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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 18, 2018 and relates to the financial condition and results of operations for the years ended December 31, 2017 and 2016. 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, 2017 and 2016 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, 2017 and 2016 are also referred to as "fiscal 2017" and "fiscal 2016", 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 ("MRR"), 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 2017 Highlights

- The Company recorded customer revenue of $4,909,702 for the year ended December 31, 2017 compared to $4,982,079 for the year ended December 31, 2016; a decrease of 1%.
- The Company's net loss for year ended December 31, 2017 was $540,659, compared to net loss for 2016 of $641,672; a decrease of 16% or $101,013.
- EBITDA for 2017 was ($236,085) compared to EBITDA of ($379,432) for 2016, which is an improvement of 38% or $143,347.
- For 2017, operating costs decreased by 3% and cost of sales remained relatively constant when compared to 2016.

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- The Company's Customer Retention Rate, or percent of customers that renew or don't cancel annually, was 91% in 2017 compared to 92% in 2016.

OPERATIONAL RESULTS

The Company's revenue is primarily generated by subscription fees for its Property Management System ("PMS") software product. PMS software subscription revenue forms a stable revenue stream from which the Company generates MRR. Complementary revenues are created from partner product subscriptions, transaction fees on reservations, Global Distribution Systems ("GDS") fees, training and support, and assorted other transactional-type fees.

RoomKey sold 127 new PMS properties in the fiscal year 2017 compared to 122 new properties in the fiscal year 2016, an increase of 4%. In 2017, the average revenue per month per new hotel on boarded has increased by 3% compared to the same period in 2016. This is primarily due to the Company being able to negotiate slightly higher prices per room per month during the period. However, the Company has begun to feel the effects of increased market fragmentation, amalgamation, and competition in the market place which may put downward pressure on prices the Company can contract in the future. Net properties added (new properties sold minus cancellations) totaled 54 in 2017 compared 51 in 2016.

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 9% during 2017 compared to 13% during 2016. RSI's annualized Customer Retention Rates for the years ended on December 31, 2017 and 2016 were 91% and 92%, respectively.

Operating expenses for the three months and year ended December 31, 2017, compared to the same periods in 2016, decreased by approximately $50,769 and $171,956, respectively. During the year significant decreases were in salaries and benefits, business development and travel, and office and miscellaneous. These savings were partially offset by a significant increase in bad debt expense, stock – based compensation, and rent and utilities. During the fourth quarter of 2017 increases of operating expenses due to realtor commissions as a result of subleasing office space, foreign exchange loss, and legal fees, were offset by re-allocation of approx. $174,000 from bad debt expense to revenue as a result of a settlement of a billing dispute discussed below.

The cash balance during 2017 decreased by $277,031 compared to a decrease of $766,660 during 2016. This was the result efficiency improvements in operations primarily related to salaries of staff which decreased by approximately $417,000 when compared to 2016. During the fourth quarter of 2017, the cash balance decreased by approximately $55,000.

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OVERVIEW OF THE BUSINESS

RSI International Systems Inc. is a provider of PMS software to the global hospitality industry, focusing on independent single-property, franchise, and multi-property hotels, and hotel management companies. 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 seamlessly integrate to complete the hotel's technology-set including operational back office interfaces, Revenue Management Systems ("RMS"), Customer Relationship Management Systems ("CRM"), marketing systems, accounting systems, GDS, Channel Management, loyalty, and payment processing.

Utilizing RoomKeyPMS as a platform, core RoomKeyPMS functionality along with key partner products provides a cloud-based PMS that can help drive increases in occupancy and average daily rate ("ADR") for the Company's clients.

The Company's wholly-owned subsidiary, Veratta Technologies (2011) Inc. ("Veratta") is currently a private company with no activity. 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 profitability by pursuing specific markets, and offering a core PMS feature-set combined with premium features that increase competitiveness and average deal size in the economy, midscale and boutique hotel market. Sales of the Company's PMS system also act 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 to 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. There is no guarantee that management's efforts in this regard will be successful. 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 2017 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 year and 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.

