RoomKeyPMS

RSI INTERNATIONAL SYSTEMS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for RSI International Systems Inc. together with its wholly owned subsidiaries ("RSI" or "the Company") is prepared as of April 19, 2017 and relates to the financial condition and results of operations for the years ended December 31, 2016 and 2015. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the audited consolidated financial statements ("consolidated financial statements") and related notes for the year ended December 31, 2016 and 2015 which have been prepared using accounting consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS" or "GAAP"). The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The years ended December 31, 2016 and 2015 are also referred to as "fiscal 2016" and "fiscal 2015", respectively. All amounts are presented in Canadian dollars, the Company's reporting and presentation currency, unless otherwise stated. Statements are subject to the risks and uncertainties identified in the "Risks and Uncertainties" and "Cautionary Note Regarding Forward-Looking Statements" sections of this document. The Company has included the non-GAAP performance measure of earnings "Earnings Before Interest, Taxes, Depreciation and Amortization" ("EBITDA"). The Company has also included measures of recurring revenue and customer retention such as Monthly Recurring Revenue, and Customer Retention Rate. For further information and detailed calculations of these measures, see the "Non-GAAP and additional GAAP Measures" section of this document.

Fiscal 2016 Highlights

- The Company recorded customer revenue of $4,982,079 for the year ended December 31, 2016 compared to $4,492,422 for the year ended December 31, 2015; an increase of 11%.

- The Company's net loss for year ended December 31, 2016 was $641,672, compared to net loss for 2015 of $207,735; an increase of 209% or $433,937. Excluding foreign exchange gain/loss, net loss actually decreased by 13%.

- EBITDA for 2016 was ($379,432) compared to EBITDA of ($42,526) for 2015, which is a negative change of 792% or $336,906. Excluding foreign exchange gain/loss, EBITDA, while still negative, actually improved by 35%.

- For 2016, operating expenses increased by 20% and cost of sales increased by 15% when compared to 2015. Excluding foreign exchange gain/loss, operating expenses actually increased by 7%.

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- The Company's Customer Retention Rate, or percent of customers that renew or don't cancel annually, improved from 90% in 2015 to 92% in 2016.

OPERATIONAL RESULTS

The Company's revenue is primarily generated by subscription fees for its PMS software product. PMS software subscription revenue forms a stable revenue stream from which the Company generates Monthly Recurring Revenue. Complementary revenues are created from partner product subscriptions, transaction fees on reservations, GDS fees, training and support, and assorted other transactional-type fees.

RoomKey sold 122 new PMS properties in the fiscal year 2016 compared to 206 new properties in the fiscal year 2015, a decrease of 41%. This is as a result of the closing some significant multi property sales in Q1 2015 and the Company shifting some resources from sales and marketing to the development area in the beginning of Q4 2015 as it builds out its new PMS product. There has been significant staff turnover in the sales department since the last quarter of 2015 and with the hiring of additional sales staff during Q3 2016, the Company began seeing better sales performance.

In addition to business metrics used to measure revenue and corporate growth such as Monthly Recurring Revenue Growth Software-as-a-Service ("SaaS") companies such as RSI, also calculate Customer Retention Rate to assess both the stability of cash flows generated by the business and strength of RSI's customer relationship. RSI's Monthly Recurring Revenue (not adjusted for foreign exchange translation) has increased 13% in 2016 compared to the end of 2015. RSI's annualized Customer Retention Rates for the years ended on December 31, 2016 and 2015 were 92% and 90%, respectively.

Excluding foreign exchange gains (loss), operating expenses for the three months and year ended December 31, 2016, compared to the same periods in 2015, increased by approximately $12,976 and $299,699, respectively. The increase for the year is mostly due to increasing the Company's presence in specific trade shows, the hosting of a co-design summit with its largest customers, increased professional fees for outsourcing certain accounting and IT functions, and moving and realtor cost resulting from the Company's move to new office space. The Company also hired a Vice-President, Gaming division to begin exploring business possibilities in the casino business, and appointed a new Director of Corporate Development to better engage current and potential shareholders, as well as help align the Company's activities to better serve all its constituents. During the fourth quarter of 2016, the Company initiated some staff restructuring and as a result, incurred some severance costs.

Foreign exchange gain for Q4 2016 totalled $4,039 compared to $132,484 in Q4 2015. The gain in Q4 2016 and Q4 2015 was due to the increase in the value of the U.S. dollar when compared to its Canadian counterpart. For the year ended, there was a loss of $34,489 in 2016 compared to a gain of $488,679 in 2015. The large gain in 2015 was a result of the significant number of new U.S. dollar customers being added in the first quarter of 2015 and the continued strengthening of the U.S. dollar at that time.

OVERVIEW OF THE BUSINESS

RSI International Systems Inc. is a provider of leading Property Management System ("PMS") software, and related online support products and services, to the global hospitality industry, focusing on multi-property, independent and chain hotels. The Company's core software solution, RoomKeyPMS, was the first fully web-based property management system released in North America to include a seamless, integrated and real time online reservation booking engine – RoomKey eRes ("eRes"). The Company's product interfaces to over 500 applications and products which enable its customers to interact effectively with the online Global Distribution System ("GDS"), the backbone of the online hospitality ecosystem.

Utilizing RoomKeyPMS as a platform, core RoomKeyPMS functionality along with key partner products provides an end to end cloud-based PMS that drives increases in occupancy and average daily rate ("ADR") for the Company's clients. RoomKeyPMS has seamless integration with complementary products to provide a fully integrated Guest Management System solution.

