,810	-	33,810
Wellhead Recorders	2,223	-	2,223
	522,605	41,690	480,915

	January 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Pressure Temperature Gauges	438,824	36,420	402,404
Quartz Gauges	12,777	-	12,777
High Temperature Gauges	393	-	393
Second Generation Pressure Temperature Gauges	1,085	-	1,085
	453,079	36,420	416,659

7. BANK CREDIT FACILITIES

The Company has a the following credit facilities with HSBC Bank Canada:

- An operating loan to a maximum of \$225,000. The loan bears interest at prime plus 1.25% (6.00% at July 31, 2008) and also carries a monthly administration fee of \$75. This facility has a sublimit of \$70,000 available for the Company's use in processing payroll runs using the bank's electronic funds transfer system.

The Company's operating overdraft is an advance against this facility.

- A \$100,000 letter of credit facility.
- A \$30,000 SEDAR filing facility available for the Company's use in its filings with securities regulatory agencies.

As security for these facilities the Company has provided a general security agreement by way of a fixed and floating first charge over all of its assets, assignments and postponements of claim by shareholders and directors and assignment of insurance.

8. TERM LOANS PAYABLE

The Company is indebted pursuant to term loan arrangements as follows:

	July 31 2008	January 31 2008
	\$	\$
Abbet International Ltd., a related party. The loan was arranged to finance the purchase of equipment. This loan bears interest at 10% per annum, is repayable in blended monthly installments of \$3,547 and matures October 31, 2009. As security, the lender holds title to the equipment, which has a carrying value of \$72,533 at July 31, 2008.	49,819	68,074
Chrysler Finance, vehicle loan. This loan bears interest at 8.89% per annum, is repayable in blended monthly installments of \$456 and matures January 23, 2011. As security, the lender holds title to the vehicle, which has a carrying value of \$10,435 at July 31, 2008.	12,238	14,377
	62,057	82,451
Less current portion	43,926	41,816
	18,131	40,635

9. CONVERTIBLE DEBENTURES PAYABLE

	July 31 2008	January 31 2008
	\$	\$
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<p>The debentures are unsecured, bear interest at 15% per annum, payable quarterly, and mature five years from the date of issue. They are convertible, at the option of the holder, into common shares of the Company at a price of \$0.15 per share. The holder has the right to convert all or any portion of outstanding indebtedness into common shares not less than 6 months from the date of issuance of the debenture. The Company may, at its option, anytime after three years have elapsed from the date of issuance of the debenture, force the conversion of all or part of the outstanding or remaining indebtedness owed to the debenture holder into common shares, at \$0.15 per common share, provided the 20 day weighted average price of the common shares trade at \$0.30 or higher. Costs associated with the issuance of the debentures are being amortized over the term thereof.</p>		
Maturing May 9, 2013	230,000	-
Maturing May 29, 2013	370,000	-
Maturing June 19, 2013	230,000	-
	<hr/>	
	830,000	-
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Costs of Issuance	95,843	-
less accumulated amortization thereof	(3,352)	-
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	92,491	-
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	737,509	-
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Management has determined that there is no equity component of the convertible debentures.

The Company has reserved approximately 5,533,333 common shares in respect of the potential conversion of all of the debentures.

10. EQUITY INSTRUMENTS

Authorized

- Unlimited number of common shares
- Unlimited number of preferred shares
- Unlimited number of common share purchase warrants

10. EQUITY INSTRUMENTS, continued

Issued	#	\$
Common shares		
Balance, January 31, 2007	21,374,406	2,853,208
Issued for cash pursuant to private placement	4,000,000	200,000
Costs of issuance		(24,623)
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Balance, July 31, 2007	25,374,406	3,028,585
Issued for cash pursuant to rights offering	818,766	228,436
Issued for cash on exercise of finders' warrants	260,000	26,000
Issued for cash on exercise of options	1,000,000	120,000
Transferred on expiry of common share purchase warrants		1,500
Transferred from contributed surplus on exercise of options		129,650
Costs of issuance		(88,073)
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Balance, January 31, 2008	27,453,172	3,446,098
Issued for cash pursuant to private placement	3,830,000	225,970
Costs of issuance		(26,863)
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Balance, July 31, 2008	31,283,172	3,645,205
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Common share purchase warrants		
Balance, January 31, 2007 and July 31, 2007	750,000	1,500
Expired	(750,000)	(1,500)
Issued for cash pursuant to rights offering	409,383	819
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Balance, January 31, 2008	409,383	819
Issued for cash pursuant to private placement	1,915,000	3,830
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Balance, July 31, 2008	2,324,383	4,649
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		3,649,854
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Private Placement

On March 13, 2008, the Company issued 3,830,000 common shares, 1,915,000 common share purchase warrants and 126,500 finders' warrants pursuant to a non-brokered private placement. The shares and warrants were issued in the form of \$0.06 units, comprising one share and one common share purchase warrant. Each full warrant entitles the holder to acquire one additional common share for \$0.12 within 12 months of the closing of the Offering. Each full warrant is valued at \$0.002. The shares and warrants are subject to a four month hold period.