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Outlook

The Company sold 127 new PMS properties in 2017 compared to 122 in 2016. The new property sales during 2017 were of higher quality when compared to 2016 as they resulted in higher contracted revenue on a per sale basis. This higher contracted revenue is the result of contracting higher monthly rates per room for the Company's 2017 sales compared to the sales during the same period in 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 sales to continue at its current pace during 2018 through growth in PMS sales along with increased new feature sales, transactional, training, service, and partner revenues. However, any strengthening of the Canadian dollar when compared to its US counterpart may mitigate the effect of sales growth on the Company's revenue. Increasing competition and consolidation in the PMS market is also putting downward pressure on the prices per room the Company can charge per property. The Company continues to work on developing new feature sets and product offerings that it hopes will allow it to offset this trend, however to date, the Company has not been able to generate the velocity in its development that it had hoped.

In 2017, the Company was involved in a billing dispute with one of its largest customers representing approximately 5% of the hotels in its portfolio, and approximately $25,000 USD in monthly revenue. During negotiations of this dispute, the customer did not pay any of its invoices dated after April 2017 while the Company continued to provide services. On February 16, 2018, the Company announced that it had reached a settlement (the "Settlement Agreement") with this customer, the terms of which included forgiving all fees incurred from May 1, 2017 to May 15, 2018, reimbursing to the customer fees totalling $130,000 to be paid in installments over a 12 month period, and the Company ceasing to provide services to the customer beginning on May 16, 2018. The decision to settle was result of the Company concluding that although it felt its case was strong, the prospect of a protracted and time consuming litigation with uncertain consequences would not be in its best interest going forward. While hopeful it would retain this customer, the potential loss of revenue, if it were unsuccessful, was planned for by the Company in advance. The Company made, and will continue to make, restructuring and efficiency improvements in order to become free cash flow positive, and continuing to progress on bringing new incremental innovations and features to the marketplace.

In order to realize the Company's near term goal of being free cash flow positive, management continues to explore and implement cost rationalization strategies as well as ways to increase the velocity of its software development. One initiative the Company has completed is subleasing its office space in Vancouver and having its staff work virtually and in a co-working office. As a result, beginning in February 2018, all company liabilities related to office space began to be off-set and provided for by sub-leases. Going forward, the Company is planning to rent a smaller footprint office space to hold meetings, collaborate, and conduct company and customer events. The projected savings of this decision to reduce office space will likely be between approximately $25,000 and $30,000 per month and will begin to take effect in February 2018. Also, in order to mitigate the risk of any short-term cash management issues associated with potential currency fluctuations and timing of customer payments, the Company has entered into a line of credit agreement with its bank for up to $400,000. Details of this facility are described below. The Company may also require increased funding by issuing equity or establishing another type of debt vehicle. Management is constantly monitoring industry competition trends and exploring various options to increase its product development velocity, but there can be no assurance that the steps it takes will be successful.

The Company is focusing its resources on product development that will include enhanced product offerings, as well as maintain its current software. The intent of potentially building these enhancements is to potentially increase the Company's customer base and broaden its appeal globally while realizing economies of scale, in addition to creating new sales opportunities within the Company's current customer base. 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, and its goal of being cash flow positive. To date, progress on product development has been hampered by the demands of our largest customers, unplanned development due to our legacy product, and a fragmented customer base.

To alleviate migration and product development risk, the Company is applying a lean framework to build and release new features on an incremental basis. 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 mobile housekeeping, an enhanced credit card security platform, and a fuzzy-logic guest data management system named Profile, Match and Merge. The Company is currently also working on an enterprise data engine to drive inter-operability in the market. The Company will continue to deploy new features and pivot intelligently based on market and customer trends, and its available resources. The Company began the build of this new suite of technologies during the fourth quarter of 2015 and as of December 31, 2017, has spent $1,591,195 on their development.

Since 2012, the Company has focused on product development and maintenance, rebranding, digital demand generation, and sales 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 2017, and has incurred a net loss of $540,659 (2016 – $641,672) and an accumulated deficit as of December 31, 2017 of $5,567,104 (December 31, 2016 – $5,026,445).