The Company's wholly-owned subsidiary, Veratta Technologies (2011) Inc. ("Veratta") supplies critical web and online marketing development expertise to enhance RSI's software offerings. RSI Group is referred to from time to time throughout this document and refers to the consolidated operations of RSI and its wholly owned subsidiary, Veratta.

Management's strategic approach is to maximize sales of its PMS system as a platform to enable value added sales of additional RoomKeyPMS and partner products. The Company evaluates market trends and customer feedback to seek out exceptional partnering and development opportunities to expand its product offering across the entire operations of its hospitality customer base and provide value-added services.

In planning for the Company's future, management continuously evaluates the Company's cash flow requirements and expects growth to be financed by cash flow generated from existing and new customer subscriptions along with other equity financing. Management bases investment decisions on anticipated cash flow from future customer subscriptions. Recent product development and marketing expenditures were incurred to expand RoomKeyPMS's capabilities and market penetration in order to increase in new customer subscriptions and the size and quality of customers added. Management looks to add shareholder value from continued focus on RoomKeyPMS's core platform as a flexible, core part of their customers' business with the ability to add enhanced capabilities from high-value proprietary and partner products which drive occupancy rates, revenue and margin for the properties which use RSI's products.

The Company's common shares are listed on the TSX Venture Exchange (RSY). Further details on RSI International Systems Inc. can be found in the Company's associated documents at www.sedar.com or on the Company's website at www.roomkeypms.com.

Consolidated Financial and Operating Results

Please refer to "Critical Accounting Policies and Estimates" and also the Notes to the 2016 Audited Consolidated Financial Statements for a discussion of critical and new accounting policies and estimates as they relate to the discussion of the Company's operating and financial results below.

Non-GAAP and Additional GAAP Measures

EBITDA

Management measures the success of the Company's strategies and performance based on EBITDA (or Earnings before Interests, Taxes, Depreciation and Amortization). The Company defines EBITDA to be net income from operations before: (a) depreciation of equipment; (b) amortization of deferred development costs; (c) amortization of intangible assets; (d) income tax expense; and (e) interests and bank charges. Management uses EBITDA as a measure of the Company's operating performance because it provides information related to the Company's ability to provide operating cash flows for acquisitions, capital expenditures and working capital requirements.

Monthly Recurring Revenue

Management measures the monthly recognized revenue from all subscriptions at the latest quarter end to assess the growth in recurring revenue.

Customer Retention Rate

Management measures the number of customers, on an annualized basis who renewed, or did not cancel, in the period as a percentage of the number of customers at the end of last year. Management uses this measure to assess both the stability of cash flows generated by the business and strength of RSI's customer relationship.

The non-GAAP financial measures are used in addition to, and in conjunction with, results presented in accordance with the Company's consolidated financial statements prepared in accordance with IFRS and should not be relied upon to the exclusion of IFRS financial measures.

Investors are strongly encouraged to review the Company's consolidated financial statements in their entirety and to not rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other issuers' non-GAAP financial measures having the same or similar names.

Outlook

The Company sold 122 new PMS properties in 2016 compared to 206 in 2015. The decrease was primarily as a result of significant staff turnover in the sales department which began during the last quarter of 2015. The Company has completed its re-staffing of the sales department during Q4 2016, and began seeing a general improvement in property sales. There were 33 new property sales during the fourth quarter of 2016. PMS property sales provide a platform for additional partner product sales and services and are tracked by management as an indicator of growth in the customer base. Management expects revenue to continue to grow during 2017 through growth in PMS sales along with increased transactional, training, service, and partner revenues. The decline in revenue growth given the drop in the Company's property sales in 2016, was slightly mitigated by the Company's improved customer retention rate, and contracting higher average revenue per month on its new property sales, compared to last year. The Company's customer retention rate has increased from 90% in 2015, to 92% in 2016. The Company's average revenue per month on its new property sales has increased by 22% during the year ended December 31, 2016 when compared to 2015. The Company also plans to focus more of its resources on building new and enhanced product offerings. In addition to providing improved features to the Company's existing clientele, new products and enhancements will be designed to increase revenue per room and appeal to larger properties with more rooms per property than the Company currently averages. A new RoomKeyPMS will utilize a best-of-breed technology stack using Microsoft Azure as the true cloud foundation to provide on-demand availability and real-time scalability, combined with an intuitive web-based interface constructed in HTML5 and AngularJS. These significant changes will allow the Company to exponentially increase the Company's customer base to larger properties with more rooms per property and broaden its appeal globally while realizing economies of scale. The Company is also investigating adding new features, functionality and offerings that would apply to new markets such as casino gaming properties and hotel sales and catering. This could also significantly increase per room revenue captured and appeal to larger properties with more rooms per property than the Company currently averages. The Company will be flexible in the prioritizing all of its development projects, and will base its priorities on a variety of factors including, but not limited to, return on investment, payback, and time to completion.

To alleviate migration and product development risk relating to the build of the new RoomKeyPMS product, the Company is applying a lean framework to build and release new features module by module. This will allow the company to launch differentiating features into the market place and increase average deal value in the short-term. To date the Company has released new housekeeping and vault modules, and is currently working on the Guest and Users modules. The Company will continue to deploy new modules and pivot intelligently based on market and customer trends. The Company began the build of the new RoomKey PMS during the fourth quarter of 2015 and as of December 31, 2016, has spent $1,040,012 on its development. Along with increased sales, the Company plans to fund the build of this new product through outside sources, such as debt or equity financings.

