

RSI INTERNATIONAL SYSTEMS INC.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS**

For the three months ended March 31, 2015

(Unaudited)

(In Canadian Dollars)

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

	Notes	March 31, 2015	December 31, 2014
ASSETS			
Current			
Cash & Cash Equivalents		\$ 1,269,424	\$ 1,269,787
Accounts Receivable, net of allowance	4	288,277	202,284
Prepaid Expenses	5	42,821	21,584
		1,600,521	1,493,655
Long-Term Accounts Receivable	4	2,625	2,625
Long-Term Prepaid Expenses	5	45,369	45,369
Equipment	6	18,750	16,944
Deferred Development Costs	7	221,578	245,366
Intangible Assets	8	-	-
		\$ 1,888,843	\$ 1,803,959
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Bank Operating Line of Credit	9a	\$ -	\$ -
Accounts Payable & Accrued Liabilities		342,314	373,826
GST Payable		34,037	17,424
Current Portion of Deferred Revenue	10	88,081	222,812
Loan Payable	9b	-	-
		464,433	614,062
Deferred Revenue	10	20,093	26,509
		484,526	640,571
Shareholders' Deficiency			
Share Capital	11	4,943,363	4,944,564
Allotted Share Capital	11b	-	-
Share to be issued	11b	67,500	67,500
Share Subscription Receivable	11b	(642)	(10,492)
Contributed Surplus		338,854	338,854
Deficit		(3,944,757)	(4,177,038)
		1,404,317	1,163,388
		\$ 1,888,843	\$ 1,803,959

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

RSI INTERNATIONAL SYSTEMS INC.**CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE THREE MONTHS ENDED MARCH 31,***(Unaudited, in Canadian dollars)*

	Notes	2015	2014
REVENUES		\$ 1,197,049	\$ 762,514
COST OF SALES		205,847	118,897
GROSS PROFIT		991,202	643,617
EXPENSES			
Amortization of Equipment	6	3,313	1,220
Amortization of Deferred Development Costs	7	23,788	26,665
Amortization of Intangible Assets		-	2,200
Bad Debt	4	10,976	-
Business Development & Travel		87,656	105,121
Consulting Fees		-	10,500
Filing and Transfer Agent Fees		6,586	13,513
Foreign Exchange (Gain) Loss		(329,865)	(152,645)
Internet and Networking		16,835	16,117
Interests and Bank Charges		11,254	8,782
Office and Miscellaneous		16,636	14,406
Professional Fees		19,024	36,495
Rent and Utilities		42,999	25,140
Salaries and Benefits		840,781	478,740
Software Licenses		8,936	13,490
		758,921	599,744
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD		\$ 232,281	\$ 43,873
Earnings Per Share - Basic and Diluted		\$ 0.01	\$ 0.00
Weighted average number of shares outstanding - basic and diluted		30,554,626	15,375,860

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

RSI INTERNATIONAL SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, in Canadian dollars, except share number)

	Notes	Issued Common Shares			Allotted Common Shares		Shares to be issued	Contributed Surplus	(Deficit)	Total Equity (Deficiency)
		Number	Amount Received	Amount Receivable	Number	Amount				
BALANCE, DECEMBER 31, 2013		17,804,627	\$ 3,427,049	(84,000)	250,000	\$ 5,572	\$ -	\$ 246,282	\$ (3,124,050)	\$ 470,853
Collection of amount receivable for private placement		-	-	84,000	-	-	-	-	-	84,000
Net and comprehensive loss 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)	598,725
Shares issued for acquisition payment		250,000	37,500	-	(250,000)	(5,572)	-	(31,928)	-	-
Shares to be issued	11	-	-	-	-	-	67,500	-	-	67,500
Share-based payments	11	-	-	-	-	-	-	124,500	-	124,500
Shares issues for private placement	11	12,499,999	1,500,000	(10,492)	-	-	-	-	-	1,489,508
Share issuance costs	11	-	(19,985)	-	-	-	-	-	-	(19,985)
Net and comprehensive loss for the period		-	-	-	-	-	-	-	(1,096,860)	(1,096,860)
BALANCE, DECEMBER 31, 2014		30,554,626	4,944,564	(10,492)	-	-	67,500	338,854	(4,177,038)	1,163,388
Cancellation of share subscription receivable			(1,202)							(1,202)
Collection of amount receivable for private placement				9,850						9,850
Net and comprehensive loss for the period									232,281	232,281
BALANCE, MARCH 31, 2015		30,554,626	\$ 4,943,362	\$ (642)	-	\$ -	\$ 67,500	\$ 338,854	\$ (3,944,757)	\$ 1,404,317

