

RSI INTERNATIONAL SYSTEMS INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three months ended March 31, 2014

(Unaudited)

(In Canadian Dollars)

RSI INTERNATIONAL SYSTEMS INC.**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION***(Unaudited, in Canadian dollars)*

	Notes	March 31, 2014	December 31, 2013
ASSETS			
Current			
Cash & Cash Equivalents		\$ 86,587	\$ 179,410
Accounts Receivable	4	531,932	233,466
Prepaid Expenses	5	28,109	38,390
		646,627	451,266
Long-Term Prepaid Expenses	5	42,369	6,917
Equipment	6	9,232	8,199
Deferred Development Costs	7	577,664	554,906
Intangible Assets	3a, 8	18,700	20,900
		\$ 1,294,592	\$ 1,042,188
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Bank Operating Line of Credit	9a	\$ 25,750	\$ 25,000
Accounts Payable & Accrued Liabilities		226,468	242,306
Current Portion of Deferred Revenue	10	367,382	193,010
Loan Payable	9b	65,000	72,367
		684,600	532,683
Deferred Revenue	10	11,268	38,652
		695,868	571,335
Shareholders' Deficiency			
Share Capital	11	3,427,049	3,427,049
Allotted Share Capital	3a	5,572	5,572
Share Subscription Receivable		-	(84,000)
Contributed Surplus		246,282	246,282
Deficit		(3,080,178)	(3,124,050)
		598,724	470,853
		\$ 1,294,592	\$ 1,042,188

The accompanying notes are an integral part of these consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.**CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

FOR THE THREE MONTHS ENDED MARCH 31,

(Unaudited, in Canadian dollars)

	Notes	2014	2013
REVENUES		\$ 762,514	\$ 728,941
COST OF SALES		118,897	103,652
GROSS PROFIT		643,616	625,289
EXPENSES			
Amortization of Equipment	6	1,220	1,187
Amortization of Deferred Development Costs	7	26,665	40,249
Amortization of Intangible Assets	8	2,200	2,200
Business Development & Travel		105,121	41,658
Consulting Fees		10,500	10,500
Filing and Transfer Agent Fees		13,513	6,247
Foreign Exchange (Gain) Loss		(152,645)	(18,921)
Internet and Networking		16,117	14,442
Interests and Bank Charges		8,782	8,102
Office and Miscellaneous		14,406	14,259
Professional Fees		36,495	14,164
Rent and Utilities		25,140	23,269
Salaries and Benefits		478,740	452,741
Software Licenses		13,490	9,778
		599,745	619,875
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD		\$ 43,872	\$ 5,414
Earnings Per Share - Basic		\$ 0.00	\$ 0.00
- Diluted		\$ 0.00	
Weighted average number of shares outstanding - basic		17,804,627	15,679,627
- diluted		17,981,575	

The accompanying notes are an integral part of these consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited, in Canadian dollars, except share number)

	Notes	Issued Common Shares		Allotted Common Shares		Contributed Surplus	(Deficit)	Total Equity (Deficiency)	
		Number	Amount Received	Number	Amount Receivable				
BALANCE, DECEMBER 31, 2012		15,679,627	\$ 3,152,049	\$ -	500,000	\$ 14,196	\$ 262,658	\$ (3,059,003)	\$ 369,900
Net and comprehensive income for the period							5,414		5,414
BALANCE, MARCH 31, 2013		15,679,627	3,152,049	-	500,000	14,196	262,658	(3,053,589)	375,314
Shares issued for acquisition payment	3a	250,000	25,000	-	(250,000)	(8,624)	(16,376)	-	-
Shares in escrow cancelled	11	(625,000)	-	-	-	-	-	-	-
Shares issued for private placement	11	2,500,000	250,000	(84,000)	-	-	-	-	166,000
Net and comprehensive income for the period		-	-	-	-	-	-	(70,462)	(70,462)
BALANCE, DECEMBER 31, 2013		17,804,627	3,427,049	(84,000)	250,000	5,572	246,282	(3,124,050)	470,852
Collection of amount receivable for private placement				84,000					84,000
Net and comprehensive income for the period				-			43,872		43,872
BALANCE, MARCH 31, 2014		17,804,627	\$ 3,427,049	\$ -	250,000	\$ 5,572	\$ 246,282	\$ (3,080,178)	\$ 598,724