Since 2012, the Company has focused on product development and enhancement, rebranding its brand and website 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 year ended December 31, 2016, and has incurred a net loss of $641,672 (2015 – $207,735) and an accumulated deficit as of December 31, 2016 of $5,026,445 (2015 – $4,384,773).

Management's current strategy is to focus on increasing the revenue it captures on a per room basis as well as appealing to larger properties with significantly more rooms per property than the

Company currently averages, while exercising careful cost control to sustain operations in the near term. This will entail enhancing its product offerings and functionality to enter new and larger markets. 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 continues to evaluate 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.

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 include the finder's fees noted above as well as other legal and regulatory costs.

On April 17, 2017, the Company reported that Charles Ku had stepped down as the Company's CEO and President and from the Company's Board of Directors in order to retire. Tim Major, who has been with the Company in various capacities for the past six years, will replace Mr. Ku as President and CEO. The Company wishes Mr. Ku all the best in enjoying his well-earned retirement.

Significant Financial Highlights for the Year Ended December 31, 2016

- The Company recorded revenue of $4,982,079 for the year ended December 31, 2016 compared to $4,492,422 for the year ended December 31, 2015; an increase of 11%.

- The Company recorded revenue of $1,284,257 for the quarter ended December 31, 2016 compared to $1,106,355 for the quarter ended December 31, 2015; an increase of 16%.

- For the year ended December 31, 2016, revenue increased by $489,657 (11%), cost of sales increased by $100,727 (15%) and expenses increased by $822,867 (20%) when compared to the same year ended December 31, 2015.

- For the quarter ended December 31, 2016, revenue increased by $177,902 (16%), cost of sales increased by $47,012 (30%) and expenses increased by $141,421 (13%) when compared to the same quarter in 2015.

- The Company's Monthly Recurring Revenue (not adjusted for foreign exchange translation) for the three-month period ended December 31, 2016 increased by 13% compared to the same period last year.

- The percent of customers that renewed or did not cancel described as Customer Retention Rate, was 92% annualized in Q4 2016 compared to 88% in Q4 2015. For the year ended December 31, 2016, the Customer Retention Rate is 92% compared to 90% during 2015.

- The Company's net loss for the year ended December 31, 2016 was $641,672 compared to $207,735 net loss for the year ended December 31, 2015; an increase in net loss of $433,937 (209%). Not including foreign exchange gains and losses, the net loss decreased by $89,231 (13%) when comparing the two years.

- Operating expenses, not including foreign exchange gains (loss), during the year ended December 31, 2016 totalled $4,812,207 compared to $4,512,508 during 2015. An increase of $299,699 or 7%.

- Operating expenses, not including foreign exchange gain, during the three-month period ended December 31, 2016 totalled $1,246,766 compared to $1,233,790 during the same period in 2015. An increase of $12,976 or 1%.

- Foreign exchange gains (loss) during the year ended December 31, 2016 were reduced by $523,168 a reduction of 107%.

- Foreign exchange gains during the quarter ended December 31, 2016 were decreased by $128,445 or a decrease of 97%.

- For the year ended December 31, 2016, the Company increased its spending on Business Development and Travel by $41,397 (17%) compared to the year ended December 31, 2015.

- For the quarter ended December 31, 2016, the Company decreased its spending on Business Development and Travel by $49,106 (56%) compared to the same quarter in 2015.

- For the year ended December 31, 2016, the Company increased its spending on Professional Fees by $210,795 (118%) compared to the year ended December 31, 2015.

- For the quarter ended December 31, 2016, the Company increased its spending on Professional Fees by $109,482 (205%) compared to the same quarter in 2015.

- Salaries and Benefits decreased in the year ended December 31, 2016 compared to the year ended December 31, 2015 by $181,389, or 5%.

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- Salaries and Benefits decreased for the quarter ended December 31, 2016 compared to the same quarter in 2015 by $169,675, or 19%.

- EBITDA for the year ended December 31, 2016 was ($379,432) compared to EBITDA of ($42,526) for the year ended December 31, 2015, which is a negative change of 792% or $336,906.

- EBITDA for the quarter ended December 31, 2016 was ($75,085) compared to EBITDA of ($104,774) for the same quarter in 2015, which is an improvement of 28% or $29,688.

Please refer to the following section for further explanations.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Summarized Consolidated Financial Results Years ended December 31,	2016	2015	% Change
Revenues	$ 4,982,079	$ 4,492,422	11
EBITDA	(379,432)	(42,526)	792
Interests and bank charges	(44,478)	(54,388)	(18)
Depreciation	(36,426)	(15,669)	132
Amortization of deferred development	(181,336)	(95,152)	91
Net loss for the year	(641,672)	(207,735)	209
Basic and diluted loss per share	$ (0.02)	$ (0.01)	

Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015

Summarized Consolidated Financial Results Three Months ended December 31,	2016	2015	% Change
Revenues	$ 1,284,257	$ 1,106,355	16
EBITDA	(75,085)	(104,774)	(28)
Interests and bank charges	(10,598)	(18,047)	(41)
Depreciation	(10,454)	(6,351)	65
Amortization of deferred development	(76,354)	(23,788)	221
Net loss for the period	(172,491)	(152,960)	7

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Basic and diluted loss per share	$ (0.00)	$ (0.01)

SEGMENT REVIEW

The Company's business is organized into one segment.

The Company provides its products and services on a subscription model, as such, majority of sales contracts are signed on a three-year basis and revenue is recognized over the term of the contract. All costs incurred by the Company to fulfill the terms of the contracts are upfront resulting in a mismatch of timing between revenue recognition and expenses incurred.