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

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the period	\$ 232,281	\$ 43,872
Items not Affecting Cash:		
Amortization of Equipment	3,313	1,220
Amortization of Deferred Development Costs	23,788	26,665
Amortization of Intangible Assets	-	2,200
Bad Debt	10,976	-
	270,359	73,957
Changes in Non-Cash Working Capital Items:		
(Increase) in Accounts Receivable	(96,969)	(298,465)
(Increase) in Prepaid Expenses	(21,237)	(25,171)
Increase in Accounts Payable and Accrued Liabilities	(31,511)	(18,174)
Increase (decrease) in GST Payable	16,613	-
Increase (decrease) in Deferred Revenue	(141,147)	146,988
Net Cash Provided by (Used in) Operating Activities	(3,892)	(120,865)
Cash paid during the period for interests	-	2,335
Cash paid during the period for taxes	-	-
	(3,893)	(118,530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Equipment	(5,119)	(2,253)
Deferred Development Costs	-	(49,423)
Net Cash (Used in) Investing Activities	(5,119)	(51,676)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing (Repayment) of Loan Payable and Operating Line of Credit	-	(6,617)
Collection of Subscription Receivable	8,648	84,000
Net Cash Provided by Financing Activities	8,648	77,383
Change in Cash during the Period	(363)	(92,823)
Cash and Cash Equivalents, Beginning of Period	1,269,787	179,410
Cash and Cash Equivalents, End of Period	\$ 1,269,424	\$ 86,587

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, 2015

(Unaudited, 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, 2015 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 20, 2015.

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, 2014 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.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, 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, 2014.

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, 2014.

3. BUSINESS ACQUISITION

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 IFRS 3. 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, 2015

(Unaudited, in Canadian dollars)

3. BUSINESS ACQUISITION (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.

The Company paid a total of \$30,000 in cash and issued 800,000 common shares as consideration for the acquisition; of which 300,000 common shares were issued at acquisition date, 250,000 common shares were issued in 2013, and another 250,000 common shares were issued during the nine-month period ended September 30, 2014 when the revenue targets had been met. A total of \$48,304, being the difference between the fair value of 500,000 common shares measured at the issuance dates and acquisition date, was recorded in contributed surplus.

4. ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES

The aging analysis of accounts receivable is as follows:

	Total	Current	31 - 60 Days	60 - 90 Days	> 90 Days
March 31, 2015	\$ 288,277	\$ 93,854	\$ 110,249	\$ 31,692	\$ 52,482
December 31, 2014	\$ 202,284	\$ 36,499	\$ 124,108	\$ 6,414	\$ 35,263

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, in Canadian dollars)

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

As at March 31, 2015, there is a long-term receivable balance of \$2,625 (December 31, 2014 - \$2,625).

As at December 31, 2014, accounts receivable of an initial value of \$36,720 (December 31, 2014 - \$26,750) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

	\$
As of December 31, 2013	262
Charge for the year	51,251
Utilized	(24,762)
As of December 31, 2013	26,750
Charge for the period	9,970
Utilized	-
As of March 31, 2015	36,720

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 2015 & 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, 2015

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

Cost	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2013	\$ 131,486	\$ 64,286	\$ 12,123	\$ 5,415	\$ 213,310
Additions	6,950	-	8,695	-	15,645
Disposals	-	-	-	-	-
December 31, 2014	138,436	64,286	20,818	5,415	228,955
Additions	4,413	-	706	-	5,119
Disposals	-	-	-	-	-
March 31, 2015	\$ 139,142	\$ 64,286	\$ 24,505	\$ 5,415	\$ 234,074

Accumulated Amortization	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2013	\$ 130,745	\$ 64,286	\$ 4,665	\$ 5,415	\$ 205,111
Additions	2,095	-	4,805	-	6,900
Disposals	-	-	-	-	-
December 31, 2014	132,840	64,286	9,470	5,415	212,011
Additions	878	-	2,435	-	3,313
Disposals	-	-	-	-	-
March 31, 2015	\$ 133,718	\$ 64,286	\$ 11,906	\$ 5,415	\$ 215,324

Carrying Amounts	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2014	\$ 5,596	\$ -	\$ 11,348	\$ -	\$ 16,944
March 31, 2015	\$ 5,424	\$ -	\$ 12,599	\$ -	\$ 18,750

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, in Canadian dollars)

7. DEFERRED DEVELOPMENT COSTS

During 2014 the Company wrote off \$168,891 of Insight Web project due to a change in technology and the direction of development which rendered a portion of the previous work to be obsolete. Development costs related to X-Key and PCI compliance as the technology will not be utilized in future versions of RoomKey PMS and were also written off in 2014.

