

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 May 17, 2018 and relates to the financial condition and results of operations for the three months ended March 31, 2018 and 2017. 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 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.

Q1 2018 Highlights

- The Company recorded customer revenue of \$1,174,068 in Q1 2018 compared to \$1,324,961 for Q1 2017; a decrease of 11%.
- The Company's net loss for Q1 2018 was \$151,853, compared to \$69,206 for Q1 2017; an increase of \$82,647 or 119%.
- EBITDA for Q1 2018 was (\$95,298) compared to EBITDA of \$15,996 for Q1 2017, which is a decrease of \$111,294 or 696%.
- For Q1 2018, total operating expenses decreased by 9% while cost of sales increased by 20% when compared to Q1 2017.
- The Company's Customer Retention Rate, or percent of customers that renew or don't cancel annually, decreased to 87% in Q1 2018 from 92% in Q1 2017. Not including the cancellations as a result of the Settlement Agreement discussed below, the retention rate was 89% for Q1 2018.

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 Monthly Recurring Revenue. 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.

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 recurring 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.

RoomKey sold 33 new PMS properties in Q1 2018 compared to 41 new properties in Q1 2017, a decrease of 20%. Neither the average size of hotel, nor the average monthly revenue from each new hotel was materially different from the sales completed in Q1 2017. Net properties added (new properties sold minus cancellations) totaled 5 during Q1 2018 compared to 21 during Q1 2017, when including the properties lost as a result of the Settlement Agreement. Not including the cancellations for the Settlement Agreement, net new properties during Q1 2018 were 11.

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) decreased 5% in Q1 2018 compared to the end of December 2017. Excluding cancellations as result of the Settlement Agreement, MRR increased by 2% compared to the end of December 31, 2017. RSI's annualized Customer Retention Rates for the three months ended on March 31, 2018 was 87% (89% if the cancelations from the Settlement Agreement are excluded), compared to 92% for the same period in 2017.

Operating expenses for Q1 2018, compared to the same period in 2017, decreased by \$108,174. The decrease for the period is mostly due reductions in rent and utilities expense totaling \$64,709 as a result of subleasing the Company's office space in February 2018. As well, other significant decreases were in business travel and marketing, professional fees, amortization of development costs, foreign exchange loss, and stock based compensation. These savings were partially offset by increases in salaries and benefits recorded. This increase in salaries and benefits was not the result of increased staff or raises, but rather the result of the salaries of the Company's development

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group being expensed rather than capitalized given the majority of their work performed in Q1 2018 related to maintenance of the Company's existing software rather than new development.

The cash balance during first quarter of 2018 decreased by \$105,653 compared to a decrease of \$32,678 during the same period in 2017. This decrease was primarily the result of revenue lost due to the Settlement Agreement, and the weakening of the US dollar compared to its Canadian counterpart. This decrease was partially offset by expense reductions discussed above, as well as the Company utilizing its line of credit facility. The Company continues to search for efficiency improvements in its operations while at the same time increase its revenue growth trajectory. There can be no assurance that the steps Management takes to achieve these goals will be successful.

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 may help 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 and debt 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

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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 Interest, 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) interest 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 33 new PMS properties in Q1 2018 compared to 41 in Q1 2017. 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. The decrease in new properties sold is primarily the result of the Company not contracting any multi property hotel chains in Q1 2018 as they had in Q4 2016 and Q1 2017. As well the Company continues to face increased competition in the market which is putting downward pressures on sales. Management expects revenue to be relatively flat for 2018 when compared to 2017 as it tries to make up for the revenue lost as a result of the Settlement Agreement. Competitive pressures are also having an effect on the Company's retention rate as of the end of Q1 2018. The Company's retention rate decreased by 5 percentage points, from 92% to 87%, during the first quarter of 2018 compared to the same period in 2017, when including the properties lost due to the Settlement Agreement. Excluding the cancellations as a result of the Settlement Agreement, the decrease in retention rate was 3 percentage points. The Company's average revenue per month on its new property sales for the three month period ended March 31, 2018 was comparable to the same period in 2017. The Company continues to work on developing new feature sets and product offerings that it hopes will allow it to reduce the effects of these competitive pressures, however to date, the Company has not been able to generate the velocity in its development that it had hoped.