During the year ended December 31, 2016, excluding foreign exchange gains (loss), the Company incurred higher expenses compared to the year ended December 31, 2015. Foreign exchange gains decreased significantly and office, business development and travel, amortization of property, plant, and equipment, amortization of deferred development costs, and professional fees increased during the year ended December 31, 2016 compared to the year ended December 31, 2015.

Year to Date 2016 Results

Summarized Consolidated Financial Results Years ended December 31,	2016	2015	% Change
Revenues	$ 4,982,079	$ 4,492,422	11
Cost of goods sold	777,055	676,328	15
Gross Margin	4,205,024	3,816,094	10
Expenses			
Operating costs	1,153,566	706,659	63
Foreign exchange (gains) loss	34,489	(488,679)	(107)
Business development & travel	278,569	237,172	17
Marketing	230,321	237,537	(3)
Salaries and benefits	3,149,751	3,331,140	(5)
Total Expenses	4,846,696	4,023,829	20
EBITDA	(379,432)	(42,526)	792
Interests and bank charges	(44,478)	(54,388)	(18)
Depreciation	(36,426)	(15,669)	132
Amortization of deferred development	(181,336)	(95,152)	91
Loss from operations	$ (641,672)	$ (207,735)	209

Revenues

Revenues are derived from subscription fees, license fees, monthly support services, initial interface, systems configuration and training in accordance with the agreements with the customers, as well as commission revenue when the Company charges its customers for the use of software developed either by the Company or by third-party developers.

Revenue for the year ended December 31, 2016 increased by 11% compared to year ended December 31, 2015. This growth was due to sales of the Company's PMS software, partner products and other products and services the Company offered to its clients, particularly for customers added during the last half of 2015. The Company has added 64 net new properties during the year. Net new properties is the difference between new properties added and properties which cancelled. The Customer Retention Rate of the Company is 92% for the year ended December 31, 2016.

Cost of Sales

Cost of sales in the year ended December 31, 2016 increased by $100,727 or 15% compared to the year ended December 31, 2015. The year 2016 had higher revenue from partner products which resulted in higher cost of sales. As well there was a one-time reclassification during year 2015 which had the effect of a reduction in cost of sales during that year.

Operating Costs

Operating costs consist mainly of direct costs associated with the generation of revenue.

Operating costs in the year ended December 31, 2016 increased by $446,907 or 63% when compared to the year ended December 31, 2015. The primary reasons for this increase were:

- Increase in office and miscellaneous
  Office and miscellaneous costs increased by $109,910 (134%) due to increased costs to support new staff, moving into a larger office space, as well as an increase in executive travel. Executive travel increased as a result of a concerted effort to continue to engage with the Company's major customers. The company had outgrown its old office space and moved into a larger space in August 2016. At the same time, the Company subleased its old office space an incurred realtor commission expense of approximately $32,000.

- Decrease in interest and bank charges
  Interest and bank charges in the year ended December 31, 2016 decreased by $9,910 (18%) compared to the year ended December 31, 2015.

- Increase in rent and utilities
  Rent and utilities in the year ended December 31, 2016 increased $12,352 (7%) compared to the year ended December 31, 2015, due to higher operating costs in its current office location.

- Increase in professional fees
  Professional fees in the year ended December 31, 2016 increased $210,795 (118%) compared to the year ended December 31, 2015 as a result of higher legal and outside accounting fees, the hiring of consultants to lead the Company's gaming and corporate development activities, as well as higher IT services to support the increased staff since the beginning of 2015.

- Decrease in bad debt

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Bad debt allowances in the year ended December 31, 2016 decreased $20,238 (125%) compared to the year ended December 31, 2015 due to the recovery of bad debt allowance as a result of the increasing of staff focus on collections and the Company making a concerted effort to reach out to late paying customers earlier than in the past.

- Decrease in internet and networking
  Internet and networking costs were reduced by $13,248 (21%) primarily the result of the Company's internal IT needs being outsourced.

- Increase in depreciation
  Depreciation of equipment was $36,426 in the year ended December 31, 2016 compared to $15,669 in the year ended December 31, 2015. Increase in depreciation expense was due to the purchase of office and computer equipment for new staff during 2016 and 2015.

Foreign Exchange Gains (Loss)

The foreign exchange gains (loss) in the year ended December 31, 2016 decreased by $523,168 (107%) compared to 2015, which reflects the impact of translation of US denominated monetary items such as cash, accounts receivable, and accounts payable. A significant portion of RSI's revenues and accounts receivable are denominated in US dollars and are positively affected by the current exchange rate of the US dollar versus the Canadian dollar. There was a significant influx of new U.S. dollars during the first quarter of 2015 as a result of the increase in new sales. Also there was an increase in the value of the U.S. dollar compared to its Canadian counterpart during the same period. Both of these events resulted in the large foreign exchange gain in the year ended December 31, 2015 compared to 2016.

Salaries & Benefits

Salaries and benefits consist of salaries and benefit costs, commissions and various other compensation, payroll taxes, employee health and related benefit expenses, and recruitment fees.

Salaries and benefits decreased by $181,389 (5%) in the year ended December 31, 2016 compared to 2015. Although the Company currently employs 6 more people as at December 31, 2016, compared to 2015, a portion of those salaries are being capitalized to deferred development costs as they relate to the development of the new RoomKey PMS product. As well, there has been a decrease in commissions paid as a result of the decrease in new property sales in the year ended December 31, 2016 compared to the year ended December 31, 2015.

