

RSI INTERNATIONAL SYSTEMS INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 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	September 30, 2016	December 31, 2015
ASSETS			
Current			
Cash & Cash Equivalents		\$ 188,452	\$ 1,145,427
Accounts Receivable, net of allowance	4	262,475	230,649
GST Receivable		-	4,218
Prepaid Expenses	5	112,947	77,986
		563,874	1,458,280
Long-Term Prepaid Expenses	5	50,092	34,938
Equipment	6	87,995	44,911
Deferred Development Costs	7	874,798	393,065
		\$ 1,576,759	\$ 1,931,194
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts Payable & Accrued Liabilities		\$ 456,504	\$ 468,380
Current Portion of Deferred Revenue	8	494,877	369,996
		951,381	838,376
Security Deposit	13	\$ 10,741	-
		\$ 962,122	\$ -
Shareholders' Equity			
Share Capital	9	5,177,009	5,177,009
Contributed Surplus		300,582	300,582
Deficit		(4,862,954)	(4,384,773)
		614,637	1,092,818
		\$ 1,576,759	\$ 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)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
REVENUES	\$ 1,309,081	\$ 1,282,066	\$ 3,697,822	\$ 3,386,067
COST OF SALES	190,270	219,389	572,034	518,319
GROSS PROFIT	1,118,811	1,062,677	3,125,788	2,867,748
EXPENSES				
Amortization of Equipment	12,175	3,555	25,972	9,318
Amortization of Deferred Development Costs	45,097	23,788	113,982	71,364
Bad Debt	-	6,931	(7,013)	12,087
Business Development and Travel	43,857	41,256	240,521	150,018
Filing and Transfer Agent Fees	4,606	4,516	14,713	13,904
Foreign Exchange (Gain) Loss	58,963	9,172	38,528	(356,195)
Internet and Networking	13,772	13,502	38,021	45,818
Interests and Bank Charges	8,952	9,685	33,880	36,341
Investor Relations	4,520	-	4,520	-
Marketing	65,382	96,215	161,884	184,654
Office and Miscellaneous	58,477	20,933	119,819	51,020
Professional Fees	92,991	81,009	226,747	125,434
Rent and Utilities	43,206	41,682	129,854	121,819
Salaries and Benefits	801,245	793,988	2,430,284	2,441,998
Software Licenses	13,895	2,570	32,257	14,943
	1,267,138	1,148,802	3,603,969	2,922,523
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	(148,327)	(86,125)	(478,181)	(54,775)
Loss Per Share - Basic and Diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Weighted average number of shares outstanding – basic	31,967,126	31,303,692	31,967,126	30,859,369
– diluted	32,714,185	32,050,751	32,714,185	31,606,428

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
		\$	\$	\$	\$	\$	
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	-	-	10,492	-	-	-	10,492
Shares issued upon exercise of warrants	462,500	69,375	-	(67,500)	-	-	1,875
Shares issued upon exercise of options	450,000	51,000	-	-	-	-	51,000
Net and comprehensive loss for the period	-	-	-	-	-	(54,775)	(54,775)
BALANCE, SEPTEMBER 30, 2015	31,467,126	5,063,737	-	-	338,854	(4,231,813)	1,170,778
Fair value of options exercised	-	38,272	-	-	(38,272)	-	-
Shares issued upon exercise of warrants	500,000	75,000	-	-	-	-	75,000
Net and comprehensive loss for the period	-	-	-	-	-	(152,960)	(152,960)
BALANCE, DECEMBER 31, 2015	31,967,126	5,177,009	-	-	300,582	(4,384,773)	1,092,818
Net and comprehensive loss for the period	-	-	-	-	-	(478,181)	(478,181)
BALANCE, SEPTEMBER 30, 2016	31,967,126	5,177,009	-	-	300,582	(4,862,954)	614,637

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)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Loss for the Period	\$ (148,327)	\$ (86,125)	\$ (478,181)	\$ (54,775)
Items not Affecting Cash:				
Amortization of Equipment	12,175	3,555	25,972	9,318
Amortization of Deferred Development Costs	45,097	23,788	113,982	71,364
Bad Debt	-	6,931	(7,013)	12,087
	(91,055)	(51,851)	(345,240)	37,994
Changes in Non-Cash Working Capital Items:				
(Increase) Decrease in Accounts Receivable	(740)	115,478	(20,594)	(53,745)
(Increase) Decrease in Prepaid Expenses	43,049	18,947	(50,115)	(76,254)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	114,406	(79,740)	(11,876)	(89,528)
Increase in GST Payable	-	5,460	-	5,371
Increase in Deferred Revenue	20,122	35,878	124,881	164,877
Net Cash Provided by (Used in) Operating Activities	85,781	44,172	(302,945)	(11,285)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Equipment	(13,694)	(9,600)	(69,056)	(27,827)
Deferred Development Costs	(189,814)	(15,971)	(595,715)	(18,346)
Net Cash Used in Investing Activities	(203,508)	(25,571)	(664,771)	(46,173)
CASH FLOWS FROM FINANCING ACTIVITIES				
Security Deposit	10,741	-	10,741	-
Issuance of Shares Upon Exercise of Warrants	-	1,125	-	3,000
Issuance of Shares Upon Exercise of Options	-	51,000	-	51,000
Collection of Subscription Receivable	-	-	-	9,290
Net Cash Provided by Financing Activities	10,741	52,125	10,741	63,290
Change in Cash During the Period	(106,986)	70,726	(956,975)	5,832
Cash and Cash Equivalents, Beginning of Period	295,438	1,204,893	1,145,427	1,269,787
Cash and Cash Equivalents, End of Period	\$ 188,452	\$ 1,275,619	\$ 188,452	\$ 1,275,619