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 began 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, in 2017, 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 acquire increased funding by issuing equity, establishing another type of debt vehicle, or asset divestiture. 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 currently focusing its product development team on upgrading its current software and meeting current customer demands. As well, it continues to allocate some resources on new product development that will include enhanced product offerings. The intent of potentially building these enhancements is to perhaps 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 new product development has been hampered by the demands of our largest customers, unplanned development due to our legacy product, and a fragmented customer base.

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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 March 31, 2018, has spent \$1,619,049 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 the three month period ended March 31, 2018 and has incurred a net loss of \$151,853 (March 31, 2017 – \$69,206) and an accumulated deficit as of December 31, 2017 of \$5,718,957 (December 31, 2017 – \$5,567,104).

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.

Significant Financial Highlights for the Three Months Ended March 31, 2018

- The Company recorded revenue of \$1,324,961 for Q1 2018 compared to \$1,174,068 for Q1 2017; a decrease of 11%. This is a result of the Settlement Agreement, the decrease in the value of the US dollar compared to its Canadian counterpart, and a decrease in sales growth.
- For Q1 2018, revenue decreased by \$150,893 (11%), cost of sales increased by \$39,928 (20%) and operating expenses decreased by \$108,174 (9%) when compared to the same period in 2017.
- The Company's Monthly Recurring Revenue decreased by 5% for Q1 2018 compared to the end of 2017. This was primarily the result of the Settlement Agreement. Not including the results of the Settlement Agreement, Monthly Recurring Revenue increased by 2% when compared to the end of 2017.
- The percent of customers that renewed or did not cancel described as Customer Retention Rate, was 87% in Q1 2018 compared to 92% in Q1 2017. Not including cancelations related to the

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Settlement Agreement, Customer Retention Rate is 89% for Q1 2018.

- The Company's net loss for Q1 2018 was \$151,853 compared to \$69,206 net loss for Q1 2017; an increase in net loss of \$82,647 (119%).
- Operating expenses during Q1 2018 totalled \$1,089,582 compared to \$1,197,756 during the same period in 2017. A decrease of \$108,174 or 9%.
- For Q1 2018, the Company decreased its spending on Business Development and Travel by \$15,922 (78%) compared to Q1 2017. The Company continues to streamline and evaluate discretionary costs.
- During Q1 2018, Company decreased its spending on Marketing by \$15,771 (18%) compared to Q1 2017. The Company continues to streamline and evaluate discretionary costs.
- For Q1 2018, the Company decreased its spending on Rent and Utilities by \$64,709 (67%) compared to Q1 2017. The Company subleased its office space and began working from virtual offices in December 2017. The cost savings of this decision began in February 2018.
- Professional fees decreased by \$29,321(34%) during the first quarter of 2018 compared to the same period in in 2017 as the Company is using fewer outside consultants in the areas of accounting, IT, and corporate development.
- Salaries and Benefits increased in Q1 2018 compared to the Q1 2017 by \$109,057, or 16%. This is the result of certain salaries of the Company's development group being expensed in Q1 2018 compared to being capitalized in Q1 2017 as the majority of the work, beginning in Q4 2017, has been shifted from new development to maintenance and upkeep of the current software and its infrastructure.
- EBITDA for Q1 2018 was (\$95,298) compared to EBITDA of \$15,996 for Q1 2017, which is a decrease of \$111,294 or 696%.

Please refer to the following section for further explanations.

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Summarized Consolidated Financial Results			
Three Months ended March 31,	2018	2017	% Change
Revenues	\$ 1,174,068	\$ 1,342,961	(11)
EBITDA	(95,298)	15,996	(696)
Interests and bank charges	(13,051)	(17,798)	(27)
Depreciation	(10,778)	(11,178)	(4)
Amortization of deferred development	(32,726)	(56,226)	(42)
Net loss for the period	(151,853)	(69,206)	(119)

Basic and diluted loss per share	\$	(0.00)	\$	(0.00)
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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.