Marketing

For the year ended December 31, 2016, marketing costs were $7,216 (3%) lower compared to 2015, primarily related to a decrease in lead generation costs for the year ended December 31, 2016 compared to 2015.

Business Development and Travel

Business development and travel for the year ended December 31, 2016 increased by $41,397 (17%) compared to the previous year, primarily due to the Company's increased presence at the HITEC trade show in New Orleans and the BITAC conference in Bermuda. The Company had a larger staff and booth presence at the HITEC trade show in 2016 compared to 2015 in order to introduce its new sales team as well as demo some of the new developments regarding the new RoomKeyPMS product. Also, in May 2016 the Company invited its largest customers to its first co-design summit where these customers collaborated with the Company's staff on the design of the new RoomKeyPMS product. The summit was held in Vancouver, Canada and was attended by the Company's 10 largest customers.

Amortization of Deferred Development Costs

Amortization of Deferred Development Costs for the year ended December 31, 2016 increased by $86,184 (91%) compared to the previous year, primarily due to the general release to the market in 2016 of two brand new modules relating to the new RoomKeyPMS product. On module (housekeeping) was released in late March and another module (vault) was released in late June. Amortization of the costs related to these releases will be amortized over 5 years and began after their general release to the market.

Q4 2016 Results

Summarized Consolidated Financial Results Three months ended December 31,	2016	2015	% Change
Revenues	$ 1,284,257	$ 1,106,355	16
Cost of goods sold	205,021	158,009	30
Gross Margin	1,079,236	948,346	14
Expenses			
Operating costs	420,815	204,611	106
Foreign exchange gain	(4,039)	(132,484)	(97)
Business development & travel	38,048	87,154	(56)
Marketing	68,437	52,883	29
Salaries and benefits	719,467	889,142	(19)
Total Expenses	1,242,728	1,101,306	13
EBITDA	(75,085)	(104,774)	(28
Interests and bank charges	(10,598)	(18,047)	(41)
Depreciation	(10,454)	(6,351)	65
Amortization of deferred development costs	(67,354)	(23,788)	183
Loss from operations	$ (163,491)	$ (152,960)	7

Revenues

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Revenues are derived from subscription fees, license fees, monthly support services, initial interface, systems configuration and training in accordance with the agreements with the customers, as well as commission revenue when the Company charges its customers for the use of software developed either by the Company or by third-party developers.

Revenue for Q4 2016 increased by 16% compared to Q4 2015. This growth was due to sales of the Company's PMS software, partner products, and other products and services the Company offered to its clients, particularly for customers added during the last half of 2015 and first quarter of 2016.

Cost of Sales

Cost of sales in Q4 2016 increased by $47,012 or 30% compared to the same period in 2015. Q4 2016 had higher revenue from RoomKeyPMS as well as partner products which resulted in higher cost of sales.

Operating Costs

Operating costs consist mainly of direct costs associated with the generation of revenue.

Operating costs for Q4 2016 increased by $216,204 or 106% when compared to Q4 2015. The primary reasons for this increase were:

- Increase in office and miscellaneous
  Office and miscellaneous costs increased by $41,111 (134%) due to increased expenditures to support new staff. The Company had also outgrown its old office space and moved into a larger space in August 2016.

- Decrease in interest and bank charges
  Interest and bank charges in Q4 2016 decreased by $7,449 (41%) compared to Q4 2015.

- Increase in rent and utilities
  Rent and utilities in Q4 2016 increased $4,317 (10%) compared to Q4 2015, due to higher operating costs in its current office location.

- Increase in professional fees
  Professional fees in Q4 2016 increased $109,482 (205%) compared to Q4 2015 as a result of higher legal and outsourced accounting fees, as well as outsourced IT services to support the increased staff since the beginning of 2015. As well, the Company engaged new consultants to lead the Company's gaming and corporate development activities.

- Increase in depreciation
  Depreciation of equipment was $10,454 in Q4 2016 compared to $6,351 in Q4 2015. Increase in depreciation expense was due to the purchase of office and computer equipment for new staff during 2016 and 2015.

Foreign Exchange Gain

The foreign exchange gain in Q4 2016 decreased by $128,445 (97%) compared to Q4 2015, which reflects the impact of translation of US denominated monetary items such as cash, accounts receivable, and accounts payable. A significant portion of RSI's revenues and accounts receivable are denominated in US dollars and are positively affected by the current exchange rate of the US dollar versus the Canadian dollar. The increase in the value of the U.S. dollar compared to its Canadian counterpart during the three month period in 2015 was much larger than in the same period in 2016. This resulted in a larger gain during the period 2015 when compared to the same period in 2016.

Salaries & Benefits

Salaries and benefits consist of salaries and benefit costs, commissions and various other compensation, payroll taxes, employee health and related benefit expenses, and recruitment fees.

Salaries and benefits decreased by $169,675 (19%) in Q4 2016 compared to Q4 2015. Although the Company currently employs 6 more people at the end of Q4 2016 compared to Q4 2015, a portion of those salaries are being capitalized to deferred development costs as they relate to the development of the new RoomKey PMS product. As well, there has been a decrease in commissions paid as a result of the decrease in new property sales in the quarter ended December 31, 2016 compared to the quarter ended December 31, 2015.

Marketing

For Q4 2016, marketing costs were $15,554 (29%) higher compared to Q4 2015, primarily related to an increase in lead generation costs.

