

RSI INTERNATIONAL SYSTEMS INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2018

(Unaudited)

(In Canadian Dollars)

RSI International Systems Inc.

Notice to Reader:

These condensed consolidated interim financial statements of RSI International Systems Inc. (the “Company”) have been prepared by management, reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to condensed consolidated financial statements and the related quarterly Management Discussion and Analysis.

RSI INTERNATIONAL SYSTEMS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited, in Canadian dollars)

	Notes	June 30, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ (3,599)	\$ 101,736
Accounts Receivable, net of allowance	4	170,796	114,718
Prepaid Expenses	5	77,404	92,880
		244,601	309,334
Long-Term Prepaid Expenses	5	24,845	34,932
Equipment	6	23,553	41,320
Deferred Development Costs	7	1,310,624	1,344,538
		\$ 1,603,623	\$ 1,730,124
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts Payable & Accrued Liabilities		539,641	530,310
GST Payable		4,498	2,574
Deferred Revenue	8	531,718	476,942
		1,075,857	1,009,826
Security Deposit	14	57,993	97,729
		1,133,850	1,107,555
Shareholders' Equity			
Share Capital	9	5,633,039	5,633,039
Contributed Surplus		562,426	556,634
Deficit		(5,725,692)	(5,567,104)
		469,773	622,569
		\$ 1,603,623	\$ 1,730,124

Note 1 – Nature of operations and going concern

Note 14 – Commitments

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

RSI INTERNATIONAL SYSTEMS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
(Unaudited, in Canadian dollars)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUES	\$ 1,261,879	\$ 1,320,734	\$ 2,435,947	\$ 2,645,695
COST OF SALES	229,415	170,910	465,755	367,321
GROSS PROFIT	1,032,464	1,149,824	1,970,192	2,278,374
EXPENSES				
Amortization of Equipment	6,988	9,967	17,766	21,145
Amortization of Deferred Development Costs	51,044	54,711	83,770	110,937
Bad Debt	10,996	11,953	21,288	11,953
Business Development and Travel	6,666	51,146	11,240	71,642
Filing and Transfer Agent Fees	2,636	6,630	8,868	13,239
Foreign Exchange Loss (Gain)	12,580	(16,479)	12,825	(5,856)
Internet and Networking	9,623	11,002	16,291	24,503
Interests and Bank Charges	14,230	10,322	27,281	28,120
Investor Relations	5,215	9,087	5,215	9,087
Marketing	73,362	68,588	147,476	158,475
Office and Miscellaneous	12,063	26,583	25,123	48,166
Professional Fees	86,074	64,073	143,875	151,195
Rent and Utilities	1,861	94,198	34,006	191,052
Salaries and Benefits	739,504	682,795	1,546,809	1,381,042
Stock-based Compensation	(5,362)	31,472	5,792	81,828
Software Licenses	11,719	17,426	21,155	34,702
	1,039,199	1,133,474	2,128,780	2,331,230
NET AND COMPREHENSIVE (LOSS)				
INCOME FOR THE PERIOD	(6,735)	16,350	(158,588)	(52,856)
(Loss) Earnings Per Share - Basic and Diluted	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Weighted average number of shares				
outstanding – basic	36,835,278	36,685,278	36,835,278	36,480,834
– diluted	36,835,278	36,685,278	36,835,278	36,480,834

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

RSI INTERNATIONAL SYSTEMS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited, in Canadian dollars, except share number)

	Issued Common Shares		Contributed Surplus	Deficit	Total Equity
	Number	Amount Received			
		\$	\$	\$	\$
BALANCE, DECEMBER 31, 2016	36,110,278	5,512,330	480,144	(5,026,445)	966,029
Shares issued upon exercise of options	575,000	57,500	-	-	57,500
Fair value of options exercised	-	28,952	(28,952)	-	-
Stock-based compensation	-	-	81,828	-	81,828
Net and comprehensive loss for the period	-	-	-	(52,856)	(52,856)
BALANCE, JUNE 30, 2017	36,685,278	5,598,782	533,020	(5,079,301)	1,052,501
Shares issued upon exercise of options	150,000	18,000	-	-	18,000
Fair value of options exercised	-	16,257	(16,257)	-	-
Stock-based compensation	-	--	39,871	-	39,871
Loss and comprehensive loss for the period	-	-	-	(487,803)	(487,803)
BALANCE, DECEMBER 31, 2017	36,835,278	5,633,039	556,634	(5,567,104)	622,569
Stock-based compensation	-	-	5,792	-	5,792
Loss and comprehensive loss for the period	-	-	-	(158,588)	(158,588)
BALANCE, JUNE 30, 2018	36,835,278	5,633,039	562,426	(5,725,692)	469,773