The accompanying notes are an integral part of these consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(Unaudited, in Canadian dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the Period	\$ 43,872	\$ 5,414
Items not Affecting Cash:		
Amortization of Equipment	1,220	1,187
Amortization of Deferred Development Costs	26,665	40,249
Amortization of Intangible Assets	2,200	2,200
	<u>73,956</u>	<u>49,050</u>
Changes in Non-Cash Working Capital Items:		
(Increase) in Accounts Receivable	(298,465)	(182,151)
(Increase) in Prepaid Expenses	(25,171)	(4,600)
Decrease in Long-Term Accounts Receivable	-	430
(Decrease) Increase in Accounts Payable and Accrued Liabilities	(18,174)	70,531
Increase in Deferred Revenue	146,988	64,426
Net Cash Used in Operating Activities	<u>(120,866)</u>	<u>(2,314)</u>
Cash paid during the period for interests	2,335	918
Cash paid during the period for taxes	-	-
	<u>(118,530)</u>	<u>(1,396)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Subsidiary	-	(7,500)
Acquisition of Equipment	(2,253)	-
Deferred Development Costs	(49,423)	(57,556)
Net Cash Used in Investing Activities	<u>(51,676)</u>	<u>(65,056)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing (Repayment) of Loan Payable and Operating Line of Credit	(6,617)	80,168
Collection of Subscription Receivable	84,000	-
Net Cash Provided by Financing Activities	<u>77,383</u>	<u>80,168</u>
Change in Cash during the Period	(92,823)	13,716
Cash and Cash Equivalents, Beginning of Period	179,410	12,928
Cash and Cash Equivalents, End of Period	\$ 86,587	\$ 26,644

The accompanying notes are an integral part of these consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited, expressed in Canadian dollars)

1. NATURE OF OPERATIONS

RSI International Systems Inc. (“RSI” or the “Company”) is a publicly listed company incorporated under the laws of British Columbia, Canada. The address of the Company’s head and registered office is 402 – 134 Abbott Street, Vancouver, BC V6B 2K4. The condensed interim consolidated financial statements of the Company as at and for the period ended March 31, 2014 include the Company and its subsidiary (together referred to as the “Group”). The Group is in the business of providing an integrated web-based real-time reservation and property management system to the hotel and resort industries, as well as web design and e-marketing.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 26, 2014.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of Preparation

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

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these financial statements have been prepared using the accrual basis of accounting except cash flow information.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited, expressed in Canadian dollars)

2. BASIS OF PRESENTATION (Continued)

Significant Accounting Judgments and Estimates

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying the Company's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013.

Significant Accounting Policies

The Company's accounting policies applied to all periods presented in these consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2013.

3. BUSINESS ACQUISITIONS

a. Acquisition of Veratta Technologies Inc.

On April 19, 2011, the Company signed an asset acquisition agreement with Veratta Technology Inc. ("Veratta"), a privately held company incorporated in British Columbia, to acquire 100% of the net assets of Veratta. This transaction, in substance, is a business acquisition under IFRS3. The Company incorporated a new wholly owned company, Veratta Technologies (2011) Inc. ("Veratta-2011"), incorporated in British Columbia, and the net assets acquired were owned and recognized in Veratta-2011 upon acquisition. The acquisition of Veratta enables the Company to not only provide web site design and applications, but also to offer strategy and insight, performance and usability, internet marketing, and identity and print services to its continually growing stable of products and services.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited, expressed in Canadian dollars)

3. BUSINESS ACQUISITIONS (Continued)

a. Acquisition of Veratta Technologies Inc. (Continued)

This acquisition has been accounted for using the acquisition method on April 19, 2011 as required by IFRS 3 *Business Combinations*, whereby the assets acquired and the liabilities assumed were recorded at their fair value. The Company assessed the fair value of the net assets acquired based on management's best estimate of market value with the assistance of external valuation specialists, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it expected to cost to settle the outstanding liabilities.