In connection with the private placement, the Company paid \$15,180 to arm's length finders and issued 126,500 finders' warrants which are exercisable at \$0.12 per share and expire 12 months after issuance.

10. EQUITY INSTRUMENTS, continued

Rights Offering

During the year ended January 31, 2008, the Company undertook a Rights Offering Circular, under which it issued, to holders of the outstanding common shares of the Company of record at the close of business on September 18, 2007, Rights to subscribe for units ("Units") on or before December 5, 2007. Each holder of common shares on the record date received one (1) Right for each one (1) common share held. Each Unit consisted of one common share and one-half (1/2) of a common share purchase warrant. Six (6) Rights plus \$0.28 were required to subscribe for one (1) Unit. A total of 818,766 common shares were acquired by shareholders pursuant to the offering. Each share was valued at \$0.279 and each full warrant at \$0.002.

Common share purchase warrants

On December 5, 2007, the Company issued 409,383 common share purchase warrants pursuant to the Rights offering described above. Each full warrant entitles the holder to acquire one additional common share, for \$0.43 per share, within 12 months of the closing of the Offering.

On March 13, 2008, the Company issued 409,383 1,915,000 common share purchase warrants pursuant to the non-brokered private placement described above. Each full warrant entitles the holder to acquire one additional common share for \$0.12 within 12 months of the closing of the Offering. Each full warrant is valued at \$0.002. The shares and warrants are subject to a four month hold period.

Also on March 13, 2008, the Company issued 126,500 finders' warrants pursuant to the non-brokered private placement described above. Each full warrant entitles the holder to acquire one common share of the Company, at a price of \$0.12 per share, within 12 months of the closing of the Offering. The value of these warrants was determined as described in Note 10 and has been charged to share issuance costs.

Stock Option Plan

The Company has established an Incentive Stock Option Plan for directors, officers, employees and consultants. The maximum number of common shares which may be reserved under the Plan may not exceed 20% of the outstanding common shares at that time. Options granted under the plan generally have a term of five years and vest on the date of grant. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of grant. A summary of the Plan is as follows:

Outstanding and exercisable	Shares	Weighted Average Price
Balance, January 31, 2007 and July 31, 2007	2,530,000	\$0.124
Exercised	(1,000,000)	(\$0.120)
Balance, January 31, 2008	1,530,000	\$0.126
Granted	2,540,000	\$0.100
Balance, July 31, 2008	4,070,000	\$0.110

10. EQUITY INSTRUMENTS, continued

Stock Option Plan, continued

Expiry	Exercise Price	Outstanding and Exercisable	Weighted Average Remaining Life (years)
February 16, 2010	\$0.15	306,292	1.55
February 13, 2011	\$0.12	623,708	2.54
March 14, 2011	\$0.12	300,000	2.62
May 15, 2011	\$0.12	300,000	2.79
February 14, 2013	\$0.10	300,000	4.46
	\$0.12 to \$0.15	1,830,000	2.74

Per Share Amounts

Per share amounts are calculated using the weighted number of shares outstanding, as follows:

	3 Months Ended July 31		6 Months Ended July 31	
	2008	2007	2008	2007
Basic	31,283,172	25,374,406	30,399,326	23,495,953
Diluted	31,421,551	25,587,763	30,452,021	23,512,143

11. CONTRIBUTED SURPLUS

The fair value of the compensation cost recorded with respect to options granted was estimated, on the date of grant, on the following basis:

	Plan Options Feb 15/08	Finders' Warrants Mar 13/08
Number of options or warrants	2,540,000	126,500
Risk free interest rate	3.35%	2.44%
Dividend yield	-	-
Expected life	5 year	1 year
Volatility	195.94%	158.26%
Fair value per share	\$0.0629	\$0.0459
Compensation cost	\$ 159,750	\$ 5,800

11. CONTRIBUTED SURPLUS, continued

Contributed surplus comprises the following:

Balance, January 31, 2007	462,200
Compensation cost related to:	
Issuance of warrants as finders' fees re private placement	7,100
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Balance, July 31, 2007	469,300
Transferred to common shares on exercise of"	
Finders' warrants	(5,429)
Options under incentive stock option plan	(124,221)
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Balance, January 31, 2008	339,650
Compensation cost related to:	
Issuance of options under incentive stock option plan	159,750
Issuance of warrants as finders' fees re private placement (Note 10)	5,800
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Balance, July 31, 2008	505,200
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12. CAPITAL MANAGEMENT

The Company's objective is to maintain a strong capital base and financial flexibility to maintain investor, creditor and market confidence while sustaining the future development of the business.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. The Company considers its capital structure to include cash, bank indebtedness, convertible debentures, shareholders equity and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue or re-acquire shares, adjust the amount of cash and bank indebtedness, or issue additional convertible debentures.