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 will be 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, possible debt and equity financing options and divestiture of assets. 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, has replaced Mr. Ku as President and CEO.

Significant Financial Highlights for the Year Ended and Fourth Quarter of December 31, 2017

- The Company recorded revenue of $4,909,702 for the year ended December 31, 2017 compared to $4,982,079 for the year ended December 31, 2016; a decrease of 1%.

- The Company recorded revenue of $962,851 for the quarter ended December 31, 2017 compared to $1,284,257 for the quarter ended December 31, 2016; a decrease of 25%. The decrease is primarily the result of the Settlement Agreement.

- For the year ended December 31, 2017, revenue decreased by $72,377 (1%), cost of sales decreased by $1,433 (<1%) and expenses decreased by $171,956 (3%) when compared to the same year ended December 31, 2016.

- For the quarter ended December 31, 2017, revenue decreased by $321,406 (25%), cost of sales increased by $3,186 (2%) and expenses decreased by $50,769 (2%) when compared to the same quarter in 2016.

- The Company's Monthly Recurring Revenue (not adjusted for foreign exchange translation) for the year ended December 31, 2017 increased by 9% compared to an increase of 13% during 2016. During the fourth quarter of 2017 MRR increased by 1%.

- The percent of customers that renewed or did not cancel described as Customer Retention Rate, was 91% annualized in Q4 2017 compared to 92% in Q4 2016. For the year ended December 31, 2017, the Customer Retention Rate is 91% compared to 92% during 2016. The 2017 retention number does not reflect the result of the Settlement Agreement. Those cancellations as a result of that agreement will be reflected in 2018.

- The Company's net loss for the year ended December 31, 2017 was $540,659 compared to $641,672 net loss for the year ended December 31, 2016; a decrease in net loss of $101,013 (16%). During the fourth quarter of 2017, net loss was $437,315 compared to $163,491 for the same period in 2017; an increase of $273,824 or 167%.

- Operating expenses during the year ended December 31, 2017 totalled $4,674,740 compared to $4,846,696 during 2016. A decrease of $171,956 or 3%.

- Operating expenses, during the three-month period ended December 31, 2017 totalled $1,191,960 compared to $1,242,728 during the same period in 2016. A decrease of $50,769 or 4%.

- Foreign exchange loss during the year ended December 31, 2017 were reduced by $22,874; a reduction of 66%.

- Foreign exchange loss during the quarter ended December 31, 2017 totalled $39,226 compared to a gain of $4,039 during the same period in 2016.

- For the year ended December 31, 2017, the Company significantly decreased its spending on Business Development and Travel by $166,587 (60%) compared to the year ended December 31, 2016.

- For the quarter ended December 31, 2017, the Company decreased its spending on Business Development and Travel by $20,803 (55%) compared to the same quarter in 2016.

- For the year ended December 31, 2017, the Company increased its spending on Rent and Utilities by $176,842 (99%) compared to the year ended December 31, 2016.

- For the quarter ended December 31, 2017, the Company increased its spending on Rent and Utilities by $18,400 (38%) compared to the same quarter in 2016.

- Salaries and Benefits decreased in the year ended December 31, 2017 compared to the year ended December 31, 2016 by $417,037, or 13%.

- Salaries and Benefits slightly increased for the quarter ended December 31, 2017 compared to the same quarter in 2016 by $8,054, or 1%.

- As a result of the Settlement Agreement, there was an approximately a $174,000 re-allocation from bad debt expense to revenue during the fourth quarter of 2017 which led to the decrease in revenue during the fourth quarter of 2017 compared to the same period in 2016. The reduction in bad debt expense during the period partially offset the increase in legal and settlement fees incurred as a result of the same issue during the fourth quarter of 2017.

- Also as a result of the Settlement Agreement, the Company recorded $130,000 in Loss on settlement of contract that is payable in instalments beginning in March 2018 and ending early in 2019.

- EBITDA for the year ended December 31, 2017 was ($236,085) compared to EBITDA of ($379,432) for the year ended December 31, 2016, which is an improvement of 38% or $143,345.