In the first three months of 2018, Revenue decreases and salaries and benefits and cost of sales increases were partially offset by reductions in all other expenses except for bad debt.

Summarized Consolidated Financial Results			
Three Months ended March 31,	2018	2017	% Change
Revenues	\$ 1,174,068	\$ 1,324,961	(11)
Cost of goods sold	236,339	196,411	20
Gross Margin	937,729	1,128,550	(17)
Expenses			
Operating costs	192,189	328,147	(41)
Stock-based compensation	11,155	50,356	(78)
Foreign exchange (gains) loss	244	10,623	(98)
Business development & travel	4,574	20,496	(78)
Marketing	74,116	89,887	(18)
Salaries and benefits	807,304	698,247	16
Total Expenses	1,089,582	1,197,756	(9)
EBITDA	(95,298)	15,996	(696)
Interests and bank charges	(13,051)	(17,798)	(27)
Depreciation	(10,778)	(11,178)	(4)
Amortization of deferred development	(32,726)	(56,226)	(42)
Loss from operations	\$ (151,853)	\$ (69,206)	(119)

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 Q1 2018 decreased by 11% compared to Q1 2017. The decrease was the result of the Settlement Agreement, the decrease in value of the US dollar compared to its Canadian counterpart, and the slower rate of customer growth than in previous years. The Company has added net 5 net new properties during the period. Net new properties is the difference between new

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properties added and properties which cancelled. The Customer Retention Rate of the Company is 87% for Q1 2018 (89% not including the properties lost as a result of the Settlement Agreement).

Cost of Sales

Cost of sales for Q1 2018 increased by \$39,928 or 20% compared to the same period in 2017. The Company had to increase its cost of infrastructure to better the performance of its servers and satisfy customer requests.

Operating Costs

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

Operating costs in Q1 2018 decreased by \$135,958 or 41% when compared to the same period in 2017. The primary reasons for this increase were:

- **Decrease in interest and bank charges**
Interest and bank charges in Q1 2018 decreased by \$4,747 (27%) compared to the same period in 2017 due to lower volume of credit card transactions.
- **Decrease in rent and utilities**
Rent and utilities in Q1 2018 decreased \$64,709 (67%) compared to the same period in 2017, due the Company subleasing its office space and working from virtual offices.
- **Decrease in professional fees**
Professional fees in Q1 2018 decreased \$29,321 (34%) compared to the same period in 2017 as a result of the reduction of consultants in the areas of accounting, IT, and corporate development.
- **Decrease in internet and networking**
Internet and networking costs decreased by \$6,832 (51%) during Q1 2018 compared to the same period in 2017 primarily the result of the Company now working from virtual offices.
- **Increase in bad debt**
There was an increase in bad debt expense during Q1 2018 by \$10,291 when compared to the same period in 2017. This is as a result of a larger number of customers being in arrears as the Company's customer base is being increasingly made up of smaller independent hotels rather than larger chain hotels. The Company is continuing to make a concerted effort to reach out to late paying customers earlier than in the past to potentially offset this trend.
- **Decrease in office and miscellaneous**
Office and miscellaneous costs decreased by \$8,523 (39%) in Q1 2018 compared to the same period in 2017 mainly as a result of the Company subleasing its office space to move to virtual offices and a decrease in executive travel.
- **Decrease in amortization of deferred development**
Amortization of deferred development costs for Q1 2018 decreased by \$23,500 (42%) compared to the same period in 2017, primarily due to a re-allocation within deferred

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development costs in Q4 2017 which resulted in a reduction in the costs available for amortization.

Stock-based Compensation

On January 23, 2017, the Company 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 of grant, and 1/3 on the second year anniversary of grant.

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.

As a result of these grants, during Q1 2018 the Company recorded stock-based compensation totaling \$11,155 (March 31, 2017 - \$50,356).

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%

Foreign Exchange Loss

The foreign exchange loss in Q1 2018 decreased by \$10,379 (98%) compared to the same period in 2017, 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.