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

SEPTEMBER 30, 2016

(Unaudited, in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 350 – 440 Cambie Street, Vancouver, BC V6B 2N5. The condensed consolidated interim financial statements of the Company as at and for the nine months ended September 30, 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 November 21, 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, and 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 nine months ended September 30, 2016, and has incurred a net loss of \$478,181 (2015 – \$54,775) and an accumulated deficit as of September 30, 2016 of \$4,862,954 (December 31, 2015 – \$4,384,773).

Several conditions cast significant doubt on the validity of this assumption. The Company’s ability to continue as a going concern is dependent on its ability to raise equity financing and the attainment of profitable operations. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses. These consolidated financial statements do not reflect any adjustments, which could be material, to the carrying amounts of assets and liabilities, reported revenues and expenses, and balance sheet classification used, that would be necessary if the Company were unable to continue as a going concern.

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, marketing, and product development plans, and has evaluated its potential sources of funds, including: increased revenue from sale of its products and services, and possible debt and 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.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Unaudited, in Canadian dollars)

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.

These unaudited condensed consolidated interim financial statements are based on the IFRS effective as of November 21, 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.

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

SEPTEMBER 30, 2016

*(Unaudited, in Canadian dollars)***2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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
September 30, 2016	\$ 262,475	\$ 199,990	\$ 22,094	\$ 7,945	\$ 32,446
December 31, 2015	\$ 230,649	\$ 93,763	\$ 58,182	\$ 37,238	\$ 41,466

As at September 30, 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 September 30, 2016	10,066

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

SEPTEMBER 30, 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 September 30, 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	22,006	-	47,050	-	69,056
September 30, 2016	\$ 187,986	\$ 64,286	\$ 83,960	\$ 5,415	\$ 341,647

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	12,691	-	13,281	-	25,972
September 30, 2016	\$ 151,011	\$ 64,286	\$ 32,940	\$ 5,415	\$ 253,652

Carrying Amounts	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2015	\$ 27,660	\$ -	\$ 17,251	\$ -	\$ 44,911
September 30, 2016	\$ 36,975	\$ -	\$ 51,020	\$ -	\$ 87,995

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

SEPTEMBER 30, 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. It will be operating system and device agnostic, as well as offer multi-language and currency capabilities. This new PMS is being constructed and released to customers on a module by module basis. Once a module is complete and released, costs associated with that module will begin to be amortized over a five year period.

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	-	-	-	-	-	-	595,715	595,715
September 30, 2016	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ 307,074	\$ 9,000	\$ 838,566	\$ 1,948,875

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	-	-	-	36,819	34,545	-	42,618	113,982
September 30, 2016	\$ 75,900	\$ 423,586	\$ 73,839	\$ 208,637	\$ 249,497	\$ -	\$ 42,618	\$ 1,074,077

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
September 30, 2016	\$ -	\$ -	\$ -	\$ 12,273	\$ 57,577	\$ 9,000	\$ 795,948	\$ 874,798

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

SEPTEMBER 30, 2016

*(Unaudited, in Canadian dollars)***8. DEFERRED REVENUE AND CUSTOMER ADVANCES**

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

	September 30, 2016	December 31, 2015
Deferred revenue	\$ 494,877	\$ 369,996
Current portion	(494,877)	(369,996)
Long-term portion	\$ -	\$ -

At September 30, 2016, 81% (December 31, 2015 – 83%) of deferred revenue was denominated in US dollars, with the remaining 19% (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 September 30, 2016, the Company has no escrow shares.

Stock Options

There were no options granted in the nine months period ended September 30, 2016 and year ended December 31, 2015.

A summary of the Company's stock options as at September 30, 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 September 30, 2016	1,750,000	\$ 0.11

The weighted average remaining contractual life of the outstanding stock options as at September 30, 2016 is 1.79 years (December 31, 2015 – 2.54 years).