- EBITDA for the quarter ended December 31, 2017 was ($347,432) compared to EBITDA of ($75,085) for the same quarter in 2016, which was negative by 363% or $272,347.

Please refer to the following section for further explanations.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Summarized Consolidated Financial Results Years ended December 31,	2017	2016	% Change
Revenues	$ 4,909,702	$ 4,982,079	(1)
EBITDA	(236,085)	(379,432)	38
Interests and bank charges	(57,683)	(44,478)	30
Depreciation	(40,356)	(36,426)	11
Amortization of deferred development	(206,535)	(181,336)	14
Net loss for the year	(540,659)	(641,672)	16
Basic and diluted loss per share	$ (0.01)	$ (0.02)	

Three Months Ended December 31, 2017 Compared to Three Months Ended December 31, 2016

Summarized Consolidated Financial Results Three Months ended December 31,	2017	2016	% Change
Revenues	$ 982,851	$ 1,284,257	(23)
EBITDA	(347,432)	(75,085)	(363)

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Interests and bank charges	(17,398)	(10,598)	64
Depreciation	(9,325)	(10,454)	(11)
Amortization of deferred development	(63,160)	(67,354)	(6)
Net loss for the period	(437,315)	(163,491)	(167)
Basic and diluted loss per share	$ (0.01)	$ (0.00)	

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, 2017, while revenue was relatively flat, the Company incurred lower expenses compared to the year ended December 31, 2016. Office, business development and travel, and salaries and benefits decreased significantly, while rent and utilities, amortization of deferred development costs, stock based compensation, marketing, and bad debt expense increased during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Year to Date 2017 Results

Summarized Consolidated Financial Results Years ended December 31,	2017	2016	% Change
Revenues	$ 4,909,702	$ 4,982,079	(1)
Cost of goods sold	775,621	777,055	0
Gross Margin	4,134,081	4,205,024	(2)
Expenses			
Stock-based compensation	121,699	-	n/a
Operating costs	1,401,054	1,153,566	21
Foreign exchange (gains) loss	11,615	34,489	(66)
Business development & travel	111,982	278,569	(60)
Marketing	295,676	230,321	28
Salaries and benefits	2,732,714	3,149,751	(13)
Total Expenses	4,674,740	4,846,696	(3)
EBITDA	(236,085)	(379,432)	38
Interests and bank charges	(57,683)	(44,478)	30
Depreciation	(40,356)	(36,426)	11
Amortization of deferred development	(206,535)	(181,336)	14
Loss from operations	$ (540,659)	$ (641,672)	16

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, 2017 decreased by 1% compared to year ended December 31, 2016. Although the Company added 54 net new properties in 2017, the effects of the Settlement Agreement and the decreasing value of the U.S. dollar compared to its Canadian counterpart offset the additional revenue gained by the new sales. Net new properties is the difference between new properties added and properties which cancelled. The Customer Retention Rate of the Company is 91% for the year ended December 31, 2017.

Cost of Sales

Cost of sales in the year ended December 31, 2017 decreased by less than 1% compared to the year ended December 31, 2016.

Stock-based Compensation

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. In September 2017, the Company cancelled an additional 350,000 options valued at $0.12 and expiring on May 27, 2019.

On November 15, 2017, the Company granted to one of its managers 50,000 stock options 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.

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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	November 15, 2017 Grant
Risk-free interest rate	0.99%	1.58%
Expected life of warrants in years	5 years	5 years
Expected volatility	105.50%	92.56%
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

During the year ended December 31, 2017, stock-based compensation expense of $121,699 (2016 – $nil) was recognized.

Operating Costs

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

Operating costs in the year ended December 31, 2017 increased by $247,488 or 21% when compared to the year ended December 31, 2016. The primary reasons for this increase were:

- Increase in interest and bank charges
  Interest and bank charges in the year ended December 31, 2017 increased by $13,205 (30%) compared to the year ended December 31, 2016 due to increased volume in credit card transactions and the Company switching its main banking relationship.

- Increase in loss on settlement of contract
  As a result of the Settlement Agreement, the Company recorded $130,000 in loss on settlement of contract that is payable in instalments beginning in March 2018 and ending early in 2019.

