

**RSI INTERNATIONAL SYSTEMS INC.**

**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**For the three months ended March 31, 2016**

**(Unaudited)**

**(In Canadian Dollars)**

RSI International Systems Inc.

Notice to Reader:

These condensed consolidated interim financial statements of RSI International Systems Inc. (the "Company") have been prepared by management and reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to condensed consolidated financial statements and the related quarterly Management Discussion and Analysis.

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

	Notes	March 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current</b>			
Cash & Cash Equivalents		\$ 928,842	\$ 1,145,427
Accounts Receivable, net of allowance	4	212,377	230,649
GST Receivable		-	4,218
Prepaid Expenses	5	114,588	77,986
		<b>1,255,807</b>	1,458,280
<b>Long-Term Prepaid Expenses</b>	5	<b>34,938</b>	34,938
<b>Equipment</b>	6	<b>54,550</b>	44,911
<b>Deferred Development Costs</b>	7	<b>552,602</b>	393,065
		<b>\$ 1,897,897</b>	\$ 1,931,194
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts Payable & Accrued Liabilities		\$ 374,472	\$ 468,380
GST Payable		2,731	-
Current Portion of Deferred Revenue	8	448,096	369,996
		<b>825,299</b>	838,376
<b>Shareholders' Equity</b>			
Share Capital	9	5,177,009	5,177,009
Contributed Surplus		300,582	300,582
Deficit		(4,404,993)	(4,384,773)
		<b>1,072,598</b>	1,092,818
		<b>\$ 1,897,897</b>	\$ 1,931,194

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

**RSI INTERNATIONAL SYSTEMS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE LOSS**  
*(Unaudited, in Canadian dollars)*

	<b>Three months ended</b>	Three months ended
	<b>March 31,</b>	March 31,
	<b>2016</b>	2015
<b>REVENUES</b>	<b>\$ 1,226,115</b>	\$ 1,197,049
<b>COST OF SALES</b>	<b>196,803</b>	205,847
<b>GROSS PROFIT</b>	<b>1,029,312</b>	991,202
<b>EXPENSES</b>		
Amortization of Equipment	5,956	3,313
Amortization of Deferred Development Costs	23,788	23,788
Bad Debt	(7,013)	10,976
Business Development and Travel	35,984	57,012
Filing and Transfer Agent Fees	8,712	6,586
Foreign Exchange Gain	(42,463)	(329,865)
Internet and Networking	12,157	16,835
Interests and Bank Charges	10,629	11,254
Marketing	43,778	30,644
Office and Miscellaneous	33,907	16,636
Professional Fees	57,711	19,024
Rent and Utilities	44,572	42,999
Salaries and Benefits	812,934	840,781
Software Licenses	8,880	8,936
	<b>1,049,532</b>	758,921
<b>NET AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>(20,220)</b>	232,281
<b>Earnings (Loss) Per Share - Basic and Diluted</b>	<b>\$ (0.00)</b>	\$ 0.01
<b>Weighted average number of shares outstanding – basic</b>	<b>31,967,126</b>	30,554,626
– diluted	32,714,185	30,554,626

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

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

	Issued Common Shares		Shares to be Issued	Contributed Surplus	Deficit	Total Equity	
	Number	Amount Received					Amount Receivable
		\$	\$	\$	\$	\$	
<b>BALANCE, DECEMBER 31, 2014</b>	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 income for the period	-	-	-	-	-	232,281	232,281
<b>BALANCE, MARCH 31, 2015</b>	30,554,626	4,943,362	(642)	67,500	338,854	(3,944,757)	1,404,317
Collection of amount receivable for private placement	-	-	642	-	-	-	642
Shares issued upon exercise of options	450,000	51,000	-	-	-	-	51,000
Fair value of options exercised	-	38,272	-	-	(38,272)	-	-
Shares issued upon exercise of warrants	962,500	144,375	-	(67,500)	-	-	76,875
Net and comprehensive loss for the period	-	-	-	-	-	(440,016)	(440,016)
<b>BALANCE, DECEMBER 31, 2015</b>	31,967,126	5,177,009	-	-	300,582	(4,384,773)	1,092,818
Net and comprehensive loss for the period	-	-	-	-	-	(20,220)	(20,220)
<b>BALANCE, MARCH 31, 2016</b>	<b>31,967,126</b>	<b>5,177,009</b>	<b>-</b>	<b>-</b>	<b>300,582</b>	<b>(4,404,993)</b>	<b>1,072,598</b>

