

REAL TIME MEASUREMENTS INC.

Financial Statements

Year Ended January 31, 2008

**CHARTERED
ACCOUNTANTS**

MacKay LLP

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Auditors' Report

To the Shareholders of Real Time Measurements Inc.

We have audited the balance sheet of Real Time Measurements Inc., as at January 31, 2008, and the statement of operations and comprehensive loss, and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2008, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles

The financial statements as at January 31, 2007 and for the year then ended were audited by a predecessor auditor who expressed an opinion without reservation on these financial statements in their report dated May 14, 2007.

**Calgary, Canada
May 26, 2008**

Signed "**Mackay LLP**"

Chartered Accountants

REAL TIME MEASUREMENTS INC.

Balance Sheets

As at January 31

	Note	2008 \$	2007 (Note 17) \$
Assets			
Current Assets			
Accounts receivable	15	311,300	245,316
Inventories		51,564	72,792
Prepaid expenses and deposits		17,510	20,435
		380,374	338,543
Equipment and Leaseholds	3, 15	994,196	1,052,910
Development Costs	4	416,659	275,084
		1,791,229	1,666,537
Liabilities			
Current Liabilities			
Operating overdraft	5	45,845	35,123
Accounts payable and accrued liabilities	15	224,994	191,243
Term loans, current portion	6	41,816	37,896
		312,655	264,262
Term Loans Payable, net of current portion	6	40,635	82,451
		353,290	346,713
Contingent Liability	12		
Subsequent Events	16		
Shareholders' Equity			
Equity Instruments	7	3,446,917	2,854,708
Contributed Surplus	8	339,650	462,200
Deficit		(2,348,628)	(1,997,084)
		1,437,939	1,319,824
		1,791,229	1,666,537

On Behalf of the Board

(signed) "William Grbavac"

Director

(signed) "Terry Matthews"

Director

REAL TIME MEASUREMENTS INC.

Statements of Operations and Comprehensive Loss and Deficit

For the Years Ended January 31

	Note	2008 \$	2007 (Note 17) \$
Revenue			
Services, rentals and sales	15	1,138,711	976,557
Expenses			
Operations - services division	15	581,824	698,018
General and administrative	14	301,993	271,688
Operations - products division		125,437	192,707
Marketing		95,435	57,009
Public Company costs		65,064	37,940
Development		46,923	-
Cost of goods sold		18,680	11,779
Interest on long term debt	14	10,145	2,970
Information technology		5,750	13,301
Bad debts recovered		(1,574)	(3,314)
Foreign exchange		48,392	(77)
Amortization of equipment and leaseholds	15	155,766	125,212
Amortization of development costs		36,420	-
Stock based compensation	8	-	237,000
		1,490,255	1,644,233
Loss and comprehensive loss before income taxes		(351,544)	(667,676)
Income Taxes	9	-	-
Loss and Comprehensive Loss for Year		(351,544)	(667,676)
Deficit, beginning of year		(1,997,084)	(1,329,408)
Deficit, end of year		(2,348,628)	(1,997,084)
Loss per Share (Basic and Diluted)	7	(0.014)	(0.032)

REAL TIME MEASUREMENTS INC.
Statements of Cash Flows
For the Years Ended January 31

	Note	2008 \$	2007 (Note 17) \$
Operating Activities			
Loss		(351,544)	(667,676)
Non-cash items			
Amortization		192,186	125,212
Stock based compensation	8	-	237,000
Cash flow from operations		(159,358)	(305,464)
Changes in non-cash working capital	13	(52,186)	(37,727)
		(211,544)	(343,191)
Financing Activities			
Advances on term loans		-	128,306
Payments on term loans		(37,896)	(7,959)
Payments on obligations under capital leases		-	(13,349)
Issuance of equity instruments		575,255	195,000
Share issuance costs		(105,596)	(3,159)
Changes in non-cash working capital	13	36,588	-
		468,351	298,839
Investing Activities			
Purchase of equipment and leaseholds		(109,052)	(183,789)
Proceeds of disposal of equipment		12,000	-
Development costs incurred	4	(243,592)	(239,066)
Government funding earned	4	65,597	112,305
Changes in non-cash working capital	13	7,518	(39,003)
		(267,529)	(349,553)
Decrease in cash for year		(10,722)	(393,905)
Cash (Operating Overdraft), beginning of year		(35,123)	358,782
Operating Overdraft, end of year		(45,845)	(35,123)

REAL TIME MEASUREMENTS INC.

Notes to Financial Statements

January 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 preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Inventories

Inventories are carried at the lower of cost and net realizable value determined on an item-by-item basis.

