

**RSI INTERNATIONAL SYSTEMS INC.**

**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**For the three months ended March 31, 2017**

**(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, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current</b>			
Cash & Cash Equivalents		\$ 346,089	\$ 378,767
Accounts Receivable, net of allowance	4	260,329	222,813
Prepaid Expenses	5	46,194	61,770
		<b>652,612</b>	<b>663,350</b>
<b>Long-Term Prepaid Expenses</b>	5	<b>45,020</b>	<b>45,020</b>
<b>Equipment</b>	6	<b>66,363</b>	<b>77,541</b>
<b>Deferred Development Costs</b>	7	<b>1,101,947</b>	<b>999,890</b>
		<b>\$ 1,865,942</b>	<b>\$ 1,785,801</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts Payable & Accrued Liabilities		\$ 341,230	\$ 322,147
GST Payable		1,919	5,735
Deferred Revenue	8	507,373	481,149
		<b>850,522</b>	<b>809,031</b>
<b>Security Deposit</b>	13	<b>10,741</b>	<b>10,741</b>
		<b>861,263</b>	<b>819,772</b>
<b>Shareholders' Equity</b>			
Share Capital	9	5,598,782	5,512,330
Contributed Surplus		501,548	480,144
Deficit		(5,095,651)	(5,026,445)
		<b>1,004,679</b>	<b>966,029</b>
		<b>\$ 1,865,942</b>	<b>\$ 1,785,801</b>

*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>	<b>Three months ended</b>
	<b>March 31,</b>	<b>March 31,</b>
	<b>2017</b>	<b>2016</b>
<b>REVENUES</b>	<b>\$ 1,324,961</b>	<b>\$ 1,226,115</b>
<b>COST OF SALES</b>	<b>196,411</b>	<b>196,803</b>
<b>GROSS PROFIT</b>	<b>1,128,550</b>	<b>1,029,312</b>
<b>EXPENSES</b>		
Amortization of Equipment	11,178	5,956
Amortization of Deferred Development Costs	56,226	23,788
Bad Debt	-	(7,013)
Business Development and Travel	20,496	35,984
Filing and Transfer Agent Fees	6,609	8,712
Foreign Exchange (Gain) Loss	10,623	(42,463)
Internet and Networking	13,501	12,157
Interests and Bank Charges	17,798	10,629
Marketing	89,887	43,778
Office and Miscellaneous	21,583	33,907
Professional Fees	87,122	57,711
Rent and Utilities	96,854	44,572
Salaries and Benefits	698,247	812,934
Stock-based Compensation	50,356	-
Software Licenses	17,276	8,880
	<b>1,197,756</b>	<b>1,049,532</b>
<b>NET AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(69,206)</b>	<b>(20,220)</b>
<b>Loss Per Share - Basic and Diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of shares outstanding – basic</b>	<b>36,271,795</b>	<b>31,967,126</b>
<b>– diluted</b>	<b>36,271,795</b>	<b>32,714,185</b>