- Increase in rent and utilities
  Rent and utilities in the year ended December 31, 2017 increased by $176,842 (99%) compared to the year ended December 31, 2016, due to higher rent and operating costs after the Company moved to a larger office space during the second half of 2016. In Q4 2017 the Company reached an agreement to sublet the office it was residing in. As a result, all Company office lease liabilities will be covered by payments from sub-leases beginning in February 2018.

- Decrease in bad debt
  Bad debts expense during the year ended December 31, 2017 totaled $25,154 compared to a recovery of $4,079 during 2016.

- Increase in amortization of deferred development
  Amortization of deferred development costs during 2017 increased by $25,199 (14%)

compared to 2016, primarily due to the general release to the market of two brand new modules relating to the new RoomKeyPMS suite of technologies in middle of 2016 and during the fourth quarter of 2017.

Foreign Exchange Gains (Loss)

The foreign exchange loss during the year ended December 31, 2017 decreased by $22,874 (66%) compared to 2016, which reflects the impact of translation of US denominated monetary items such as cash, accounts receivable, deferred revenue, and accounts payable and accrued liabilities. A significant portion of RSI's accounts receivable and deferred revenue are denominated in US dollars and are affected by the exchange rate of the US dollar versus the Canadian dollar.

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 $417,037 (13%) in the year ended December 31, 2017 compared to 2016. The Company initiated a significant salary restructuring plan late in 2016 and during the early part of 2017. This restructuring plan included staffing cuts and salary reductions. As well, a portion of salaries are being capitalized to deferred development costs as they relate to the development of the new RoomKey PMS suite of technologies.

Marketing

For the year ended December 31, 2017, marketing costs were $65,355 (28%) higher compared to 2016, which was primarily related to an increase in lead generation costs and increased focus on digital marketing during 2017. The Company's marketing activities during the first half of 2016 were in transition and resulted in the lower costs during that period.

Business Development and Travel

Business development and travel for the year ended December 31, 2017 decreased by $166,587 (60%) compared to the previous year, During the first six months of 2016, visits to a significant portion of the Company's largest customers and various trade shows were undertaken to introduce its new VP of Sales and Marketing. As well, 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 future RoomKeyPMS products and features. The Company's conscious reduction in business travel and development costs enabled it to increase its marketing spend. This has proven effective in increasing the number of leads coming into the Company as well as their quality.

Q4 2017 Results

Summarized Consolidated Financial Results Three months ended December 31,	2017	2016	% Change
Revenues	$ 962,851	$ 1,284,257	(25)
Cost of goods sold	208,207	205,021	2
Gross Margin	754,645	1,079,236	(30)
Expenses			
Stock-based compensation	20,988	-	n/a
Operating costs	323,554	420,814	(23)
Foreign exchange loss(gain)	39,226	(4,039)	1,071
Business development & travel	17,245	38,048	(55)
Marketing	63,426	68,437	(7)
Salaries and benefits	727,521	719,467	1
Total Expenses	1,191,960	1,242,727	(4)
EBITDA	(347,432)	(75,085)	(363)
Interests and bank charges	(17,398)	(10,598)	64
Depreciation	(9,325)	(10,454)	(11)
Amortization of deferred development costs	(63,160)	(67,354)	(6)
Loss from operations	$ (437,315)	$ (163,491)	(167)

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.

Although the Company added 18 net new properties during the fourth quarter of 2017, revenue for Q4 2017 decreased by 23% compared to Q4 2016. This was primarily the result of the loss of revenue for the fourth quarter and the re-allocation from bad debt expense to revenue of disputed billings that resulted from the Settlement Agreement.

Cost of Sales

Cost of sales in Q4 2017 increased by $3,186 or 2% compared to the same period in 2016.

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Stock-based Compensation

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. In September 2017, the Company cancelled an additional 350,000 options valued at $0.12 and expiring on May 27, 2019.

On November 15, 2017, the Company granted to one of its managers 50,000 stock options 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.