As part of the acquisition, the Company had to pay cash of \$14,682 and \$14,851 by February 28, 2013 and 2012, respectively. They are measured at the acquisition date at discounted cash flow for the \$15,000 consideration payable on February 29, 2013 and 2012 using the discount rate of 1.15%. As at December 31, 2013, the full amount was paid.

In addition, the Company has to issue a maximum of 800,000 common shares in relation to the acquisition, subject to Veratta meeting its revenue target for the years ended December 31, 2012 and 2013. The value of the shares consideration of \$29,196 is measured at the acquisition date fair market value, which is determined at the discounted present value of the shares issued in the future dates by using Earn-out Probability Analysis.

The outstanding contingent share consideration (500,000) has been classified as allotted share capital and is recorded as part of equity. The Company expects these shares to be issued within 30 days of the publication of the Company's December 31, 2012 and 2013 consolidated financial statements, respectively, provided certain revenue targets are met. To issue the allotted shares, Veratta must meet or exceed revenue targets of \$784,000 and \$1,058,000 for fiscal years 2012 and 2013 respectively. If Veratta does not meet its revenue target for a prior fiscal year, the amount of the shortfall shall, on a cumulative basis, be added to and is a restatement of the revenue target for the fiscal year following such shortfall.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***3. BUSINESS ACQUISITIONS (Continued)****a. Acquisition of Veratta Technologies Inc. (Continued)**

The Company estimates that the range of possible outcomes for the issuance of the contingent share consideration is a low of nil shares and a high of 500,000 shares. The low being that no additional shares are issued if none of the revenue targets are met and the high being all the shares are issued if all revenue targets are met. Revenue targets for fiscal years 2011 and 2012 have been met and 250,000 (2012: Nil) common share was issued during the year ended December 31, 2013. Amount \$16,376, being the difference between the fair value of the 250,000 common shares measured at the issuance date and fair value estimated at the acquisition date was recorded in contributed surplus.

b. Innformation Systems Inc. (“IS”)

On September 25, 2012, the Company entered into a share purchase agreement with Innformation Systems Inc (“IS”), a company headquartered in Rochester, Minnesota, U.S. which is in the business of providing software product that encompasses the sales/catering segment of the hospitality industry and a reseller of the Company’s RoomKey product throughout the Midwestern U.S. On November 26, 2012, the Company provided IS with the written termination notice to terminate the share purchase agreement subject to termination clause pursuant to the original agreement. As a result, the Company expensed all costs related to the acquisition as project investigation costs for the year ended December 31, 2012. During 2013, the Company and IS reached an agreement to terminate the original agreement and incurred a termination cost of \$7,331.

4. ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES

The aging analysis of accounts receivable is as follows:

	Total	Neither Past Due nor Impaired	31 - 60 Days	60 - 90 Says	> 90 Days
March 31, 2014	\$ 531,932	\$ 254,732	\$ 96,274	\$ 6,356	\$ 174,571
December 31, 2013	\$ 233,466	\$ 132,402	\$ 62,266	\$ 13,871	\$ 24,927

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited, expressed in Canadian dollars)

4. ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES (Continued)

As at March 31, 2014, there was \$nil (December 31, 2013 - \$nil) long-term receivable.

As at March 31, 2014, accounts receivable of an initial value of \$262 (December 31, 2013 - \$262) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

	\$
As of December 31, 2012	262
Charge for the year	51,026
Utilized	(51,026)
As of December 31, 2013 and March 31, 2014	262

5. PREPAID EXPENSES AND LONG-TERM PREPAID EXPENSES

Prepaid expense balances represent advances paid to suppliers for services to be rendered in the fiscal years 2013 & 2014.

Long-term prepaid expense represents rental deposits paid to the landlords in relation to the office lease agreements for its premises. The deposits are classified as long-term assets since the leases mature beyond December 31, 2015.