*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		Contributed Surplus	Deficit	Total Equity
	Number	Amount Received			
		\$	\$	\$	\$
<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>300,582</b>	<b>(4,404,993)</b>	<b>1,072,598</b>
Shares issued upon exercise of warrants	4,143,152	366,946	171,664	-	538,610
Share issuance costs	-	(31,625)	7,898	-	(23,727)
Net and comprehensive loss for the period	-	-	-	(621,452)	(621,452)
<b>BALANCE, DECEMBER 31, 2016</b>	36,110,278	5,512,330	480,144	(5,026,445)	966,029
Shares issued upon exercise of options	575,000	57,500	-	-	57,500
Fair value of options exercised	-	28,952	(28,952)	-	-
Stock-based compensation	-	-	50,356	-	50,356
Net and comprehensive loss for the period	-	-	-	(69,206)	(69,206)
<b>BALANCE, MARCH 31, 2017</b>	<b>36,685,278</b>	<b>5,598,782</b>	<b>501,548</b>	<b>(5,095,651)</b>	<b>1,004,679</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>2017</b>	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss for the Period	\$ (69,206)	\$ (20,220)
Items not Affecting Cash:		
Amortization of Equipment	11,178	5,956
Amortization of Deferred Development Costs	56,226	23,788
Bad Debt	-	(7,013)
Stock-based Compensation	50,356	-
	<b>48,554</b>	2,511
Changes in Non-Cash Working Capital Items:		
Decrease (Increase) in Accounts Receivable	(37,516)	25,285
Decrease (Increase) in Prepaid Expenses	15,576	(36,602)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	19,083	(93,908)
Increase (Decrease) in GST Payable	(3,816)	6,950
Increase in Deferred Revenue	26,224	78,100
Net Cash Provided by (Used in) Operating Activities	<b>68,105</b>	(17,664)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Equipment	-	(15,595)
Deferred Development Costs	(158,283)	(183,326)
Net Cash Used in Investing Activities	<b>(158,283)</b>	(198,921)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of Shares Upon Exercise of Options	57,500	-
Net Cash Provided by Financing Activities	<b>57,500</b>	-
<b>Change in Cash During the Period</b>	<b>(32,678)</b>	(216,585)
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>378,767</b>	1,145,427
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 346,089</b>	\$ 928,842

*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, 2017**

*(Unaudited, in Canadian dollars)*

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#### **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 three months ended March 31, 2017 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 17, 2017.

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 three months ended March 31, 2017, and has incurred a net loss of \$69,206 (March 31, 2016 – \$20,220) and an accumulated deficit as of March 31, 2017 of \$5,095,651 (December 31, 2016 – \$5,026,445).

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 focus is on realigning and rationalizing its operations, product offerings and overall business in order to achieve two goals. In the short term, the company’s immediate goal is to become cash flow positive as the result of a thorough evaluation of value received from all expenditures, versus possible alternative solutions and careful cost cutting. Over the longer term, the company is working towards improving both the quality of its revenue and increasing its trajectory, through a more focused, scalable business. Management recognizes the Company may 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**

**MARCH 31, 2017**

*(Unaudited, in Canadian dollars)*

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## **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, 2016 audited annual consolidated financial statements and the notes.

These unaudited condensed consolidated interim financial statements are based on the IFRS effective as of May 17, 2017, 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:

### **Accounting Standards Issued but Not Yet Effective**

The following standards and interpretations have not been in effect as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. The Company has not yet assessed the impacts of the standards or determined whether it will adopt the standards early.

#### IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires the classification of financial assets into two measurement categories based on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The two categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity’s “own credit risk” is now recognized in other comprehensive income instead of in profit or loss. This new standard will also impact disclosures provided under IFRS 7 Financial instruments: disclosures.

In November 2013, the IASB amended IFRS 9 for the significant changes to hedge accounting. In addition, an entity can now apply the “own credit requirement” in isolation without the need to change any other accounting for financial instruments. The standard was initially effective for annual periods beginning on or after January 1, 2013, but the complete version of IFRS 9, issued in July 2014, moved the mandatory effective date to January 1, 2018. The Company does not expect this amendment to have a material impact on its consolidated financial statements.



**RSI INTERNATIONAL SYSTEMS INC.**

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

**MARCH 31, 2017**

*(Unaudited, in Canadian dollars)*

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

**Accounting Standards Issued but Not Yet Effective (continued)**

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses from sale of non-financial assets.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

IFRS 16 - Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

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, 2017

*(Unaudited, in Canadian dollars)***3. KEY ASSUMPTION AND SIGNIFICANT JUDGEMENTS****Significant Accounting Judgments and Estimates**

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

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, 2016.