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

**RSI INTERNATIONAL SYSTEMS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
*(Unaudited, in Canadian dollars)*

	<b>Three months ended</b>	Three months ended
	<b>March 31,</b>	March 31,
	<b>2016</b>	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income for the Period	\$ (20,220)	\$ 232,281
Items not Affecting Cash:		
Amortization of Equipment	5,956	3,313
Amortization of Deferred Development Costs	23,788	23,788
Bad Debt	(7,013)	10,976
	<b>2,511</b>	270,359
Changes in Non-Cash Working Capital Items:		
Decrease (increase) in Accounts Receivable	25,285	(96,969)
Increase in Prepaid Expenses	(36,602)	(21,237)
Decrease in Accounts Payable and Accrued Liabilities	(93,908)	(31,511)
Increase in GST Payable	6,950	16,613
Increase (decrease) in Deferred Revenue	78,100	(141,147)
Net Cash Used in Operating Activities	<b>(17,664)</b>	(3,892)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Equipment	(15,595)	(5,119)
Deferred Development Costs	(183,326)	-
Net Cash Used in Investing Activities	<b>(198,921)</b>	(5,119)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collection of Subscription Receivable	-	8,648
Net Cash Provided by Financing Activities	-	8,648
<b>Change in Cash During the Period</b>	<b>(216,585)</b>	(363)
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>1,145,427</b>	1,269,787
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 928,842</b>	\$ 1,269,424

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

## **RSI INTERNATIONAL SYSTEMS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2016**

*(Unaudited, in Canadian dollars)*

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#### **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 consolidated interim financial statements of the Company as at and for the three months ended March 31, 2016 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.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 30, 2016.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations for the foreseeable future.

Since 2012, the Company has focused on product development and enhancement, rebranding its brand and website and in 2013, 2014 and 2015, on sales and marketing activities. These activities have been funded by a combination of revenue generated from the sale of the Company’s products and services, equity financings, line of credits and short-term loans. The Company’s expenses have exceeded its revenue during the three months ended March 31, 2016, and has incurred a net loss of \$20,220 (2015 – net income of \$232,281) and an accumulated deficit as of March 31, 2016 of \$4,404,993 (December 31, 2015 – \$4,384,773).

Management’s current strategy is to focus on gaining worldwide market share of the hotel lodging industry, at the same time to exercise careful cost control to sustain operations in the near term. Management recognizes the Company’s need to expand its cash reserves in the coming year if it intends to adhere to its sales and marketing plans and has evaluated its potential sources of funds, including: increased revenue from sale of its products and services and possible equity financing options. Although Management intends to assess and act on these options through the course of the year, there can be no assurance that the steps Management takes will be successful.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed, and therefore these condensed consolidated interim financial statements should be read in conjunction with the December 31, 2015 audited annual consolidated financial statements and the notes.

**RSI INTERNATIONAL SYSTEMS INC.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2016**

*(Unaudited, in Canadian dollars)*

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

These unaudited condensed consolidated interim financial statements are based on the IFRS effective as of May 30, 2016, the date these unaudited condensed consolidated interim financial statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy disclosed below:

**Changes in Accounting Policies**

Amendments to IAS 1, Presentation of Financial Statements (effective January 1, 2016) are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The Company's unaudited condensed consolidated interim financial statements have been prepared to include only those disclosures which are considered material.

**Future Accounting Pronouncements**

- IAS 7, Statement of Cash Flows (effective January 1, 2017) introduces new requirements to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. Management will provide additional disclosures in their interim financial statements beginning January 1, 2017.
- IFRS 9, Financial Instruments (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management is currently assessing the impact of the new standard.
- IFRS 15, Revenue from Contracts with Customers (effective date January 1, 2018) outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Management is currently assessing the impact of the new standard.
- IFRS 16, Leases (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard.

Prior year comparative amounts have been reclassified to conform to presentation in the current period.



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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)***3. KEY ASSUMPTION AND SIGNIFICANT JUDGEMENTS****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, 2015.