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***6. EQUIPMENT**

Cost	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2012	\$ 131,486	\$ 64,286	\$ 10,556	\$ 5,415	\$ 211,743
Additions	-	-	1,567	-	1,567
December 31, 2013	131,486	64,286	12,123	5,415	213,310
Additions	532	-	1,721	-	2,253
March 31, 2014	132,018	64,286	13,844	5,415	215,563

Accumulated Amortization	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2012	\$ 129,638	\$ 64,286	\$ 1,235	\$ 5,415	\$ 200,574
Additions	1,107	-	3,430	-	4,537
December 31, 2013	130,745	64,286	4,665	5,415	205,111
Additions	233	-	987	-	1,220
March 31, 2014	\$ 130,978	\$ 64,286	\$ 5,652	\$ 5,415	\$ 206,331

Carrying Amounts	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2013	\$ 741	\$ -	\$ 7,458	\$ -	\$ 8,199
March 31, 2014	\$ 1,040	\$ -	\$ 8,192	\$ -	\$ 9,232

7. DEFERRED DEVELOPMENT COSTS

During the year ended December 31, 2012, the Company commenced the development of two new projects – Insight and Loyalty programs. Insight is a new reporting program to enhance the Company’s current software while Loyalty is a customer-rewards-and-retention addition to the Company’s software. During the year ended December 31, 2012, the Company capitalized \$229,910 to these two projects. Costs incurred on these new projects have been deferred and no amortization is taken during the year as the projects are yet to be completed.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***7. DEFERRED DEVELOPMENT COSTS (Continued)**

During the year ended December 31, 2013, the Company completed its Insight project and commenced amortization of Insight on declining balance method over 36 months; in addition, the Company capitalized \$221,485 to the Insight Web project as more development work was done to enhance its web feature. During the three-month period ended March 31, 2014, the Company also capitalized \$49,423 to the Insight Web project as the Company continue its development work; no amortization is taken as the enhanced feature is yet to be completed.

Cost	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Royalty	Total
December 31, 2012	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ -	\$ 9,000	\$ 803,235
Additions	-	-	-	-	221,484	-	221,484
December 31, 2013	75,900	423,586	73,839	220,910	221,484	9,000	1,024,719
Additions	-	-	-	-	49,423	-	49,423
March 31, 2014	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ 270,907	\$ 9,000	\$ 1,074,142

Accumulated Amortization	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Royalty	Total
December 31, 2012	\$ 75,900	\$ 182,405	\$ 49,298	\$ -	\$ -	\$ -	\$ 307,603
Additions	-	80,392	8,181	73,637	-	-	162,210
December 31, 2013	75,900	262,797	57,479	73,637	-	-	469,813
Additions	-	13,215	1,345	12,105	-	-	26,665
March 31, 2014	\$ 75,900	\$ 276,012	\$ 58,824	\$ 85,742	\$ -	\$ -	\$ 496,478

Carrying Amounts	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Royalty	Total
December 31, 2013	\$ -	\$ 160,789	\$ 16,360	\$ 147,273	\$ 221,484	\$ 9,000	\$ 554,906
March 31, 2014	\$ -	\$ 147,574	\$ 15,015	\$ 135,168	\$ 270,907	\$ 9,000	\$ 577,664

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***8. INTANGIBLE ASSETS**

Cost	Customer Relationships	Backlog of Work	Total
December 31, 2012, 2013 and March 31, 2014	\$ 17,000	\$ 27,000	\$ 44,000

Accumulated Amortization	Customer Relationships	Backlog of Work	Total
December 31, 2012	\$ 5,525	\$ 8,775	\$ 14,300
Additions	3,400	5,400	8,800
December 31, 2013	8,925	14,175	23,100
Additions	850	1,350	2,200
March 31, 2014	\$ 9,775	\$ 15,525	\$ 25,300

Carrying Amounts	Customer Relationships	Backlog of Work	Total
December 31, 2013	\$ 8,075	\$ 12,825	\$ 20,900
March 31, 2014	\$ 7,225	\$ 11,475	\$ 18,700

9. OPERATING LINE OF CREDIT AND LOAN PAYABLE

- a. The Company has an operating line of credit limit of up to \$35,000, with interests, at Royal Bank of Canada, of prime plus 1.5% payable monthly. As at March 31, 2014, the Company had \$25,750 (December 31, 2013 - \$25,000) outstanding on its operating line. As at March 31, 2014, the effective rate on this loan was 4.5%. There is no asset pledged or guarantee for the operating line of credit.
- b. The loan payable consists of a a short-term loan of \$65,000, which was used for the Company's operations. The short-term loan is due at the end of 2014 with interests payable monthly at 10% per annum.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***10. DEFERRED REVENUE**

Deferred revenue consists of pre-billed services, license fees, subscription fees and web design fees as follows:

	March 31, 2014	December 31, 2013
Deferred revenue	\$ 378,650	\$ 231,662
Current portion	(367,382)	(193,010)
Long-term portion	\$ 11,268	\$ 38,652

11. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Escrow Shares

As at March 31, 2014, the Company has no escrow shares.