Business Development and Travel

Business development and travel for Q4 2016 decreased by $49,106 (56%) compared to the same period in previous year due to a conscious decision to reduce focus on trade shows in late 2016. The Company continues to explore different business development opportunities in order generate increased revenue.

Amortization of Deferred Development Costs

Amortization of Deferred Development Costs for Q4 2016 increased by $43,566 (183%) compared to the previous year, primarily due to the general release to the market in 2016 of two brand new modules relating to the new RoomKeyPMS product. On module (housekeeping) was released in late March and another module (vault) was released in late June. Amortization of the costs related to these releases will be amortized over 5 years and began after their general release to the market.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows key liquidity metrics for the periods indicated:

As at December 31,	2016	2015
	$	$
Cash	378,767	1,145,427

For the years ended December 31,	2016	2015
Net cash provided by (used in) operating activities	(426,067)	24,962
Net cash provided by financing activities	525,624	137,165
Net cash used in investing activities	(866,217)	(286,487)

Net Cash Provided by (Used in) Operating Activities

Cash flow from operating activities resulted in a use of cash of $426,067 in the year ended December 31, 2016 compared to a source of cash $24,962 in 2015. Net loss in the year ended December 31, 2016 was $641,672 compared to $207,735 net loss in 2015. The change in non-cash operating assets and liabilities resulted in a $7,078 cash outflow in the year ended December 31, 2016, compared to $105,717 cash inflow in 2015.

The cash outflow of $7,078 from non-cash operating assets and liabilities was mainly attributable to decrease in accounts payable and accrued liabilities of $146,233 which was partially offset by an increase in deferred revenue of $111,153, an increase in GST payable of $5,735, a decrease in accounts receivable of $16,133, and a decrease in prepaid expenses of $6,134.

Net Cash from Financing Activities

Financing activities for 2016 resulted in a source of cash of $525,624 compared to source of cash of $137,165 in 2015. The cash from financing activities was attributable mainly from issuance of 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.

Net Cash used in Investing Activities

Investing activities for the Company are impacted by acquisitions of equipment and deferred development costs. In 2016, investing activities resulted in a use of $866,217 compared to a use of $286,487 in 2015. Of the amount spent during the year ended December 31, 2016, $797,161 was spent relating to the development of a new RoomKeyPMS product.

As at December 31, 2016, the Company has a working capital deficiency of $145,681. This is compared to positive working capital as at December 31, 2015 of $619,904.

In late 2016, the Company initiated a significant cost reduction program, mostly made up of staff and outside consulting rationalization which, coupled with its forecasted sales for 2017, will reduce its cash outflow compared to 2016. However, Management recognizes the Company may need to expand its cash reserves during 2017 and continues to evaluate 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.

Summary of Quarterly Results

Traditionally, sales of the Company have been strongest in the first and fourth quarters of each year; however, since the Company uses the subscription model of invoicing, the fluctuation of revenue from quarter to quarter has been flat-lining and gradually inclining upwards. Generally, costs of the Company are incurred evenly throughout the year with the exception of foreign exchange, which is subject to the fluctuation of the US dollar against the Canadian dollar.

One quarter's revenue and operating results may not necessarily be indicative of a subsequent quarter's revenue and operating results. For this reason, performance may not be comparable quarter to consecutive quarter and is best considered on the basis of the results for the whole year or by comparison of results in a quarter with results in the same quarter for the previous year. Quarterly results for the three-month periods ended are outlined below:

	2016			
	Q4	Q3	Q2	Q1
Revenues	$1,284,257	$ 1,309,081	$ 1,162,626	$ 1,226,115
EBITDA	(75,085)	(82,103)	(242,397)	20,153

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	Q4	Q3	Q2	Q1
Interests and bank charges	(10,598)	(8,952)	(14,299)	(10,629)
Depreciation	(10,454)	(12,175)	(7,841)	(5,956)
Amortization	(67,354)	(45,097)	(45,097)	(23,788)
Net loss for the quarter	(163,491)	(148,327)	(309,634)	(20,220)
Basic and diluted loss per share	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.00)

2015	Q4	Q3	Q2	Q1
Revenues	$1,106,355	$ 1,282,066	$ 906,952	$ 1,197,049
EBITDA	(104,774)	(49,097)	(159,291)	270,636
Interests and bank charges	(18,047)	(9,685)	(15,402)	(11,254)
Depreciation	(6,351)	(3,555)	(2,450)	(3,313)
Amortization & write-downs	(23,788)	(23,788)	(23,788)	(23,788)
Net income (loss) for the quarter	(152,960)	(86,125)	(200,931)	232,281
Basic and diluted earnings (loss) per share	$ (0.01)	$ (0.00)	$ (0.01)	$ 0.01

2014	Q4	Q3	Q2	Q1
Revenues	$ 918,677	$ 875,643	$ 770,494	$ 762,514
EBITDA	(127,240)	(32,362)	(509,024)	82,738
Interests and bank charges	(13,817)	(10,953)	(10,618)	(8,782)
Depreciation	(2,110)	(1,873)	(1,697)	(1,220)
Amortization & write-downs	(149,761)	(208,243)	(29,161)	(28,865)
Net income (loss) for the quarter	(292,928)	(253,431)	(550,500)	43,871
Basic and diluted earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.03)	$ 0.00

Selected Financial Information

The following table sets out consolidated financial information for the Company for the periods indicated. Each investor should read the following information in conjunction with those financial statements and related notes. The operating results for any past period are not necessarily indicative of results for any future period. The selected financial information for 2016, 2015 and 2014 has been derived from the consolidated financial statements.