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

SEPTEMBER 30, 2016

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

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	0.49
May 27, 2014	1,050,000	\$ 0.12	May 27, 2019	2.65
	1,750,000	\$ 0.11		1.79

Warrants

A summary of the Company's warrants as at September 30, 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 September 30, 2016 ¹	6,250,000	\$ 0.25

The weighted average remaining contractual life of the outstanding warrants at September 30, 2016 is as follows:

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
October 21, 2014 ¹	6,250,000	\$ 0.25	October 21, 2016	0.06
Warrants outstanding as at December 31, 2015 and September 30, 2016	6,250,000			0.06

¹Warrants expired on October 21, 2016 and thus are no longer outstanding

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(Unaudited, in Canadian dollars)

10. RELATED PARTY TRANSACTIONS

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

1. Director fee of \$9,000 (September 30, 2015 – \$9,000) was paid to a director of the Company.
2. Salaries and employee benefits of \$566,350 (September 30, 2015 – \$572,388) were paid to key management personnel.
3. The Company paid remuneration for management services to a company controlled by a director in common totaling \$22,500 (September 30, 2015 - \$nil).

Included in accounts payable and accrued liabilities at September 30, 2016 is \$725 (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 September 30, 2016, there is \$32,446 (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

SEPTEMBER 30, 2016

(Unaudited, in Canadian dollars)

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 nine months ended September 30, 2016, 81% (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 September 30, 2016 had an effect on revenue and net income (loss). A 10% variation of the US dollar would have an impact of approximately \$298,008 (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 nine months ended September 30, 2016, four customers (2015 – three customers) accounted for approximately 14% (fiscal 2015 – 19%) of the Company's revenue. For the nine months ended September 30, 2016, one customer (year ended December 31, 2015 – one customer) accounted for a total of 47% (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 recognizes the Company's need to expand its cash reserves in the coming year if it intends to adhere to its sales, marketing, and product development plans, and has evaluated its potential sources of funds, including: increased revenue from sale of its products and services, and possible debt and 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.

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

SEPTEMBER 30, 2016

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

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of growth combined with strategic acquisitions and to provide returns to its shareholders. RSI defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus and deficit. The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, issue debt, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements as at September 30, 2016. The Company's overall strategy with respect to management of capital at September 30, 2016 remains fundamentally unchanged from the year ended December 31, 2015.

The Company has classified its financial instruments as follows:

	September 30, 2016	December 31, 2015
	\$	\$
Financial Assets		
Fair value through profit and loss, measured at fair value:		
Cash and cash equivalents	188,452	1,145,427
Loans and accounts receivables, recorded at amortized cost:		
Accounts receivable	262,475	230,649
Financial Liabilities		
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	456,504	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

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

SEPTEMBER 30, 2016

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

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 September 30, 2016	Carrying Value	Fair Value Management		
		Level 1	Level 2	Level 3
Financial Assets				
Cash and cash equivalents	\$ 188,452	\$ 188,452	\$ -	\$ -

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:

	Nine Months Ended		Nine Months Ended	
	September 30, 2016	%	September 30, 2015	%
Canada	\$ 717,746	19%	\$ 677,214	20%
USA	2,594,436	70%	2,234,804	66%
Other	385,640	11%	474,049	14%
Total	\$ 3,697,822	100%	\$ 3,386,067	100%

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

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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	\$	5,685
2017		17,055
Total	\$	<u>22,740</u>

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	\$	7,500
2017		22,500
Total	\$	<u>30,000</u>

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

2016	\$	20,813
2017		83,888
2018		84,738
2019		21,238
Total	\$	<u>210,677</u>

The Company has entered into a sub-lease agreement relating to the office space above for the term November 2016 to March 2019 as it has moved to more suitable office premises. The minimum payments to be received are as follows:

2016	\$	11,893
2017		74,190
2018		88,348
2019		22,087
Total	\$	<u>196,518</u>

The Company collected a security deposit totaling \$10,741 which will be applied to the last month's rent in March 2019.

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

During the second quarter of 2016, the Company entered into a lease agreement for a larger office space to accommodate its increased staff. The agreement expires on December 1, 2021. The minimum payments are as follows:

2016	\$	16,146
2017		193,746
2018		193,746
2019		193,746
2020		193,746
2021		177,600
Total	\$	<u>968,730</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	\$	46,611
2017		93,222
Total	\$	<u>139,833</u>

14. SUBSEQUENT EVENTS

On October 25, 2016, the Company announced a non-brokered private placement financing of up to 4,614,385 units to raise gross proceeds of up to \$600,000. Each unit will be priced at \$0.13 and will comprise one common share and one, non-transferable share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at \$0.20 for up to 24 months. The warrants will be subject to an acceleration clause which will allow the company to accelerate their expiry if the company's shares trade at \$0.26 or more for 15 consecutive days at any time after four months and one day have elapsed from the closing of this offering. The closing of the Offering is subject to receipt of all necessary regulatory approvals including that of the TSX Venture Exchange.

On November 17, 2016, the Company announced that it had raised gross proceeds of \$492,160 in a first tranche of its non-brokered private placement described above. This first tranche consisted of 3,785,845 units at a price of \$0.13 per unit, with each unit comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20 until November 17, 2018. These warrants are subject to the acceleration clause described above. In connection with this first tranche, the Company paid finder's fees totaling \$11,466 and 102,623 share purchase warrants having the same terms as above, including acceleration.