Salaries & Benefits

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

Salaries and benefits increased by \$109,057 (16%) in Q1 2018 compared to the same period in 2017. The increase is due to the Company's development team salaries primarily being expensed rather than capitalized during the first quarter of 2018. Development work during the first quarter of 2018 focused on the maintenance and upgrading the current product offering rather than new development which was the focus during the first quarter of 2017. No additional headcount were added during Q1 2018.

Marketing

For Q1 2018, marketing costs were \$15,771 (18%) lower compared to the same period 2017, which was primarily related to a decrease in lead generation costs during the first three months of 2018. The Company's marketing activities continue to focus on digital marketing.

Business Development and Travel

Business development and travel for Q1 2018 decreased by \$15,922 (78%) compared to the same period in previous year. The Company continues to make careful choices regarding discretionary spending with thorough cost/benefit analysis before any business development or travel spending is initiated.

LIQUIDITY AND CAPITAL RESOURCES

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

As at March 31,	2018	2017
	\$	\$
Cash	(3,917)	346,089
For the three months ended March 31,	2018	2017
Net cash (used in) provided by operating activities	(93,803)	68,105
Net cash provided by financing activities	16,004	57,500
Net cash used in investing activities	(27,854)	(158,283)

Net Cash Provided by (Used in) Operating Activities

Cash flow from operating activities resulted in a use of cash of \$93,803 in Q1 2018 compared to a source of cash of \$68,105 in Q1 2017. Net loss in Q1 2018 was \$151,853 compared to \$69,206 net loss in Q1 2017. The change in non-cash operating assets and liabilities resulted in a \$6,900 cash outflow in Q1 2018, compared to \$19,551 cash inflow in Q1 2017.

The cash outflow of \$6,900 from non-cash operating assets and liabilities during Q1 2018 was mainly attributable to an increase in accounts receivable of \$36,405 and a decrease in accounts payable and accrued liabilities of \$8,760, partially offset by a decrease in prepaid expenses of \$30,659, and increase in GST payable of \$2,306, and an increase in deferred revenue of \$5,300.

The cash inflow of \$19,551 from non-cash operating assets and liabilities during Q1 2017 was mainly attributable to an increase in accounts payable and accrued liabilities of \$19,083, an increase in deferred revenue of \$26,224, and a decrease of prepaid expenses of \$15,576. These cash inflows were partially offset by a decrease in GST payable of \$3,816 and an increase in accounts receivable of \$37,516.

Net Cash from Financing Activities

Financing activities for Q1 2018 resulted in a cash inflow of \$16,004. This was made up of a reduction in cash as a result of a reclassification of security deposit from long term to short term totaling \$28,996. This reclassification resulted in an increase accounts payable and accrued liabilities in Operating activities. As well the Company utilized its line of credit facility during Q1 2018 and received a cash inflow of \$45,000.

Financing activities for Q1 2017 resulted in a cash inflow of \$57,500. The cash from financing activities was attributable from the issuance of shares upon exercise of 575,000 stock options

Net Cash Used in Investing Activities

Investing activities for the Company are impacted by acquisitions of equipment and deferred development costs. In Q1 2018, investing activities resulted in a use of \$27,854, spent on the development of new technologies, compared to a use of \$158,283 in Q1 2017. The focus of the work performed by the Company's development team during the first quarter of 2018 was on current product maintenance and upkeep rather than new development as was the case during Q1 2017. As a result, during Q1 2018, the majority of development salaries were expensed rather than capitalized for accounting purposes.

As at March 31, 2018, the Company has a working capital deficiency of \$854,536. This is compared to a working capital deficiency as at December 31, 2017 of \$700,492. Included in the working capital deficiency as at March 31, 2018, \$482,242 relates to deferred revenue and \$110,000 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. As of March 31, 2018, the Company has utilized \$45,000 (December 31, 2017 - \$nil) of the facility.