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	November 15, 2017 Grant
Risk-free interest rate	0.99%	1.58%
Expected life of warrants in years	5 years	5 years
Expected volatility	105.50%	92.56%
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

During the Q4 2017, stock-based compensation expense of $20,988(Q4 2016 – $nil) was recognized.

Operating Costs

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

Operating costs for Q4 2017 decreased by $97,261 or 23% when compared to Q4 2016. The primary reasons for this decrease were:

- Bad debt recovery
  As a result of the Settlement Agreement, billings between May 1, 2017 and September 30, 2017, totalling approximately $174,000, were re-allocated from bad debt expense to revenue. This resulted in the recording of a large bad debt recovery and reduction in revenue during the fourth quarter of 2017.

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- As a result of the Settlement Agreement, the Company recorded $130,000 in loss on settlement of contract that is payable in instalments beginning in March 2018 and ending early in 2019.

- Increase in office and miscellaneous
  Office and miscellaneous costs increased by $37,055 (52%) during Q4 2017 when compared to the same period in 2016, primarily the result of realtor commissions paid to complete the subleasing of the Company's office space

- Increase in interest and bank charges
  Interest and bank charges in Q4 2017 increased by $6,800 (64%) compared to Q4 2016 as the Company was transitioning to a new bank to handle its banking needs.

- Increase in rent and utilities
  Rent and utilities in Q4 2017 increased by $18,400 (38%) compared to Q4 2016, due to higher rent and operating costs in the new office space the Company moved into in the second half of 2016. The office has since been subleased and beginning in February 2018, the Company began fully recovering all its costs relating to the office space.

- Decrease in professional fees
  Professional fees in Q4 2017 decreased by $105,495 (65%) compared to Q4 2016 as a result of the elimination of the VP Gaming position in early 2017.

- Amortization of Deferred Development Costs
  Amortization of Deferred Development Costs for Q4 2017 decreased by $4,194 (6%) compared to the previous year, primarily the result of development on the old RoomKeyPMS platform being now fully amortized.

Foreign Exchange Gain

The foreign exchange loss in Q4 2017 totalled $39,226. This is compared to a foreign exchange gain totaling $4,039 during Q4 2016. This reflects the impact of translation of US denominated monetary items such as cash, accounts receivable, deferred revenue, and accounts payable and accrued liabilities. A significant portion of RSI's accounts receivable and deferred revenue are denominated in US dollars and are affected by the exchange rate of the US dollar versus the Canadian dollar.

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 increased by only $8,054 (1%) in Q4 2017 compared to Q4 2016. The slight increase was a result of the Company's development team focusing more of its time on current

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product issues rather than the build of the new suite of technologies during the fourth quarter of 2017. As a result more of their time was recorded to salaries and benefits rather than deferred development costs. This increase was mostly offset by less staff being on payroll than was in the case in Q4 2016.

Marketing

For Q4 2017, marketing costs were $5,011 (7%) lower compared to Q4 2016, primarily related to a decrease in lead generation costs.

Business Development and Travel

Business development and travel for Q4 2017 decreased by $20,803 (55%) compared to the same period in the previous year due the Company's conscious reduction in business travel and development costs, in order to increase its marketing spend. This has proved effective in increasing the number of leads coming into the Company as well as their quality.

LIQUIDITY AND CAPITAL RESOURCES

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

As at December 31,	2017	2016
	$	$
Cash	101,736	378,767

For the years ended December 31,	2017	2016
Net cash provided by (used in) operating activities	115,798	(426,067)
Net cash provided by financing activities	162,489	525,624
Net cash used in investing activities	(555,318)	(866,217)

Net Cash Provided by (Used in) Operating Activities

Cash flow from operating activities resulted in a source of cash of $115,798 in the year ended December 31, 2017 compared to a use of cash $426,067 in 2016. Net loss in the year ended December 31, 2016 was $540,659 compared to $641,672 net loss in 2016. The change in non-cash operating assets and liabilities resulted in a $262,713 cash inflow in the year ended December 31, 2017, compared to $7,078 cash outflow in 2016.