Equipment and Leaseholds

Equipment and leaseholds are recorded at cost. Amortization thereof is recorded using the following methods and annual rates:

Declining balance method	
Field equipment	20% in the first year; 10% thereafter
Lab equipment	10%
Office equipment	20% to 30%
Shop equipment	20%
Automotive equipment	30%
Straight line method	
Leasehold improvements	over the term of the lease

Impairment of Long-Lived Assets

The Company evaluates the carrying value of its equipment on an ongoing basis. In order to determine whether impairment exists, management considers factors such as expected future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the equipment. Any permanent impairment in the carrying value of the equipment is charged against earnings in the period the impairment is determined.

Measurement Estimates

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on net income or loss cannot be determined at this time, it could be material for any one quarter or year. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting year. Actual results can differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Research and Development

The Company expenses research costs in the period in which they are incurred.

Development costs are expensed in the period in which they are incurred except where all of the following criteria are met:

- the product or process is clearly defined and the costs attributable thereto can be identified;
- the technical feasibility of the product or process has been established;
- the management of the enterprise has indicated its intention to produce and market, or use, the product or process;
- the future market for the product or process is clearly defined or, if it is to be used internally rather than sold, its usefulness to the enterprise has been established; and
- adequate resources exist, or are expected to be available, to complete the project.

When a development project meets the criteria for capitalization, the development costs are capitalized to the extent that their recovery can reasonably be regarded as assured.

Amortization of development costs commences with commercial production or use of the product or process and is charged as an expense on a systematic and rational basis by reference, where possible, to the sale or use of the product or process.

Income Taxes

The Company records income taxes using the liability method of accounting for income taxes. Under this method, future income taxes are based on the differences between assets and liabilities reported for financial reporting purposes and those reported for income tax purposes. The future income taxes are measured using substantially enacted rates and laws that will be in effect when the differences are expected to reverse. The effect on future income taxes of a change in tax rates is recognized in net income in the period in which the change occurs.

Revenue Recognition

Revenue is recognized and invoiced as services are performed or when title to products is transferred to the customer and collection is reasonably assured.

Per Share Amounts

Basic earnings per share are computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if options or other contracts to purchase common shares were exercised.

Options and warrants have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the options or warrants. The Company uses the treasury stock method of computing diluted earnings per share. It assumes that any proceeds from the exercise of options and warrants would be used to repurchase the Company's common shares at the average market price during the period.

Cash and Cash Equivalents

Cash consists of cash on hand and/or operating overdrafts. Highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Stock Based Compensation

Compensation expense is determined when stock options are issued and is recognized over the vesting period of the option along with a corresponding increase in contributed surplus. The compensation expense is determined using the Black-Scholes option pricing model. Under this method, compensation cost attributed to the stock options is measured at fair value at the grant date. Upon the exercise of stock options consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options that will not vest, but accounts for forfeitures as they occur.

Foreign Currency

The Company uses the temporal method of translating financial statement amounts that are denominated in a foreign currency. Under this method, monetary balance sheet items are translated at the rate of exchange in effect at the balance sheet date; non-monetary balance sheet items are translated at historical exchange rates (unless they are carried at market, in which case they are translated at the rate of exchange in effect at the balance sheet date); and, revenue and expense items are translated at the rate of exchange in effect on the dates they occur.

NEW POLICIES

Financial Instruments

On February 1, 2007, the Company adopted CICA Handbook Section 3855, which establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for sale, held-to-maturity, loans or receivables, or other financial liabilities. Financial assets and financial liabilities held for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Cash is designated as "held-for-trading". Accounts receivable are designated as "loans or receivables". The revolving operating loan, accounts payable and accrued liabilities and term loans payable are designated as "other liabilities".

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net earnings, with the exception of derivatives designated as effective cash flow hedges and hedges of the foreign currency exposure of a net investment in a self-sustaining foreign operation, which are recognized in other comprehensive income. In addition, Section 3855 requires that an entity must select an accounting policy of either expensing debt issue costs as incurred or applying them against the carrying value of the related asset or liability. The Company's policy is to apply debt issue costs against the carrying value of the related asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

NEW POLICIES, continued

Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

On February 1, 2007, the Company adopted CICA Handbook Section 1530 "Comprehensive Income" which consists of net earnings and other comprehensive income ("OCI"). OCI represents changes in shareholder's equity during a period arising from transactions and changes in prices, markets, interest rates, and exchange rates. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized translation gains and losses arising from self-sustaining foreign operations net of hedging activities and changes in the fair value of the effective portion of cash flow hedging instruments. The Company did not have any other comprehensive income for the year ended January 31, 2008.