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

RSI INTERNATIONAL SYSTEMS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited, in Canadian dollars)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss) for the Period	\$ (6,735)	\$ 16,350	\$ (158,588)	\$ (52,856)
Items not Affecting Cash:				
Amortization of Equipment	6,988	9,967	17,766	21,145
Amortization of Deferred Development Costs	51,044	54,711	83,770	110,937
Bad Debt	10,996	11,953	21,288	11,953
Stock-based Compensation	(5,362)	31,472	5,792	81,828
	56,931	124,453	(29,972)	173,007
Changes in Non-Cash Working Capital Items:				
Increase in Accounts Receivable	(40,960)	(36,769)	(77,366)	(74,285)
(Increase) decrease in Prepaid Expenses	(5,092)	(95,715)	25,567	(80,139)
Increase in Accounts Payable and Accrued Liabilities	18,091	135,053	9,331	154,136
(Decrease) increase in GST Payable	(383)	(7,420)	1,924	(11,236)
Increase (decrease) in Deferred Revenue	49,473	(25,404)	54,773	820
Net Cash Provided by (Used in) Operating Activities	78,060	94,198	(15,743)	162,303
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Equipment	-	(1,785)	-	(1,785)
Deferred Development Costs	(22,002)	(173,039)	(49,856)	(331,322)
Net Cash Used in Investing Activities	(22,002)	(174,824)	(49,856)	(333,107)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowing (Repayment) of Operating Line of Credit	(45,000)	-	-	-
Security Deposit	(10,740)	-	(39,736)	-
Issuance of shares upon exercise of options	-	-	-	57,500
Net Cash (Used in) Provided by Financing Activities	(55,740)	-	(39,736)	57,500
Change in Cash During the Period	318	(80,626)	(105,335)	(113,304)
Cash and Cash Equivalents, Beginning of Period	(3,917)	346,089	101,736	378,767
Cash and Cash Equivalents, End of Period	\$ (3,599)	\$ 265,463	\$ (3,599)	\$ 265,463

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2018 (*Unaudited, in Canadian dollars*)

1. NATURE OF OPERATIONS AND GOING CONCERN

RSI International Systems Inc. (“RSI” or the “Company”) is a publicly listed company incorporated under the laws of British Columbia, Canada. The address of the Company’s head and registered office is Unit 8152, 200-375 Water Street, Vancouver, BC, V6B 0M9. These condensed consolidated interim financial statements of the Company as at and for the six months ended June 30, 2018 include the Company and its subsidiary (together referred to as the “Group”). The Group is in the business of providing an integrated web-based real-time reservation and property management system to the hotel and resort industries.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 22, 2018.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations for the foreseeable future.

Since 2012, the Company has focused on product development and enhancement, as well as sales and marketing activities. These activities have been funded by a combination of revenue generated from the sale of the Company’s products and services, equity financings, line of credits and short-term loans. The Company’s expenses have exceeded its revenue during the six months ended June 30, 2018 and it has incurred a net loss of \$158,588 (June 30, 2017 – \$52,856) and an accumulated deficit as of June 30, 2018 of \$5,725,692 (December 31, 2017 – \$5,567,104).

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

Management’s current strategy is to focus on careful cost control to sustain operations in the near term, while at the same time, on gaining market share of the hotel lodging industry. Management recognizes the Company’s need to expand its cash reserves in the coming year if it intends to adhere to its sales, marketing, and product development plans, and has evaluated its potential sources of funds, including: increased revenue from sale of its products and services, 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.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2018 (*Unaudited, in Canadian dollars*)

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting, and 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 August 22, 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,

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)*

with earlier adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

3. KEY ASSUMPTIONS AND SIGNIFICANT JUDGEMENTS**Significant Accounting Judgments and Estimates**

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

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying the Company's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017.

4. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Total	Current	31 - 60 Days	60 - 90 Days	> 90 Days
June 30, 2018	\$ 170,796	\$ 57,821	\$ 46,099	\$ 15,218	\$ 51,658
December 31, 2017	\$ 114,718	\$ 61,162	\$ 16,928	\$ 130	\$ 36,498

As at June 30, 2018, accounts receivable of an initial value of \$22,170 (December 31, 2017 – \$22,902) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

	\$
As of December 31, 2016	13,000
Charge for the year	25,154
Utilized	(15,252)
As of December 31, 2017	22,902
Charge for the year	21,288
Utilized	(22,020)
As of June 30, 2018	22,170

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)***5. PREPAID EXPENSES AND LONG-TERM PREPAID EXPENSES**

Prepaid expense balances represent advances paid to suppliers for services to be rendered in the fiscal years 2018 and 2019.

Long-term prepaid expense represents rental deposits paid to the landlords in relation to the office lease agreements for its premises, including deposits related to sub-leased premises. The deposits are classified as long-term assets since the leases mature beyond June 30, 2019.