**4. ACCOUNTS RECEIVABLE**

The aging analysis of accounts receivable is as follows:

	Total	Current	31 - 60 Days	60 - 90 Days	> 90 Days
March 31, 2016	\$ 212,377	\$ 53,644	\$ 120,887	\$ 15,098	\$ 22,748
December 31, 2015	\$ 230,649	\$ 93,763	\$ 58,182	\$ 37,238	\$ 41,466

As at March 31, 2016, accounts receivable of an initial value of \$10,066 (December 31, 2015 - \$17,079) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

	\$
As of December 31, 2014	26,750
Charge for the year	16,159
Utilized	(25,830)
As of December 31, 2015	17,079
Charge for the period	-
Utilized	(7,013)
As of March 31, 2016	10,066

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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)***5. PREPAID EXPENSES AND LONG-TERM PREPAID EXPENSES**

Prepaid expense balances represent trade-show deposits and advances paid to suppliers for services to be rendered in the fiscal years 2017 and 2016.

Long-term prepaid expense represents rental deposits paid to the landlords in relation to the office lease agreements for its premises, including deposits related to sub-leased premises. The deposits are classified as long-term assets since the leases mature beyond March 31, 2017.

**6. EQUIPMENT**

Cost	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2014	\$ 138,436	\$ 64,286	\$ 20,818	\$ 5,415	\$ 228,955
Additions	27,544	-	16,092	-	43,636
December 31, 2015	165,980	64,286	36,910	5,415	272,591
Additions	10,770	-	4,826	-	15,595
March 31, 2016	\$ 176,750	\$ 64,286	\$ 41,736	\$ 5,415	\$ 288,186

Accumulated Amortization	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2014	\$ 132,840	\$ 64,286	\$ 9,470	\$ 5,415	\$ 212,011
Additions	5,480	-	10,189	-	15,669
December 31, 2015	138,320	64,286	19,659	5,415	227,680
Additions	3,550	-	2,406	-	5,956
March 31, 2016	\$ 141,870	\$ 64,286	\$ 22,066	\$ 5,415	\$ 233,636

Carrying Amounts	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2015	\$ 27,660	\$ -	\$ 17,251	\$ -	\$ 44,911
March 31, 2016	\$ 34,880	\$ -	\$ 19,670	\$ -	\$ 54,550

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

MARCH 31, 2016

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

In 2015, the Company commenced work on a new project, RoomKey Web, to develop a PMS with a more flexible platform for integration with partner products and customer reporting. This new RoomKeyPMS product, once developed, will utilize a best-of-breed technology stack using Microsoft Azure as the foundation to provide on-demand availability and real-time scalability, combined with an intuitive interface constructed in HTML5 and AngularJS.

Cost	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Roomkey Web	Total
December 31, 2014	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ 307,074	\$ 9,000	-\$	1,110,309
Additions	-	-	-	-	-	-	242,851	242,851
December 31, 2015	75,900	423,586	73,839	220,910	307,074	9,000	242,851	1,353,160
Additions	-	-	-	-	-	-	183,325	183,325
March 31, 2016	\$ 75,900	\$ 423,586	\$ 73,939	\$ 220,910	\$ 307,074	\$ 9,000	426,176	\$ 1,536,485

Accumulated Amortization	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Roomkey Web	Total
December 31, 2014	\$ 75,900	\$ 423,586	\$ 73,839	\$ 122,727	\$ 168,891	\$ -	\$ -	\$ 864,943
Additions	-	-	-	49,091	46,061	-	-	95,152
December 31, 2015	75,900	423,586	73,839	171,818	214,952	-	-	960,095
Additions	-	-	-	12,273	11,515	-	-	23,788
March 31, 2016	\$ 75,900	\$ 423,586	\$ 73,839	184,091	\$ 226,467	\$ -	\$ -	\$ 983,883

Carrying Amounts	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Roomkey Web	Total
December 31, 2015	\$ -	\$ -	\$ -	\$ 49,092	\$ 92,122	\$ 9,000	\$ 242,851	\$ 393,065
March 31, 2016	\$ -	\$ -	\$ -	\$ 36,819	\$ 80,607	\$ 9,000	\$ 426,176	\$ 552,602

**8. DEFERRED REVENUE AND CUSTOMER ADVANCES**

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

	March 31, 2016	December 31, 2015
Deferred revenue	\$ 448,096	\$ 369,996
Current portion	448,096	369,996
Long-term portion	\$ -	\$ -

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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)*

At March 31, 2016, 84% (December 31, 2015 – 83%) of deferred revenue was denominated in US dollars, with the remaining 16% (December 31, 2015 – 17%) in Canadian dollars.