Throughout 2017 and into 2018 the Company 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, has significantly reduced its cash outflow when compared to 2016. However, Management recognizes that more work needs to be done 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:

	2018			
	Q4	Q3	Q2	Q1
Revenues				\$ 1,174,068
EBITDA				(95,298)
Interests and bank charges				(13,051)
Depreciation				(10,778)
Amortization & write-downs				(32,726)
Net loss for the quarter				(151,853)
Basic and diluted loss per share				\$ (0.00)

	2017			
	Q4	Q3	Q2	Q1
Revenues	\$962,851	\$1,301,156	\$ 1,320,734	\$ 1,324,961
EBITDA	(347,432)	4,000	91,350	15,996
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) income for the quarter	(437,315)	(50,489)	16,350	(69,206)

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Basic and diluted (loss) earnings 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)

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 2018, 2017 and 2016 has been derived from the consolidated financial statements.

Quarter ended March 31,	2018	2017	2016
Revenues	\$ 1,174,068	\$ 1,324,961	\$ 1,226,115
Net loss for the quarter	(151,853)	(69,206)	(20,220)
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)
Total assets	1,604,276	1,865,942	1,897,897
Total current liabilities	1,053,672	850,522	825,299
Total non-current liabilities	\$ 68,733	\$ 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 Unit 8152, 200-375 Water Street, Vancouver, BC, V6B 0M9
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\$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 March 31, 2018.

OUTSTANDING SHARE DATA

As at May 17, 2018, there were 36,835,278 common shares, 1,100,000 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. Salaries and employee benefits of \$122,116 (March 31, 2017 – \$165,271) were paid to key management personnel.
2. The Company paid remuneration for management services to a company controlled by a director in common totaling \$nil (March 31, 2017 - \$18,400).
3. The company granted nil (March 31, 2017- 1,375,000) stock options to its officers, manager and directors.

Included in accounts payable and accrued liabilities is \$nil (March 31, 2017 – \$2,797) 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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed, and therefore these condensed consolidated interim financial statements should be read in conjunction with the December 31, 2017 audited annual consolidated financial statements and the notes.

These unaudited condensed consolidated interim financial statements are based on the IFRS effective as of May 17, 2018, the date these unaudited condensed consolidated interim financial statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy disclosed below:

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.

The Company adopted IFRS 15 effective January 1, 2018 applying the retrospective method of transition. As the adoption of this standard did not have a material impact on its consolidated financial statements, no adjustments to prior periods were required.

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 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

None.

SUBSEQUENT EVENTS

No subsequent events.

RISKS AND UNCERTAINTIES

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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 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;

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- 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

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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, accounts receivable, and line of credit.

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

As at March 31, 2018, there is \$34,709 (December 31, 2017 – \$36,498) 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.

The Company's exposure to credit risk associated with its line of credit is the risk that it will not be able to satisfy its requirement of 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. As well, the availability of this line of credit is 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. As at March 31, 2018 the Company had used \$45,000 (December 31, 2017 - \$nil) of the facility.

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 +/- \$2,051 impact on net loss.

Interest Rate Risk

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

Liquidity Risk

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

As at March 31, 2018, other than the line of credit discussed above, the Company had total debt in the amount of \$521,550 due within 12 months (December 31, 2017- \$530,310). As at March 31, 2018, the Company had a negative cash balance of \$(3,917) (December 31, 2017 - \$101,736), accounts receivable of \$140,832 (December 31, 2017 - \$114,718) and had used its line of credit facility to a balance of \$45,000 (December 31, 2017 - \$nil).

A factor that affects the liquidity risk is that significant portions of the Company's revenue are derived from a small number of customers. During the three months ended March 31, 2018, five customers (year ended December 31, 2017 – five customers) accounted for approximately 18% (year ended December 31, 2017 – 15%) of the Company's revenue.

As at March 31, 2018, the Company has a working capital deficiency of \$854,536 (December 31, \$700,492). As at March 31, 2018, \$482,242 of the working capital deficiency relates to deferred revenue, and \$110,000 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. As of March 31, 2018, the Company had used \$45,000 of its credit facility.

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.

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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

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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 three months ended March 31, 2018. 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

There were no significant changes made to internal controls over financial reporting during the period ended March 31, 2018.

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