**4. ACCOUNTS RECEIVABLE**

The aging analysis of accounts receivable is as follows:

	Total	Current	31 - 60 Days	60 - 90 Days	> 90 Days
March 31, 2017	\$ 260,329	\$ 101,484	\$ 123,534	\$ 19,367	\$ 15,944
December 31, 2016	\$ 222,813	\$ 110,833	\$ 63,286	\$ 43,322	\$ 5,372

As at March 31, 2017, accounts receivable of an initial value of \$13,000 (December 31, 2016 – \$13,000) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

	\$
As of December 31, 2015	17,079
Charge for the period	-
Utilized	(4,079)
As of December 31, 2016 and March 31, 2017	13,000

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

MARCH 31, 2017

*(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 2018.

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, 2018.

**6. EQUIPMENT**

Cost	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2015	\$ 165,980	\$ 64,286	\$ 36,910	\$ 5,415	\$ 272,591
Additions	22,006	-	47,050	-	69,056
December 31, 2016	187,986	64,286	83,960	5,415	341,647
Additions	-	-	-	-	-
March 31, 2017	\$ 187,986	\$ 64,286	\$ 83,960	\$ 5,415	\$ 341,647

Accumulated Amortization	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2015	\$ 138,320	\$ 64,286	\$ 19,659	\$ 5,415	\$ 227,680
Additions	17,424	-	19,002	-	36,426
December 31, 2016	155,744	64,286	38,661	5,415	264,106
Additions	5,197	-	5,981	-	11,178
March 31, 2017	\$ 160,941	\$ 64,286	\$ 44,642	\$ 5,415	\$ 275,284

Carrying Amounts	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2016	\$ 32,242	\$ -	\$ 45,299	\$ -	\$ 77,541
March 31, 2017	\$ 27,045	\$ -	\$ 39,318	\$ -	\$ 66,363

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

MARCH 31, 2017

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

Cost	Insight	Insight Web	Loyalty	Roomkey		Total
				Web		
December 31, 2015	\$ 220,910	\$ 307,074	\$ 9,000	\$ 242,851		\$ 779,835
Additions	-	-	-	797,161		797,161
December 31, 2016	220,910	307,074	9,000	1,040,012		1,576,996
Additions	-	-	-	158,283		158,283
March 31, 2017	\$ 220,910	\$ 307,074	\$ 9,000	\$ 1,198,295		\$ 1,735,279

Accumulated Amortization	Insight	Insight Web	Loyalty	Roomkey		Total
				Web		
December 31, 2015	\$ 171,818	\$ 214,952	\$ -	\$ -		\$ 386,770
Additions	49,092	46,060	9,000	86,184		190,336
December 31, 2016	220,910	261,012	9,000	86,184		577,106
Additions	-	23,788	-	32,438		56,226
March 31, 2017	\$ 220,910	\$ 284,800	\$ 9,000	\$ 118,622		\$ 633,332

Carrying Amounts	Insight	Insight Web	Loyalty	Roomkey		Total
				Web		
December 31, 2016	\$ -	\$ 46,062	\$ -	\$ 953,828		\$ 999,890
March 31, 2017	\$ -	\$ 22,274	\$ -	\$ 1,079,673		\$ 1,101,947

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 suite of technologies, 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 suite 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.

**8. DEFERRED REVENUE AND CUSTOMER ADVANCES**

Deferred revenue consists of pre-billed services, license fees, subscription fees and web design fees. Deferred revenues are recognized in revenue when the service is provided.

At March 31, 2017, 85% (December 31, 2016 – 84%) of deferred revenue was denominated in US dollars, with the remaining 15% (December 31, 2016 – 16%) in Canadian dollars.

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

MARCH 31, 2017

*(Unaudited, in Canadian dollars)*

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**9. SHARE CAPITAL**

Authorized: Unlimited common shares without par value

**Escrow Shares**

As at March 31, 2017, the Company has no escrow shares.