The cash inflow of $262,713 from non-cash operating assets and liabilities was primarily attributable to an increase of accounts payable and accrued liabilities of $208,163, of which $130,000 related to the Settlement Agreement, and a decrease of $82,941 in accounts receivable. These were partially offset by a decrease in deferred revenue of $4,207, a decrease in GST payable of $3,161, and an increase in prepaid expenses of $21,023 primarily related to PCI compliance audit.

Net Cash from Financing Activities

Financing activities for 2017 resulted in a source of cash of $162,489 compared to source of cash of $525,624 in 2016. The cash from financing activities in 2017 was related to the exercise of stock options ($75,500) and the collection of a security deposit resulting from the subleasing of the Company's office space ($86,989). The cash received in 2016 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 2017 investing activities resulted in a use of $555,318 compared to a use of $866,217 in 2016. Of the amount spent during the year ended December 31, 2017, $551,183 (2016 - $797,161) was spent relating to the development of a new RoomKeyPMS suite of technologies.

As at December 31, 2017, the Company has a working capital deficiency of $700,492. This is compared to negative working capital as at December 31, 2016 of $145,681. Of the working capital deficiency as at December 31, 2017 $476,942 relates to deferred revenue and $130,000 in accounts payable and accrued liabilities relates to the Settlement Agreement. The amount relating to the Settlement Agreement will be paid out in monthly installments ending in February 2019.

In October 2017 the Company negotiated a line of credit arrangement with its bank for up to $400,000. The interest charged will be prime + 5.93%. The Company is required to maintain monthly recurring revenue of not less than $200,000 calculated on a rolling three month average and maintain on a consolidated basis net invested capital of $1.8 million with net invested capital being defined as share capital. The Company may borrow, repay and re-borrow up to the amount of the facility provided the facility is made available at the sole discretion of the Bank and the Bank may cancel or restrict the availability of any unutilized portion at any time and from time to time without notice.

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Throughout 2017 the Company initiated executed significant cost reduction programs mostly made up of staff and outside consulting rationalization as well as discretionary spending reductions which, coupled with increased sales, significantly reduced its cash outflow in 2017 compared to 2016. However, Management recognizes the Company will need to rectify its working capital situation and may need to expand its cash reserves during 2018. The Company continues to evaluate its potential sources of funds, including: increased revenue from sale of its products and services, possible debt and equity financing options, and divestiture of assets. 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:

	2017			
	Q4	Q3	Q2	Q1
Revenues	$962,851	$1,301,156	$ 1,320,734	$ 1,324,961
EBITDA	(347,432)	4,000	91,350	15,997
Interests and bank charges	(17,398)	(12,165)	(10,322)	(17,798)
Depreciation	(9,325)	(9,886)	(9,967)	(11,178)
Amortization & write-downs	(63,160)	(32,438)	(54,711)	(56,226)
Net loss for the quarter	(437,315)	(50,489)	16,350	(69,205)
Basic and diluted earnings (loss) per share	(0.01)	(0.00)	$ 0.00	$ (0.00)

	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
Interests and bank charges	(10,598)	(8,952)	(14,299)	(10,629)
Depreciation	(10,454)	(12,175)	(7,841)	(5,956)
Amortization & write-downs	(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

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 2017, 2016 and 2015 has been derived from the consolidated financial statements.

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Years ended December 31,	2017	2016	2015
Revenues	$ 4,909,702	$ 4,982,079	$ 4,492,422
Net loss for the year	(540,659)	(641,672)	(207,735)
Basic and diluted loss per share	(0.01)	(0.02)	(0.01)
Total assets	1,730,124	1,785,801	1,931,194
Total current liabilities	1,009,826	809,031	838,376
Total non-current liabilities	$ 97,729	$ 10,741	$ Nil

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.

In October 2017 the Company negotiated a line of credit arrangement with its bank for up to $400,000. The interest charged will be prime + 5.93%. The Company is required to maintain monthly recurring revenue of not less than $200,000 calculated on a rolling three month average and maintain on a consolidated basis net invested capital of $1.8 million with net invested capital being defined as share capital. The Company may borrow, repay and re-borrow up to the amount of the facility provided the facility is made available at the sole discretion of the Bank and the Bank may cancel or restrict the availability of any unutilized portion at any time and from time to time without notice.