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

**9. SHARE CAPITAL**

Authorized: Unlimited common shares without par value

**Escrow Shares**

As at March 31, 2016, the Company has no escrow shares.

**Stock Options**

There were no options granted in the three month period ended March 31, 2016 and year ended December 31, 2015.

A summary of the Company's stock options as at March 31, 2016 and December 31, 2015 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as at December 31, 2014	2,200,000	\$ 0.11
Exercised	(450,000)	\$ 0.11
Options outstanding as at December 31, 2015 and March 31, 2016	1,750,000	\$ 0.11

The weighted average remaining contractual life of the outstanding stock options as at March 31, 2016 is 2.29 years (December 31, 2015 – 2.54 years).

Date Issued	Number of Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
March 27, 2012	700,000	\$ 0.10	March 27, 2017	0.99
May 27, 2014	1,050,000	\$ 0.12	May 27, 2019	3.16
	1,750,000	\$ 0.11		2.29

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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)***9. SHARE CAPITAL (continued)****Warrants**

A summary of the Company's warrants as at March 31, 2016 and December 31, 2015 are as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding as at December 31, 2014	7,050,000	\$ 0.24
Exercised	(512,500)	\$ 0.15
Expired	(287,500)	\$ 0.15
Warrants outstanding as at December 31, 2015 and March 31, 2016	6,250,000	\$ 0.25

The weighted average remaining contractual life of the outstanding warrants at March 31, 2016 is as follows:

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
October 21, 2014	6,250,000	\$ 0.25	October 21, 2016	0.50
Warrants outstanding as at December 31, 2015 and March 31, 2016	6,250,000			0.50

**RSI INTERNATIONAL SYSTEMS INC.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2016**

*(Unaudited, in Canadian dollars)*

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**10. RELATED PARTY TRANSACTIONS**

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

1. Director fee of \$3,000 (March 31, 2015 - \$3,000) was paid to a director of the Company.
2. Salaries and employee benefits of \$190,899 (March 31, 2015 - \$195,937) were paid to key management personnel.

Included in accounts payable and accrued liabilities at March 31, 2016 is \$2,497 (December 31, 2015 – \$nil) receivable from directors.

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

**11. FINANCIAL INSTRUMENTS**

**Financial Risk Management**

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's maximum exposure to credit risk is in the carrying value of its cash and cash equivalents, accounts receivable and long-term receivables.

The Company's exposure to credit risk associated with its accounts receivable are the risk that a customer will be unable to pay amounts due to the Company. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The credit risk of accounts receivable is affected by the customer base being concentrated in the hotel and travel industry. However, this is somewhat offset by the customer base being dispersed across various geographical locations.

As at March 31, 2016, there is \$22,748 (December 31, 2015 - \$41,466) included in accounts receivable that is greater than 90 days old. However, the credit risk of these receivables is mitigated as they are generally comprised of sales involving "in-house" financing arrangements whereby the customer is paying for services over the term of their agreement. In-house financing arrangements are only provided to those customers following a valuation of their credit worthiness.

**RSI INTERNATIONAL SYSTEMS INC.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**MARCH 31, 2016**

*(Unaudited, in Canadian dollars)*

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**11. FINANCIAL INSTRUMENTS (continued)**

*Currency Risk*

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. During the three months ended March 31, 2016, 83% (year ended December 31, 2015 – 81%) of the Company's sales were dominated in US dollars. As a result, the relative strength of the Canadian dollar against its US counterpart during the period ended March 31, 2016 had an effect on revenue and net income (loss). A 10% variation of the US dollar would have an impact of approximately \$101,591 (year ended December 31, 2015 - \$367,369) on net income (loss), on a quarterly and annual basis, respectively. The Company does not hedge its foreign currency exposure and accordingly is at risk for foreign currency price fluctuations.