As at December 31, 2012, 625,000 common shares were held in escrow, the release of which was subject to the direction of regulatory authorities on the basis of one share for every \$0.064 in cumulative net cash flows not previously applied towards release. All common shares held in escrow have been cancelled and returned to treasury during the year ended December 31, 2013.

Private Placement

In December 2013, the Company completed a private placement and received subscriptions of 2,500,000 units at a subscription price of \$0.10 per unit for gross proceeds of \$250,000. Each unit consists of one common share and one-half common share purchase warrant at \$0.15 per warrant exercisable until December 30, 2015. The Company used the residual method to allocate the proceeds between common shares and warrants. The Company allocated \$250,000 and \$nil to common shares and warrants, respectively.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***11. SHARE CAPITAL (Continued)****Stock Options**

There was no option granted in the three-month period ended March 31, 2014.

A summary of the Company's stock options as at March 31, 2014 and December 31, 2013 are as follow:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as at December 31, 2012	1,452,500	\$ 0.11
Cancelled & Expired	(602,500)	\$ 0.14
Options outstanding as at December 31, 2013 and March 31, 2014	850,000	\$ 0.10

The weighted average remaining contractual life of the outstanding stock options at March 31, 2014 is 2.99 years (December 31, 2013 – 3.24 years).

Date Issued	Number of Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
March 27, 2012	850,000	\$ 0.10	March 27, 2017	2.99

Warrants

For the three-month period ended March 31, 2014, there was no warrant issued.

During the year ended December 31, 2013, the Company issued 1,250,000 warrants in relation to the private placement completed on December 30, 2013.

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
December 30, 2013	1,250,000	\$ 0.15	December 30, 2015	1.75

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

*(Unaudited, expressed in Canadian dollars)***12. RELATED PARTY TRANSACTIONS**

Related party transactions not otherwise disclosed in these consolidated financial statements are as follows:

- a) Consulting fees of \$10,500 (March 31, 2013 - \$10,500) were paid to directors of the Company.
- b) Director fee of \$3,000 (March 31, 2013 - \$3,000) was paid to a director of the Company.
- c) Short-term employee benefits of \$128,697 (March 31, 2013 - \$59,583) were paid to key management personnel.
- d) A short-term loan of \$65,000 (December 31, 2013 - \$65,000) was borrowed from an officer of the Company. See Note 9.

Included in accounts payable and accrued liabilities at March 31, 2014 is \$2,998 (December 31, 2013 - \$2,820) receivable from directors.

These transactions are in the normal course of the operations on normal commercial terms and conditions and at market rates, which is the amount of consideration established and agreed to by the related parties.

Also see Note 11.

13. SEGMENTED DISCLOSURE

During the three-month period ended March 31, 2014, the Company no longer separately managed its operating businesses and combined all segments into one.

A geographical breakdown of sales to customers is as follows:

		March 31, 2013		
	March 31, 2014	Reservation and Property Management	Web Design and Internet Marketing	Total
Canada	\$ 230,576	\$ 102,481	\$ 227,473	\$ 329,954
USA	475,724	361,857	27,062	388,919
Other	56,215	10,068	-	10,068
Total	\$ 762,515	\$ 474,406	\$ 254,535	\$ 728,941

All of the Company's non-current assets are located in Canada.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Unaudited, expressed in Canadian dollars)

14. SUBSEQUENT EVENTS

Subsequent to the quarter ended March 31, 2014, the Company issued 250,000 shares, the balance of contingent shares, pursuant to the asset acquisition agreement signed with Veratta Technologies Inc. upon Veratta meeting its final revenue target for 2013. Refer to Note 3a.