Hedges

On February 1, 2007, the Company adopted CICA Handbook Section 3865, which provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company has elected not to apply hedge accounting to its financial instruments.

Accounting Changes

On February 1, 2007, the Company adopted CICA Handbook Section 1506, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in an accounting policy are to be made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

FUTURE ACCOUNTING CHANGES

- i) On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These new standards are effective for fiscal years beginning on or after January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentations, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company is assessing the impact of these new standards on the financial statements.
- ii) 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.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

FUTURE ACCOUNTING CHANGES, continued

- iii) 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.
- iv) Effective for fiscal years beginning on or after January 1, 2008 – CICA Handbook Section 1400 – “General Standards of Financial Presentation” requires management to assess and disclose the ability of the Company to continue as a going concern.
- v) Effective for fiscal years beginning on or after January 1, 2008 – CICA Handbook Section 3031 – Inventories which replaces Section 3030 and provides revised guidance on the measurement of cost and cost formulas for inventories, and increased disclosures. The Company is currently assessing the impact of this standard.

3. EQUIPMENT AND LEASEHOLDS

	2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Field equipment (Notes 6 and 15)	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 (Note 6)	17,308	5,112	12,196
Leasehold improvements	11,725	6,125	5,600
	2,010,869	1,016,673	994,196

	2007 (Note 17)		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Field equipment (Notes 6 and 15)	1,606,294	724,716	881,578
Office equipment	169,569	108,999	60,570
Lab equipment	67,342	9,732	57,610
Shop equipment	41,578	13,029	28,549
Automotive equipment (Note 6)	17,308	649	16,659
Leasehold improvements	11,725	3,781	7,944
	1,913,816	860,906	1,052,910

Field equipment under capital lease was combined with other field equipment at the time the lease obligation was met in full.

Field equipment at January 31, 2008 and January 31, 2007 includes equipment, having a cost of \$21,837, which was under construction and therefore not available for use. Accordingly, this equipment has not been subject to amortization.

4. 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 (90 units as of January 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 (January 31, 2007 - \$139,705) 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 current year.

Development costs are summarized as follows:

	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

	2007 (Note 17)		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Pressure Temperature Gauges	275,084	-	275,084

5. 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% (7.00% at January 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.

6. TERM LOANS PAYABLE

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

	2008	2007 (Note 17)
	\$	\$
Abbet International Ltd., a related party as described in Note 14. The loan was arranged to finance the purchase of equipment to be utilized in Tunisia (Note 15). This loan bears interest at 10% per annum, is repayable in blended monthly instalments of \$3,547 and matures October 31, 2009. As security, the lender holds title to the equipment, which has a carrying value of \$80,369 at January 31, 2008.	68,074	101,966
Chrysler Finance, vehicle loan. This loan bears interest at 8.89% per annum, is repayable in blended monthly instalments of \$456 and matures January 23, 2011. As security, the lender holds title to the vehicle, which has a carrying value of \$12,196 at January 31, 2008.	14,377	18,381
	82,451	120,347
Less current portion	41,816	37,896
	40,635	82,451

Loan principal is scheduled to be repaid as follows:

	Equipment Loan	Vehicle Loan	Total
	\$	\$	\$
Year ended January 31,			
2009	37,442	4,375	41,817
2010	30,632	4,779	35,411
2011	-	5,223	5,223
	68,074	14,377	82,451

7. EQUITY INSTRUMENTS

Authorized

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

Issued	#	\$
Common shares		
Balance, January 31, 2006	19,874,406	2,659,535
Issued for cash pursuant to private placement	1,500,000	193,500
Transfer upon expiry of warrants		3,332
Costs of issuance		(3,159)
<hr/>		
Balance, January 31, 2007 (Note 17)	21,374,406	2,853,208
Issued for cash pursuant to private placement	4,000,000	200,000
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		(112,696)
<hr/>		
Balance, January 31, 2008	27,453,172	3,446,098
<hr/>		
Common share purchase warrants		
Balance, January 31, 2006	3,332,000	3,332
Issued for cash pursuant to private placement	750,000	1,500
Expired	(3,332,000)	(3,332)
<hr/>		
Balance, January 31, 2007 (Note 17)	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
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		3,446,917

Rights Offering

During the current year, 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.