*Interest Rate Risk*

The Company is only subject to interest rate risk on its cash balance in the bank and there is unlikely to be a material impact on net income (loss).

*Liquidity Risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time.

The financial liabilities on the condensed consolidated interim statements of financial position consist of accounts payable and accrued liabilities.

A factor that affects the liquidity risk is that significant portions of the Company's revenue are derived from a small number of customers. During the three months ended March 31, 2016, four customers (2015 – three customers) accounted for approximately 21% (fiscal 2015 – 19%) of the Company's revenue. For the three months ended March 31, 2016, one customer (year ended December 31, 2015 – one customer) accounted for a total of 40% (year ended December 31, 2015 – 48%) of the Company's accounts receivable.

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves to meet its liquidity requirements at any point in time. Management has assessed liquidity risk and does not consider it to be significant at this time.

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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)***11. FINANCIAL INSTRUMENTS (continued)**

The Company has classified its financial instruments as follows:

	March 31, 2016 \$	December 31, 2015 \$
<b>Financial Assets</b>		
Fair value through profit and loss, measured at fair value:		
Cash and cash equivalents	928,842	1,145,427
Loans and accounts receivables, recorded at amortized cost:		
Accounts receivable	212,377	230,649
<b>Financial Liabilities</b>		
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	374,472	468,380

**Fair Value**

Financial instruments recorded at fair value are measured using a three-level fair value hierarchy:

- Level 1 Fair value is determined by reference to quoted prices in active markets for identical assets and liabilities
- Level 2 Fair value is determined based on inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly
- Level 3 Fair value is determined based on inputs that are unobservable and significant to the overall fair value measurement

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximates the fair value because of the short-term of these instruments.

The Company's financial instruments that must be recorded at fair value are presented in the following table:

As at March 31, 2016	Carrying Value	Fair Value Management		
		Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 928,842	\$ 928,842	\$ -	\$ -



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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)***11. FINANCIAL INSTRUMENTS (continued)**

As at December 31, 2015	Carrying Value	Fair Value Management		
		Level 1	Level 2	Level 3
Financial Assets				
Cash and cash equivalents	\$ 1,145,427	\$ 1,145,427	\$ -	\$ -

**12. SEGMENTED DISCLOSURE**

A geographical breakdown of sales to customers is as follows:

	Three Months Ended		Three Months Ended	
	March 31, 2016	%	March 31, 2015	%
Canada	\$ 210,201	17%	\$ 119,705	10%
USA	846,488	69%	969,610	81%
Other	169,426	14%	107,734	9%
<b>Total</b>	<b>\$ 1,226,115</b>	<b>100%</b>	<b>\$ 1,197,049</b>	<b>100%</b>

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

**13. COMMITMENTS**

The Company entered into an office lease agreement for its premises on October 1, 2012. The lease expires on September 30, 2017. In December 2013, the Company's landlord exercised a relocation clause in the lease agreement to relocate the Company to another office space. Management deemed the office space to be unsuitable for the Company's use. Unable to terminate the signed lease agreement, in February 2014 the Company agreed to a much smaller office space and renegotiated the terms of the lease agreement. The "new" lease is a continuation of the existing lease agreement and expires on September 30, 2017. The remaining minimum lease payments are as follow:

2016	\$ 17,055
2017	17,055
<b>Total</b>	<b>\$ 34,110</b>

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

MARCH 31, 2016

*(Unaudited, in Canadian dollars)***13. COMMITMENTS** (continued)

As of October 2014, the Company has entered into a sub-lease agreement for the term November 1, 2014 to September 29, 2017. Payments receivable under the lease are as follows:

2016	\$ 22,500
2017	22,500
Total	<u>\$ 45,000</u>

Due to the above situation, in February 2014, the Company entered into another office lease agreement for its current premises. The lease expires on March 31, 2019. The minimum lease payments are as follows:

2016	\$ 62,438
2017	83,888
2018	84,738
2019	21,238
Total	<u>\$ 252,302</u>

In addition, On December 14, 2015, the Company entered into a data service agreement for its data centre. The agreement expires on June 14, 2017. The minimum payments are as follows in USD:

2016	\$ 139,833
2017	93,222
Total	<u>\$ 233,055</u>

**14. SUBSEQUENT EVENTS**

None.