The Company's credit facilities (Note 7) contain covenants requiring the Company to maintain a margin limit, a debt to tangible net worth ratio and a current ratio. At July 31, 2008, the Company was in compliance with all covenants.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash (operating overdraft), accounts receivable, accounts payable and accrued liabilities and term loans payable. Management has utilized valuation methodologies available as at the year-end and has determined that the carrying amounts of such financial instruments approximate their fair value in all cases.

The Company has exposure to credit risk, liquidity risk, market risk and foreign exchange risk as a result of its use of financial instruments. This note presents information about the Company's exposure to these risks and the Company's objectives, policies and procedures for measuring and managing the risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, continued

Credit Risk

Credit risk is the risk of a financial loss occurring if a customer or counterparty fails to meet its financial or contractual obligations. The Company mitigates credit risk by regularly monitoring its accounts receivable position and evaluating the collect ability of accounts receivable and providing an allowance for doubtful accounts which reduces receivables to the amount management reasonably believes will be collected. No allowance was provided at July 31, 2008.

The Company is subject to a concentration of credit risk in its accounts receivable. As at July 31, 2008 two customers represented 58.4% and 27.7% respectively of the amount receivable. The Company's customers are in the oil and gas sector and Management is of the opinion that any risk of loss is reduced due to the financial strength of its customers.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due.

The Company's approach to managing liquidity risk is to maintain adequate cash and appropriately utilizing available lines of credit as necessary.

During the current quarter, the Company issued convertible debentures, as further described in Note 9, that mature in 2013. Interest payments are to be made with cash provided by operating activities. As the debentures become due, the Company can satisfy the obligations in cash or may be able to issue shares at a price determined by the debenture agreements. This settlement alternative along with forecasted cash flow from operating activities and available lines of credit allows the Company to adequately manage liquidity.

Market Risk

Market risk is the risk that changes in market prices such as interest rates will affect the Company's net earnings or the value of its financial instruments.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.

The Company is exposed to interest rate risk on its operating overdraft, as interest thereon is calculated on the basis of prime plus 1.25% (Note 7) and is accordingly subject to fluctuation.

The Company is not exposed to interest rate risk on its term loan obligations as interest thereon is calculated using fixed rates.

Foreign Exchange Risk

In the normal course of operations, the Company is exposed to currency fluctuation in relation to US dollar denominated purchases and accounts receivable emanating from US dollar denominated sales. The Company's functional currency is Canadian dollars and foreign denominated transactions are exposed to currency risk with adjustments recognized as foreign exchange gains and/or losses in the consolidated statement of operations.

For the six months ended July 31, 2008, the Company did not utilize any hedging instruments to mitigate its exposure to the US dollar. Management monitors exchange rate fluctuations and believes that this exposure is not material to its overall operations.

14. RELATED PARTY TRANSACTIONS

The Company is indebted pursuant to a term loan arrangement with Abbet International Ltd. ("Abbet"), as described in Note 6. Abbet is controlled by an individual who is a director and officer of the Company, and his spouse, who is an employee of the Company. Management believes that the terms of the loan are consistent with third party arrangements involving similar risk.

Interest of \$3,027 was paid during the period ended July 31, 2008 (\$4,757 – July 31, 2007) and is included in interest on long term debt on the statements of operations and comprehensive loss and deficit.

Effective February 29, 2008, the Company entered into a License Agreement with a non-resident corporation of which an officer and director of the Company is a shareholder. The Agreement is perpetual and relates to technologies developed by the non-resident corporation (Note 5). Consideration for the Agreement was \$50,000 US (\$48,940 CAD). The Agreement provides for the Company to pay a royalty of 4% of net revenues arising from the use of the licensed technologies. No royalties are payable as of July 31, 2008.

15. CONTINGENT LIABILITY

The Company is party to a Statement of Claim and Amended Statement of Claim, by one of its suppliers. In the claim, the plaintiff alleges that the Company, its President, Mr. Terry Matthews, and others conspired to utilize the plaintiff's confidential information in unlawful competition against it. There are also allegations that the defendants engaged in conduct that amounted to unlawful interference in the plaintiff's economic relations, improper solicitation of the plaintiff's employees and customers and usurping of the plaintiff's corporate opportunities. The Statements of Claim make certain allegations against all the defendants jointly and severally, and it also makes other allegations that are specific to individual defendants or groups of defendants.

The claims for joint and several liability against all defendants include, but are not limited to, \$1 million in general damages, \$1 million for interference with economic conditions, \$1 million for punitive or exemplary damages, \$1 million for usurping corporate opportunities, \$1 million in special damages and costs plus prejudgment interest. The additional claims against the Company and Mr. Matthews include a further \$1 million for general damages plus the disgorgement of any profits arising from the alleged conduct, plus costs, plus interest.

A statement of defense has been filed which denies the allegations made by the plaintiff and denies that the plaintiff suffered any damages arising from any alleged conduct by the defendants. Management intends to vigorously defend itself against the claim and does not believe that the claim will be successful. The potential exposure to the Company is limited to legal costs that will be incurred to defend itself against the claim. It is expected that resolution of this Claim may require a lengthy period of time.