Other than the line of credit arrangement noted above, the Company is not subject to externally imposed capital requirements as at December 31, 2017.

OUTSTANDING SHARE DATA

As at April 18, 2018, there were 36,685,278 common shares, 1,775,000 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 condensed consolidated interim financial statements are as follows:

1. Director fee of $nil (2016 – $12,000) was paid to a director of the Company.
2. Salaries and employee benefits of $555,878 (2016 – $737,427) were paid to key management personnel.
3. The Company paid remuneration for management services to a company controlled by a director in common totaling $64,800 (2016 - $49,200).
4. The company granted 1,425,000 stock options to its officers, manager and directors (2016 – Nil).

Included in accounts payable and accrued liabilities is $nil (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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Included in our 2017 annual consolidated financial statements, as well as in our 2017 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.

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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.

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 will adopt IFRS 15 effective January 1, 2018 applying the retrospective method of transition. Based on the Company's preliminary assessment, the adoption of this standard will not 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

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, has replaced Mr. Ku as President and CEO.

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On September 26, 2017, the Company reported that Jason Moreau had resigned from the Company's Board of Directors as a result of other professional obligations.

RISKS AND UNCERTAINTIES

As operating in the technology industry inherently involves a certain level of risk and uncertainty, management continually improves and adapts the Company's risk mitigation strategies. 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 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. The Company's 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, as well as development resources. In addition, new entrants and established companies continue 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

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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 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.

The hospitality technology industry is fast paced and continuously evolving as a function of both technology improvements and industry dynamics.

We cannot be sure we will be able to identify market trends, enhance our existing technologies or develop new technologies in order to effectively compete in the PMS software industry. To succeed, we must be able to enhance our existing technologies and develop new technologies and products to meet market requirements and preferences. To drive sales and retain customers, our products must meet the needs of users and be competitively priced to warrant sufficient interest in and demand for our products. If we do not develop these new technologies and products in a timely and cost effective manner, or if others develop new technologies ahead of us, we may not achieve profitability in the PMS software industry and may not be able to participate in selling these new technologies or products.

Employee Turnover

Highly skilled technical employees and management in the software industry are in demand and the market for such persons is highly competitive. We cannot be sure that we will be able to retain such employees or hire replacements. If we do not successfully retain key personnel or hire and train replacements, we will be unable to develop the new products and technologies necessary to compete in our markets or to effectively manage our business.

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, 2017, there is $36,498 (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.

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 -/+ $1,531 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.

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

As at December 31, 2017, the Company had total debt in the amount of $530,310 due within 12 months (2016- $322,147). As at December 31, 2017, the Company held cash of $101,736 (2016- $378,767) and accounts receivable of $114,718 (2016- $222,813).

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, 2017, five customers (2016 – five customers) accounted for approximately 15% (2016 – 25%) of the Company's revenue. For the year ended December 31, 2017, one customer (2016 – one customer) accounted for a total of 7% (2016 – 53%) of the Company's accounts receivable.

As at December 31, 2017, the Company has a working capital deficiency of $700,492. This is compared to negative working capital as at December 31, 2016 of $145,681. Of the working capital deficiency as at December 31, 2017 $476,942 relates to deferred revenue and $130,000 in accounts payable and accrued liabilities relates to the Settlement Agreement. The amount relating to the Settlement Agreement will be paid out in monthly installments ending in February 2019.

In October 2017 the Company negotiated a line of credit arrangement with its bank for up to $400,000. The interest charged will be prime + 5.93%. The Company is required to maintain monthly recurring revenue of not less than $200,000 calculated on a rolling three month average and maintain on a consolidated basis net invested capital of $1.8 million with net invested capital being defined as share capital. The Company may borrow, repay and re-borrow up to the amount of the facility provided the facility is made available at the sole discretion of the Bank and the Bank may cancel or restrict the availability of any unutilized portion at any time and from time to time without notice.

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, possible debt and equity financing options, and the divestiture of assets. 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, 2017. 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, 2017 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, 2017.

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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

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