**Private Placements**

On November 17, 2016, the Company closed the first tranche of non-brokerage private placement previously announced on October 25, 2016. The first tranche consisted of 3,785,845 units at a price of \$0.13 per unit for gross proceeds of \$492,160, 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. In connection with the first tranche, the Company paid finder's fees totaling \$12,441 and 102,623 share purchase warrants having the same terms, including acceleration, as the warrants.

On December 23, 2016, the Company closed the second and final tranche of non-brokerage private placement consisted of 357,307 units at a price of \$0.13 per unit for gross proceeds of \$46,450. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.20 until December 23, 2018. In connection with the closing of the second tranche the Company paid finder's fees totaling \$1,287 and issued 9,900 share purchase warrants.

The Company incurred \$31,625 share issuance cost in relation to the private placement. These costs included finder's fees costs noted above, and other legal and regulatory costs.

**Exercise of Options**

During the three months ended March 31, 2017, 575,000 common shares were issued upon exercise of 575,000 stock options at \$0.10 per share for a gross proceeds of \$57,500. On exercise of such options, \$28,952 has been reclassified to share capital from contributed surplus.

**Stock Options**

On January 25, 2017, the Company implemented the amended stock option plan previously approved by shareholders at its annual general meeting held on August 24, 2016. The Company has also granted 1,375,000 incentive stock options to the officers, managers and directors of the Company at an exercise price of \$0.20 per share with a term of five years and vesting 1/3 immediately, 1/3 on the first year anniversary date, and 1/3 on the second year anniversary date. On the same date, the Company also cancelled 200,000 stock options valued at \$0.12 and expiring on May 27, 2019.

**RSI INTERNATIONAL SYSTEMS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2017

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

The fair value of the stock options granted during the period was calculated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	January 23, 2017 Grant
Risk-free interest rate	0.99%
Expected life of warrants in years	5 years
Expected volatility	105.50%
Expected dividend yield	0%
Estimated forfeiture rate	0%

During the three months ended March 31, 2017, stock-based compensation expense of \$50,356 (March 31, 2016 – \$nil) was recognized.

A summary of the Company's stock options as at March 31, 2017 and December 31, 2016 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as at December 31, 2015 and 2016	1,750,000	\$ 0.11
Cancelled	(200,000)	0.12
Exercised	(575,000)	0.10
Expired	(125,000)	0.10
Granted	1,375,000	0.20
Options outstanding as at March 31, 2017	2,225,000	\$ 0.17

The weighted average remaining contractual life of the outstanding stock options as at March 31, 2017 is 3.80 years (December 31, 2016 – 1.54 years).

Date Issued	Number of Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
May 27, 2014	850,000	\$ 0.12	May 27, 2019	2.16
January 23, 2017	1,375,000	\$ 0.20	January 23, 2022	4.82
	2,225,000	\$ 0.17		3.80

**RSI INTERNATIONAL SYSTEMS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2017

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

A summary of the Company's warrants as at March 31, 2017 and December 31, 2016 are as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding as at December 31, 2015	6,250,000	\$ 0.25
Issued	4,255,675	\$ 0.20
Expired	(6,250,000)	\$ 0.25
Warrants outstanding as at December 31, 2016 and March 31, 2017	4,255,675	\$ 0.20

The fair value of the warrants issued during the year was calculated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	November 17, 2016 Grant	December 23, 2016 Grant
Risk-free interest rate	0.67%	0.78%
Expected life of warrants in years	2 years	2 years
Expected volatility	102.04%	110.57%
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average remaining contractual life of the outstanding warrants at March 31, 2017 and December 31, 2016 is as follows:

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
November 17, 2016	3,785,845	\$ 0.20	November 17, 2018	1.63
November 17, 2016	102,623	0.20	November 17, 2018	1.63
December 23, 2016	357,307	0.20	December 23, 2018	1.73
December 23, 2016	9,900	0.20	December 23, 2018	1.73
Warrants outstanding as at December 31, 2016 and March 31, 2017	4,255,675	\$ 0.20		1.64

**RSI INTERNATIONAL SYSTEMS INC.**

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

**MARCH 31, 2017**

*(Unaudited, in Canadian dollars)*

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**10. RELATED PARTY TRANSACTIONS**

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

1. Director fee of \$nil (March 31, 2016 – \$3,000) was paid to a director of the Company.
2. Salaries and employee benefits of \$165,271 (March 31, 2016 – \$190,899) were paid to key management personnel.
3. The Company paid remuneration for management services to a company controlled by a director in common totaling \$18,400 (March 31, 2016 - \$nil).