6. EQUIPMENT

Cost	Computer Equipment	Office Equipment	Total
December 31, 2016	\$ 187,986	\$ 83,960	\$ 271,946
Additions	4,135	-	4,135
December 31, 2017	192,121	83,960	276,081
Additions	-	-	-
June 30, 2018	\$ 192,121	\$ 83,960	\$ 276,081

Accumulated Amortization	Computer Equipment	Office Equipment	Total
December 31, 2016	155,744	38,661	194,405
Additions	17,709	22,647	40,356
December 31, 2017	173,453	61,308	234,761
Additions	8,151	9,615	17,766
June 30, 2018	\$ 181,604	\$ 70,923	\$ 252,527

Carrying Amounts	Computer Equipment	Office Equipment	Total
December 31, 2017	\$ 18,668	\$ 22,652	\$ 41,320
June 30, 2018	\$ 10,517	\$ 13,036	\$ 23,553

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)***7. DEFERRED DEVELOPMENT COSTS**

Cost	Roomkey Web
December 31, 2016	\$ 1,040,012
Additions	551,183
December 31, 2017	1,591,195
Additions	49,856
June 30, 2018	\$ 1,641,051

Accumulated Amortization	Roomkey Web
December 31, 2016	\$ 86,184
Additions	160,473
December 31, 2017	246,657
Additions	83,770
June 30, 2018	\$ 330,427

Carrying Amounts	Roomkey Web
December 31, 2017	\$ 1,344,538
June 30, 2018	\$ 1,310,624

In 2015, the Company commenced work on a new project, RoomKey Web, to develop a Property Management System (“PMS”) with a more flexible platform for integration with partner products and customer reporting. Once a new feature is complete and released, costs associated with that feature will begin to be amortized over a five year period.

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.

8. DEFERRED REVENUE AND CUSTOMER ADVANCES

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

At June 30, 2018, 85% (December 31, 2017 – 83%) of deferred revenue was denominated in US dollars, with the remaining 15% (December 31, 2017 – 17%) in Canadian dollars.

9. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Escrow Shares

As at June 30, 2018, the Company has no escrow shares.

Exercise of Options

During the year ended December 31, 2017, 725,000 common shares were issued upon exercise of 575,000 stock options at \$0.10 per share and 150,000 stock options at \$0.12 per share for gross proceeds of \$75,500. On exercise of such options, \$45,209 has been reclassified to share capital from contributed surplus.

Stock Options

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

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)*

During the six month period ended June 30, 2018, 825,000 previously granted stock options with a weighted average exercise price of \$0.17 were cancelled.

During the six month period ended June 30, 2018, stock-based compensation expense of \$5,792 (June 30, 2017 – \$82,828) was recognized.

A summary of the Company's stock options as at June 30, 2018 and December 31, 2017 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as at December 31, 2016	1,750,000	\$ 0.11
Cancelled	(550,000)	0.12
Exercised	(725,000)	0.10
Expired	(125,000)	0.10
Granted	1,425,000	0.20
Options outstanding as at December 31, 2017	1,775,000	\$ 0.18
Cancelled	(825,000)	0.17
Options outstanding as at June 30, 2018	950,000	\$ 0.20

The weighted average remaining contractual life of the outstanding stock options as at June 30, 2018 is 3.61 years (December 31, 2017 – 3.56 years).

Date Issued	Number of Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
January 23, 2017	900,000	\$ 0.20	January 23, 2022	3.57
November 15, 2017	50,000	\$ 0.20	November 15, 2022	4.38
	950,000	\$ 0.20		3.61

Warrants

There were no warrants issued or exercised during the year ended December 31, 2017 or the six month period ended June 30, 2018.

As at December 31, 2017 and June 30, 2018, there were 4,255,675 warrants outstanding with an exercise price of \$0.20.

RSI INTERNATIONAL SYSTEMS INC.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2018 *(Unaudited, in Canadian dollars)***9. SHARE CAPITAL** (continued)**Warrants** (continued)

The weighted average remaining contractual life of the outstanding warrants at June 30, 2018 and December 31, 2017 is as follows:

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
November 17, 2016	3,785,845	\$ 0.20	November 17, 2018	0.38
November 17, 2016	102,623	0.20	November 17, 2018	0.38
December 23, 2016	357,307	0.20	December 23, 2018	0.48
December 23, 2016	9,900	0.20	December 23, 2018	0.48
Warrants outstanding as at December 31, 2017 and June 30, 2018	4,255,675	\$ 0.20		0.39

10. LINE OF CREDIT

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 at June 30, 2018 the Company had an outstanding balance of \$nil (December 31, 2017 - \$nil) on the facility.