Years ended December 31,	2016	2015	2014

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Revenues	$	4,982,079	$	4,492,422	$	3,327,328
Net loss for the year		(641,672)		(207,735)		(1,052,988)
Basic and diluted loss per share		(0.02)		(0.01)		(0.05)
Total assets		1,785,801		1,931,194		1,803,959
Total current liabilities		809,031		838,376		614,062
Total non-current liabilities	$	10,741	$	Nil	$	26,509

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 December 31, 2016.

OUTSTANDING SHARE DATA

As at April 17, 2017, there were 36,685,278 common shares, 2,350,000 stock options and 4,255,675 warrants outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

1. Director fee of $12,000 (2015 – $12,000) was paid to a director of the Company.

2. Salaries and employee benefits of $737,427 (2015 – $771,345) were paid to key management personnel.

3. Incentive of $nil (2015 – $23,637) was paid to the CEO of the Company.

4. The Company paid remuneration for management services to a company controlled by a director in common totaling $49,200 (December 31, 2015 - $nil).

Included in accounts payable and accrued liabilities at December 31, 2016 is $8,428 (2015 – $nil) receivable from directors.

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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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Included in our 2016 annual consolidated financial statements, as well as in our 2016 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations

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.

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.

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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.

IAS 7 - Statement of Cash Flows (Amendment)

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities.

These amendments are effective for annual periods beginning on or after January 1, 2017. 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.

BOARD AND MANAGEMENT CHANGES

In January 2016, Jeff Hamilton was appointed Vice-President, Sales and Marketing.

On June 16, 2016, the Company announced the appointment of Mr. Shawn Harris of Las Vegas, Nevada as the company's Executive Vice President of RoomKey Gaming. On January 1, 2017, Mr. Harris left this position to pursue other opportunities.

On August 24, 2016, two new members were elected to the Company's board of directors. Mr. David Keys and Mr. Adam Ho. Mr. Keys has been a successful operations and financial consultant since April 2004 and has been the interim CEO for SkyWire Media, Inc. since December 2015. In July 2016 Mr. Ho became Director of Corporate Development of RSI. He has held various positions within Zincore Metals Inc. including Vice President, Corporate Development and is currently its CFO.

Mr. Jeffrey Busch, Mr. Shawn Harris, Mr. Ron Baldwin, and Mr. Moe Chan did not stand for re-election to the board of directors at the Company's annual general meeting held on August 24, 2016. The Company wishes to thank all of them for their hard work on behalf of the shareholders over the years, and wishes each of them well in the future.

On November 18, 2016, the Company announced that Mr. Thomas Castleberry had resigned from the Company's Board of Directors as a result of other professional obligations. The Company wishes Mr. Castleberry nothing but the best as he pursues the next phase of his career.

On April 17, 2017, the Company reported that Charles Ku had stepped down as the Company's CEO and President and from the Company's Board of Directors in order to retire. Tim Major, who has been with the Company in various capacities for the past six years, will replace Mr. Ku as President and CEO. The Company wishes Mr. Ku all the best in enjoying his well-earned retirement.

SUBSEQUENT EVENTS

On January 25, 2017, the Company has implemented the amended stock option plan previously approved by shareholders at its annual general meeting held on August 24, 2016. The plan is subject to acceptance by the TSX Venture Exchange and reserves a fixed 6,393,425 common shares for issuance pursuant to options, less any common shares reserved for currently outstanding stock options.

The Company has also granted incentive stock options to purchase an aggregate of 1,375,000 common shares of the Company to officers, managers and directors of the Company. The options vest over two years, are exercisable at a price of $0.20 for a period of five years, and are subject to TSX-V acceptance of the plan. On the same date, the Company also cancelled 200,000 stock options valued at $0.12 and expiring on May 27, 2019.

RISKS AND UNCERTAINTIES

Although Management has a confident outlook for RSI and continually improves and adapts the Company's risk mitigation strategies, operating in the technology industry inherently involves a certain level of risk and uncertainty. The Company continues to expand and refine management controls, reporting systems, cost controls, and overall policies and procedures in order to minimize the impact of potential risks and uncertainties.

The Company's inability to access additional capital could have a negative impact on its growth strategy.

The Company currently has limited financial resources and operating income, and adequate funding may not be available to further its product development and marketing activities. The Company may need to raise additional capital to fund its operations, and such capital may not be available on commercially acceptable terms, if at all. If the Company is unable to obtain additional

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capital on commercially acceptable terms, the Company may be forced to reduce or curtail its operations or its anticipated development and marketing activities. Although the Company has been successful in the past in financing its activities through the sale of equity securities, it may not be able to obtain sufficient financing in the future. Our ability to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of the Company.

The Company operates in a highly competitive industry with many large competitors, and it expects that competition may intensify in the future.

The hospitality software industry is intensely competitive, and the Company competes with other companies that have greater financial and human resources and development resources. In addition, the improving US and world-wide economy is encouraging new entrants and established companies to expand their marketing efforts significantly. Such competition may result in the Company being unable to acquire desired customers, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its software solutions, which could have an adverse effect on its results.

The Company's results may be negatively affected by currency exchange rate fluctuations.

Fluctuations in currency exchange rates, particularly the weakening or strengthening of the US dollar (being the currency in which the majority of the Company's products are sold) against the Canadian dollar (being the currency in which the majority of the Company's capital and operating costs are incurred), could have a significant impact on the Company's results of operations. The

Company does not currently have a formal policy of actively managing such currency fluctuations, and therefore, such fluctuations may have a significant impact on its financial results in any given period.