Included in accounts payable and accrued liabilities at March 31, 2017 is \$2,797 (December 31, 2016 – \$8,428) 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, 2017, there is \$15,944 (December 31, 2016 – \$5,372) 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, 2017**

*(Unaudited, in Canadian dollars)*

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**11. FINANCIAL INSTRUMENTS (continued)**

**Financial Risk Management (continued)**

*Currency Risk*

The functional currency of RSI is the Canadian dollar. Most of the foreign currency risk is related to US dollar funds held in bank, and accounts receivable and accounts payable balances denominated in US dollar. Therefore, the Company's net loss is impacted by fluctuations in the valuation of the US dollar in relation to the Canadian dollar.

The Company does not hedge its exposure to currency fluctuations. The Company has completed a sensitivity analysis to estimate the impact that a change in foreign exchange rates would have on the net loss of the Company, based on the Company's financial instruments in US dollar as at year end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a +/- \$22,556 impact on net loss.

*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.

As at March 31, 2017, the Company had total debt in the amount of \$341,230 due within 12 months (December 31, 2016 – \$322,147). As at March 31, 2017, the Company held cash of \$346,089 (December 31, 2016 – \$378,767) and accounts receivable of \$260,329 (December 31, 2016 – \$222,813).

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 may 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**

MARCH 31, 2017

*(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 in order 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 March 31, 2017. The Company's overall strategy with respect to management of capital at March 31, 2017 remains fundamentally unchanged from the year ended December 31, 2016.

The Company has classified its financial instruments as follows:

	March 31, 2017	December 31, 2016
	\$	\$
Financial Assets		
Fair value through profit and loss, measured at fair value:		
Cash	346,089	378,767
Loans and accounts receivables, recorded at amortized cost:		
Accounts receivable	260,329	222,813
Financial Liabilities		
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	341,230	322,147

**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 Company's cash is recorded at fair value using level 1 hierarchy.

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

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

MARCH 31, 2017

*(Unaudited, in Canadian dollars)***12. SEGMENTED DISCLOSURE**

A geographical breakdown of sales to customers is as follows:

	Three Months Ended		Three Months Ended	
	March 30, 2017	%	March 30, 2016	%
Canada	\$ 237,730	18%	\$ 210,201	17%
USA	956,209	72%	846,488	69%
Other	131,022	10%	169,426	14%
<b>Total</b>	<b>\$ 1,324,961</b>	<b>100%</b>	<b>\$ 1,226,115</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 payment is as follow:

2017	<u>\$ 11,370</u>
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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:

2017	<u>\$ 15,000</u>
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Due to the above situation, in February 2014, the Company entered into another office lease agreement. The lease expires on March 31, 2019. The minimum lease payments are as follows:

2017	\$ 63,075
2018	84,738
2019	21,238
<b>Total</b>	<u>\$ 169,051</u>

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

MARCH 31, 2017

*(Unaudited, in Canadian dollars)*

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**13. COMMITMENTS (continued)**

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:

2017	\$	56,350
2018		88,348
2019		22,087
Total	\$	<u>166,785</u>

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

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:

2017	\$	145,309
2018		193,746
2019		201,654
2020		201,654
2021		192,099
Total	\$	<u>934,462</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 payment is as follows in USD:

2017	\$	<u>46,611</u>
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**14. SUBSEQUENT EVENTS**

No subsequent events.