11. 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 \$234,548 (June 30, 2017 – \$280,692) were paid to key management personnel.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2018 (*Unaudited, in Canadian dollars*)

2. The Company paid remuneration for management services to a company controlled by a director in common totaling \$31,800 (June 30, 2017 - \$35,800).
3. The company granted nil (June 30, 2017- 1,375,000) stock options to its officers, manager and directors.

Included in accounts payable and accrued liabilities is \$nil (June 30, 2017 – \$3,307) receivable from directors.

These transactions are in the normal course of 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.

12. FINANCIAL INSTRUMENTS

Financial Risk Management

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's maximum exposure to credit risk is in the carrying value of its Cash, accounts receivable, and line of credit.

The Company's exposure to credit risk associated with its accounts receivable is 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 June 30, 2018, there is \$51,658 (December 31, 2017 – \$36,498) included in accounts receivable that is greater than 90 days old.

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 maintaining monthly recurring revenue of not less than \$200,000 calculated on a rolling three month average and maintaining 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 June 30, 2018 the Company had a balance of \$nil (December 31, 2017 - \$nil) on the facility.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2018 (*Unaudited, in Canadian dollars*)

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 dollars. 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 dollars as at year end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a +/- \$165 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 June 30, 2018, other than the line of credit discussed above, the Company had total debt in the amount of \$539,641 due within 12 months (December 31, 2017- \$530,310). As at June 30, 2018, the Company had a negative cash balance of \$(3,599) (December 31, 2017 - \$101,736), accounts receivable of \$170,796 (December 31, 2017 - \$114,718) and had used its line of credit facility to a balance of \$nil (December 31, 2017 - \$nil).

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 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.

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

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)*

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.

Other than the requirements relating to the line of credit arrangement noted above, the Company is not subject to any other externally imposed capital requirements as at June 30, 2018. The Company's overall strategy with respect to management of capital at June 30, 2018 remains fundamentally unchanged from the year ended December 31, 2017.

The Company has classified its financial instruments as follows:

	June 30, 2018 \$	December 31, 2017 \$
Financial Assets		
Fair value through profit and loss, measured at fair value:		
Cash	(3,599)	101,736
Loans and receivables, recorded at amortized cost:		
Accounts receivable	170,796	114,718
Financial Liabilities		
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	539,641	530,310
Line of Credit	-	-

Fair Value

Financial instruments recorded at fair value are measured using a three-level fair value hierarchy:

- Level 1 Fair value is determined by reference to quoted prices in active markets for identical assets and liabilities
- Level 2 Fair value is determined based on inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly
- Level 3 Fair value is determined based on inputs that are unobservable and significant to the overall fair value measurement

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

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

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)***13. SEGMENTED DISCLOSURE**

A geographical breakdown of sales to customers is as follows:

	Six Months Ended		Six Months Ended	
	June 30, 2018	%	June 30, 2017	%
Canada	\$ 421,823	17%	\$ 481,420	18%
USA	1,678,817	69%	1,923,650	72%
Other	335,307	14%	240,625	10%
Total	\$ 2,435,947	100%	\$ 2,645,695	100%

All of the Company's non-current assets are located in Canada.

14. COMMITMENTS

In February 2014, the Company entered into an office lease agreement. The lease expires on March 31, 2019. The minimum lease payments are as follows:

2018	\$ 42,475
2019	21,237
Total	<u>\$ 63,712</u>

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

2018	\$ 44,174
2019	22,087
Total	<u>\$ 66,261</u>

The Company collected a security deposit totaling \$10,740 which will be applied to the last month's rent in March 2019 and is classified in accounts payable and accrued liabilities.

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

2018	\$ 96,873
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RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**JUNE 30, 2018 *(Unaudited, in Canadian dollars)*

2019	201,654
2020	201,654
2021	192,098
Total	<u>\$ 692,279</u>

In October 2017 the Company decided that, due to its staff make up and skill sets, productivity and economic efficiency gains would be achieved by having them work from virtual offices. Therefore, the Company entered into a sublease agreement for the above noted office space. The agreement expires on November 29, 2021. The minimum payments to be received are as follows:

2018	\$ 110,712
2019	221,424
2020	221,424
2021	202,972
Total	<u>\$ 756,532</u>

The Company collected a security deposit totaling \$86,988, \$28,996 of which will be applied within the next twelve months and classified in accounts payable and accrued liabilities. The remainder is made up of \$28,996 which will be applied for the 25th months' rent plus any applicable GST respectively, and another \$28,996, will be held as security deposit over the term.

The Company's staff began working from virtual offices in December 2017.

In addition, in April 2018, the Company entered into a service agreement with its client relations management software provider. The minimum payments are as follows in USD:

2019	\$ 40,603
2020	40,603
Total	<u>\$ 81,206</u>

15. SUBSEQUENT EVENTS

No subsequent events.