7. EQUITY INSTRUMENTS, continued

Common Share Purchase Warrants

During the year ended January 31, 2007, the Company issued 1,500,000 "units" at a price of \$0.13 per unit. Units consisted of one common share and one-half of one common share purchase warrant. Each full common share purchase warrant entitles the holder to acquire one common share of the Company, at a price of \$0.25 per share, until May 31, 2007. The Company valued each full common share purchase warrant at \$0.002. The warrants have now expired.

On April 27, 2007, the Company issued 340,000 finders' warrants in connection with the private placement referred to above. Each warrant entitles the holder to acquire one common share of the Company at a price of \$0.10 per share until April 26, 2008. The value of these warrants was determined as described in Note 8 and has been charged to share issuance costs.

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.

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, 2006	1,664,000	\$0.209
Granted	2,223,708	\$0.120
Expired	(1,117,708)	(\$0.238)
Forfeited	(240,000)	(\$0.150)
Balance, January 31, 2007 (Note 17)	2,530,000	\$0.124
Exercised	(1,000,000)	(\$0.120)
Balance, January 31, 2008	1,530,000	\$0.126

Outstanding options under the Plan are as follows:

Expiry	Exercise Price	Outstanding and Exercisable	Weighted Average Remaining Life (years)
February 16, 2010	\$0.15	306,292	2.05
February 13, 2011	\$0.12	623,708	3.04
March 14, 2011	\$0.12	300,000	3.12
May 15, 2011	\$0.12	300,000	3.29
	\$0.12 to \$0.15	1,530,000	2.90

7. EQUITY INSTRUMENTS, continued

Per Share Amounts

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

	2008	2007 (Note 17)
Basic	24,899,744	20,887,831
Diluted	25,153,656	20,887,831

8. CONTRIBUTED SURPLUS

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

	2008 Apr 27/07	2007 (Note 17)		
		Feb 13/06	Mar 14/06	May 15/06
Number of options or warrants	340,000	1,623,708	300,000	300,000
Risk free interest rate	4.16%	4.11%	4.11%	4.24%
Dividend yield	-	-	-	-
Expected life	1 year	5 years	5 years	5 years
Volatility	73.73%	174.22%	174.22%	164.04%
Fair value per share	\$0.0209	\$0.1242	\$0.1242	\$0.1128
Compensation cost	\$ 7,100	\$ 201,700	\$ 37,250	\$ 33,850

Contributed surplus comprises the following:

	\$
Balance, January 31, 2006	225,200
Compensation cost (recovery) related to Issuance of options under incentive stock option plan	272,800
Options forfeited	(35,800)
Balance, January 31, 2007 (Note 17)	462,200
Compensation cost related to Issuance of warrants as finders' fees re private placement	7,100
Transferred to common shares on exercise of" Finders' warrants	(5,429)
Options under incentive stock option plan	(124,221)
Balance, January 31, 2008	339,650

9. INCOME TAXES

Provision

The provision for income taxes varies from the amount which would have been computed by applying the combined federal and provincial tax rates to the Company's income before income taxes. This difference results from the following items:

	2008	2007 (Note 17)
Combined federal and provincial tax rates	31.90%	32.36%
	\$	\$
Loss before income taxes	(351,544)	(667,676)
Expected income tax recovery	(112,000)	(216,000)
Amounts not deductible for income tax purposes	8,000	77,000
Share issuance costs deductible for income tax purposes	(30,000)	-
Benefit of non-capital losses forfeited	-	27,000
Effect of decrease in statutory tax rate	70,000	15,000
Change in valuation allowance	64,000	97,000
	-	-

Future Income Tax

	2008	2007 (Note 17)
	\$	\$
Future Tax Liabilities		
Excess of carrying values of equipment and leaseholds over tax values	(25,000)	-
Excess of carrying value of development costs over tax values	(119,000)	(89,000)
	(144,000)	(89,000)
Future Tax Assets		
Excess of tax values of equipment and leaseholds over carrying values	-	10,000
Excess of tax value of costs of failed acquisition over carrying value	9,000	10,000
Share issuance costs	47,000	52,000
Scientific Research and Experimental Development Expenditures	44,000	50,000
Losses for income tax purposes	604,000	463,000
	704,000	585,000
	560,000	496,000
Less valuation allowance	(560,000)	(496,000)
Net future income tax	-	-

9. INCOME TAXES, continued

Losses and Other Tax Pools

The Company has losses of approximately \$2,122,100, which can be utilized to reduce taxable income in future years. These losses expire as follows:

Year ended January 31	\$
2016	807,200
2027	624,300
2028	690,600

The Company also has tax pools of approximately \$1,253,400 and Scientific Research and Experimental Development Expenditures of \$153,700 available to reduce taxable income in future years.