The Company may pursue strategic transactions in the future, which could be difficult to implement, disrupt its business or change its business profile significantly.

The Company will continue to consider opportunistic strategic transactions, which could involve acquisitions or dispositions of assets. Any future strategic transaction could involve numerous risks, including:

- potential disruption of the Company's ongoing business and distraction of management;
- difficulty integrating acquired businesses or segregating assets to be disposed of;
- exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses the Company may acquire; and
- changing the Company's business profile in ways that could have unintended consequences.

If the Company enters into significant strategic transactions in the future, related accounting charges may affect its financial condition and results of operations, particularly in the case of any

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acquisitions. In addition, the financing of any significant acquisition may result in changes in its capital structure, including the incurrence of additional indebtedness. Conversely, any material disposition could reduce its indebtedness or require the amendment or refinancing of a portion of its outstanding indebtedness. The Company may not be successful in addressing these risks or any other problems encountered in connection with any strategic transactions.

FINANCIAL RISK MANAGEMENT

Overview

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. Management identifies and evaluates the financial risks and is charged with the responsibility of establishing controls and procedures to ensure the financial risks are mitigated in accordance with the approved policies.

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 accounts receivable.

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 December 31, 2016, there is $5,372 (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.

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, 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 -/+ $15,789 impact on net loss.

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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 consolidated 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 year ended December 31, 2016, five customers (2015 – three customers) accounted for approximately 25% (2015 – 19%) of the Company's revenue. For the year ended December 31, 2016, one customer (2015 – one customer) accounted for a total of 53% (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 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.

Risk Factors Relating to the Company's Common Shares

The Company does not intend to pay dividends for the foreseeable future.

The Company has never declared or paid any cash dividends on the Company's common shares and does not intend to pay any cash dividends in the foreseeable future. The Company anticipates that it will retain all of its future earnings for use in the development of its business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of the Company's board of directors. In addition, from time to time the Company may enter into agreements that restrict its ability to pay dividends.

The price of the Company's common shares may be volatile.

The trading price of the Company's common shares has been and may continue to be subject to material fluctuations and may increase or decrease in response to a number of events and factors, including: - changes in the market price of hospitality management systems and number of market competitors offering same or similar products ; - current events affecting the economic situation and exchange rates in Canada, the United States, and internationally; - changes in financial estimates and recommendations by securities analysts; - acquisitions and financings; - quarterly variations in operating results; - the operating and share price performance of other companies that investors may deem comparable; - the issuance of additional equity securities by the Company or the perception that such issuance may occur; and - purchases or sales of blocks of the Company's common shares. Part of this volatility may also be attributable to the current state of the stock market, in which wide price swings are common. This volatility may adversely affect the prices of the Company's common shares regardless of the Company's operating performance and could cause the market price of the Company's common shares to decline.

The Company may issue additional equity securities which may reduce the Company's earnings per share.

The Company has in the past issued and may continue to issue equity securities to finance its activities, including in order to finance working capital requirements, capital expenditures and acquisitions. If the Company issues additional common shares, your percentage ownership of the Company will decrease and you may experience dilution in the Company's earnings per share. Moreover, as the Company's intention to issue any additional equity securities becomes publicly known, the common share price may be materially and adversely affected.

Holders of the Company's common shares may experience dilution when outstanding options and warrants are exercised, or as a result of additional securities offerings.

There are a number of outstanding options and warrants pursuant to which additional common shares of the Company may be issued in the future. Exercise of such options and warrants may result in dilution to the Company shareholders. In addition, if the Company raises additional funds through the sale of equity securities, shareholders may have their investment further diluted.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements and information contained in this MD&A and the documents incorporated by reference in this MD&A constitute "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information are statements and information regarding possible events, conditions or results of operations that are based upon assumptions about future economic conditions and courses of action. All statements and information other than statements of historical fact may be forward-looking information. In some cases, forward-looking information can be identified by the use of words such as "seek", "expect", "anticipate", "budget", "plan", "estimate", "continue", "forecast", "intend", "believe", "predict", "potential", "target", "may", "could", "would", "might", "will" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A and the documents incorporated herein by reference include, but are not limited to statements and information regarding: a continuing, or increased need for software solutions for the hospitality industry in difficult economic times, the attainment of certain subscription targets and company performance, the demand for its products continuing to increase, sufficient stable and healthy global economic and business environment, and other factors contained in the section entitled "Risks and Uncertainties" in the MD&A for the year ended December 31, 2016. Although the Company has attempted to identify important factors that could cause actual results or events to differ materially from those described in the forward-looking statements, you are cautioned that this list is not exhaustive and there may be other factors that the Company has not identified. Furthermore, the Company undertakes no obligation to update or revise any forward-looking information included in, or incorporated by reference in, this MD&A if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.

DISCLOSURE CONTROLS AND PROCEDURES

Current securities policies in Canada require that management of the Company assess the effectiveness of the Company's disclosure controls and procedures at period ends. Management has concluded that the disclosure controls as at December 31, 2016 were effective in ensuring that all material information required to be filed had been effected in a timely manner, and that the information was recorded, processed and reported within the time period necessary to prepare the filings.

The Company continues to review and assess its internal control over financial reporting. There were no significant changes made to internal controls over financial reporting during the period ended December 31, 2016.

ADDITIONAL INFORMATION

Additional information relating to RSI International Systems Inc.is available on SEDAR at www.sedar.com.

For the Company

"Tim Major"
President and Chief Executive Officer