Cost	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Total
December 31, 2013	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ 221,484	\$ 9,000	\$ 1,024,719
Additions	-	-	-	-	85,590	-	85,590
December 31, 2014	75,900	423,586	73,839	220,910	307,074	9,000	1,110,309
Additions	-	-	-	-	-	-	-
March 31, 2015	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ 307,074	\$ 9,000	\$ 1,110,309

Accumulated Amortization	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Total
December 31, 2013	\$ 75,900	\$ 262,797	\$ 57,479	\$ 73,637	\$ -	\$ -	\$ 469,813
Additions	-	35,681	4,079	49,090	-	-	88,850
Disposals	-	125,108	12,281	-	168,891	-	306,280
December 31, 2014	75,900	423,586	78,389	122,727	168,891	-	864,943
Additions	-	-	-	12,273	11,515	-	23,788
March 31, 2015	\$ 75,900	\$ 423,586	\$ 78,389	\$ 135,000	\$ 180,406	\$ -	\$ 888,731

Carrying Amounts	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Total
December 31, 2014	\$ -	\$ -	\$ -	\$ 98,183	\$ 138,183	\$ 9,000	\$ 245,366
March 31, 2015	\$ -	\$ -	\$ -	\$ 85,910	\$ 126,668	\$ 9,000	\$ 221,578

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, in Canadian dollars)

8. 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, 2015, the Company had \$nil (December 31, 2014 - \$nil) outstanding on its operating line. As at March 31, 2015, the effective rate on this loan was 4.25%. There is no asset pledged or guarantee for the operating line of credit.
- b) The loan payable consisted of a short-term loan of \$65,000, with interest payable monthly at 10%, which was used for the Company's operations. The loan was fully repaid by December 31, 2014.

9. DEFERRED REVENUE AND CUSTOMER ADVANCES

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

	March 31, 2015	December 31, 2014
Deferred revenue	\$ 108,174	\$ 249,321
Current portion	(88,081)	(222,812)
Long-term portion	\$ 20,093	\$ 26,509

Deferred revenue are recognized in revenue when the service is provided.

10. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Escrow Shares

As at March 31, 2015, the Company has no escrow shares.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, in Canadian dollars)

10. SHARE CAPITAL (Continued)

Private Placement

On October 24, 2014, The Company announced the completion of its private placement, issuing 12,499,999 units at \$0.12 per unit for a total gross proceeds of \$1,500,000, net of \$19,985 issuance costs, of which \$642 was received subsequent to March 31, 2015. Each unit is comprised of one common share and one-half of a share purchase warrant, with a whole warrant entitling the holder to purchase an additional common share at a price of \$0.25 for a period of two years, expiring on October 16, 2016.

Stock Options

There were no options granted in the three-month period ended March 31, 2015.

A summary of the Company's stock options as at March 31, 2015 and December 31, 2014 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as at December 31, 2013	850,000	\$ 0.10
Granted	1,350,000	\$ 0.12
Options outstanding as at December 31, 2014 and March 31, 2015	2,200,000	\$ 0.11

The weighted average remaining contractual life of the outstanding stock options at March 31, 2015 is 3.33 years (December 31, 2014 – 3.58 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	1.99
May 27, 2014	1,200,000	\$ 0.12	May 27, 2019	4.16
June 20, 2014	150,000	\$ 0.12	June 20, 2019	4.22
	2,200,000	\$ 0.11		3.33

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, in Canadian dollars)

10. SHARE CAPITAL (Continued)

Warrants

A summary of the Company's warrants as at March 31, 2015 and December 31, 2014 are as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding as at December 31, 2013	1,250,000	\$ 0.15
Exercised	(450,000) *	\$ 0.15
Issued September 2, 2014	6,250,000	\$ 0.12
Warrants outstanding as at December 31, 2014 and March 31, 2015	7,050,000	\$ 0.12

* Warrants were exercised during 2014 and the shares were issued subsequent to March 31, 2015. See Note 13.

The weighted average remaining contractual life of the outstanding warrants at March 31, 2015 and December 31, 2014 is as follows:

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
December 30, 2013	800,000	\$ 0.15	December 30, 2015	0.75
September 2, 2014	6,250,000	\$ 0.12	October 21, 2016	1.50
Warrants outstanding as at December 31, 2014 and March 31, 2015	7,050,000			1.44

11. RELATED PARTY TRANSACTIONS

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

- Consulting fee of \$nil (March 31, 2014 - \$10,500) was paid to a director of the Company.
- Director fee of \$3,000 (March 31, 2014 - \$3,000) was paid to a director of the Company.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2015

(Unaudited, in Canadian dollars)

11. RELATED PARTY TRANSACTIONS (con't)

- c) Employee benefits of \$195,937 (March 31, 2014 - \$128,697) were paid to key management personnel.

Included in accounts payable and accrued liabilities at March 31, 2015 is \$4,901 (December 31, 2014 – \$3,513) 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.

12. SEGMENTED DISCLOSURE

A geographical breakdown of sales to customers is as follows:

	March 31, 2015	March 31, 2014
Canada	\$ 119,705	\$ 230,576
USA	969,610	475,724
Other	107,734	56,215
Total	\$ 1,197,049	\$ 762,515

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

13. SUBSEQUENT EVENTS

Subsequent to the quarter ended March 31, 2015, the Company issued 450,000 shares in relation to warrants exercised in 2014.