10. COMMITMENTS

The Company is obligated under the terms of leases for premises, which expire May 31, 2010 and September 30, 2011, a vehicle lease which expires January 12, 2009 and leases for equipment which expire October 31, 2008 and January 31, 2009. Minimum annual payments required under the terms of the leases are:

	Premises	Vehicles and Equipment	Total
	\$	\$	\$
2009	78,780	21,020	99,800
2010	79,021		79,021
2011	63,120		63,120
2012	36,780		36,780

11. FINANCIAL INSTRUMENTS

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 is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the Company conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information.

The Company is exposed to foreign exchange risk with respect to its operations in Tunisia as the revenues are invoiced in US dollars and the related accounts receivable are accordingly subject to exchange fluctuations.

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

12. 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.

13. CASH FLOW INFORMATION

Details of changes in non-cash working capital balances and supplemental cash flow information are:

	2008	2007
	\$	(Note 17)
	\$	\$
Changes in Non-cash Working Capital		
Operating Activities		
Accounts receivable	(93,706)	49,782
Inventories	21,228	(45,950)
Prepaid expenses and deposits	2,925	51
Accounts payable and accrued liabilities	17,367	(41,610)
	(52,186)	(37,727)
Financing Activities		
Accounts payable and accrued liabilities	36,588	-
Investing Activities		
Accounts receivable	27,722	(17,334)
Accounts payable and accrued liabilities	(20,204)	(21,669)
	7,518	(39,003)
Supplemental Cash Flow Information		
Interest paid	10,806	3,052
Income taxes paid	-	-

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 \$8,671 was paid during the year ended January 31, 2008 (\$2,682 – January 31, 2007) and is included in interest on long term debt on the statements of operations and comprehensive loss and deficit.

For a portion of the prior year, the Company paid consulting fees, totaling \$37,597, to Abbet. These fees were paid for services provided by the aforementioned officer of the Company and are included in general and administrative expenses on the statements of operations and comprehensive loss and deficit. During the remainder of the year and during the current year, the officer was remunerated by way of salary.

15. BUSINESS SEGMENTS

During the year ended January 31, 2007, the Company commenced carrying on business activities in Tunisia, using its own equipment, as a subcontractor to other entities. The Company does not maintain an office in Tunisia.

The following presents a summary of the business activities undertaken and resources utilized in Tunisia:

	Note	2008	2007 (Note 17)
		\$	\$
Revenue			
Services		437,841	91,655
Expenses			
Operations - services division		115,566	66,289
Amortization of equipment		23,207	12,408
Foreign exchange loss		48,739	-
		187,512	78,697
Net income before allocation of corporate overhead		250,329	12,958
Net Investment			
Accounts receivable		209,591	78,643
Net book value of equipment utilized		108,046	130,505
Accounts payable related to equipment		-	(18,949)
Term loan related to equipment	6	(68,074)	(101,966)
		249,563	88,233

The Company's revenues in Tunisia were all from one customer and are invoiced in US dollars.

All of the Company's other revenues, assets and liabilities are generated by or utilized in Canadian operations.

16. SUBSEQUENT EVENTS

Granting of Options

On February 15, 2008, the Company announced that it had granted options, to its directors, officers, and employees, to purchase an aggregate of 2,540,000 common shares of the Company pursuant to its Stock Option Plan. The options are for a five year term expiring on February 14, 2013, and are exercisable at a price of \$0.10 per share. The options are subject to a four month hold period from date of grant.

Private Placement

Effective 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 finder's warrants which are exercisable at \$0.12 per share and expire 12 months after issuance.

Convertible Debentures

On April 24, 2008, the Company announced plans for a non-brokered private placement of unsecured convertible debentures, to raise gross proceeds of up to \$700,000. The debentures will mature five years from the date of issue and will be convertible, at the option of the holder, into common shares of the Company at a price of \$0.15 per share. The holder will have the right to convert all or any portion of outstanding indebtedness into common shares not less than 6 months from the date of the debenture. The Company may, at its option, anytime after three years have elapsed from the date 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 the \$0.15 per common share provided the 20 day weighted average price of the common shares trade at \$0.30 or higher. The debentures will bear interest at the rate of 15 per cent per year, payable quarterly. The Company may pay a cash finders fee of 10% of the proceeds raised to finders who assist with placing the offering.

The first tranche of the private placement was completed on May 9, 2008, for gross proceeds of \$230,000.

17. COMPARATIVE INFORMATION

The financial statements for the year ended January 31, 2007 were audited by another firm of Chartered Accountants and issued under cover of their audit report dated May 14, 2007.