

RSI INTERNATIONAL SYSTEMS INC.

MANAGEMENT'S 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 November 20, 2018 and relates to the financial condition and results of operations for the three and nine months ended September 30, 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.

Q3 2018 Highlights

- The Company recorded customer revenue of \$1,280,750 in Q3 2018 compared to \$1,301,156 for Q3 2017; a decrease of 2%.
- The Company's net income for Q3 2018 was \$146,998, compared to net loss of \$50,489 for Q3 2017; a positive change of \$197,487 or 391%.
- EBITDA for Q3 2018 was \$218,734 compared to EBITDA of \$4,000 for Q3 2017, which is an increase of \$214,734.
- For Q3 2018, total operating expenses decreased by 22% while cost of sales increased by 18% when compared to Q3 2017.
- As a result of the Settlement Agreement described below, the Company's Annualized Customer Retention Rate, or percent of customers that renew or don't cancel annually, decreased to 77% in Q3 2018 from 87% in Q3 2017.

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 in hopes of mending the relationship. 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 the 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 unsuccessful, was planned for by the Company in advance. The Company made, and will continue to make, restructuring and efficiency improvements in order to be free cash flow positive.

RoomKey sold 16 and 73 new PMS properties in the three and nine month periods ended September 30, 2018 compared to 27 and 90 new properties during the same periods in 2017. Average size of hotel and average monthly revenue from each new hotel have decreased during the first nine months of September 30, 2018 by 17% and 5%, respectively, compared to sales completed during the same period in 2017. Net properties (new properties sold minus cancellations) using RoomKeyPMS have decreased during the nine months ended September 30, 2018 by 68 when including the properties lost as a result of the Settlement Agreement. Not including the cancellations for the Settlement Agreement, net new properties lost during the nine months ended September 30, 2018 were 21. During the third quarter of 2018, one of the Company's hotel chain customers located in Asia cancelled their subscriptions. This particular chain requested significant feature builds that, after significant study, RSI concluded would be too expensive to build for only one specific customer and would not result in a sufficient return on investment.

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 the strength of customer relationships. RSI's Monthly Recurring Revenue (not adjusted for foreign exchange translation) decreased 8% during the first nine months of 2018. Excluding cancellations as result of the Settlement Agreement, MRR decreased by 2% compared to the end of December 31, 2017. RSI's annualized Customer Retention Rates for the three and nine months ended on September 30, 2018 were 77% and 76% (84%, if the cancelations from the Settlement Agreement are excluded) compared to 87% and 90% for the same periods in 2017.

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Operating expenses for the three and nine month periods ending September 30, 2018, compared to the same period in 2017, decreased by \$254,435 and \$456,884, respectively. Significant decreases in rent and utilities, business development and travel, stock-based compensation, bad debt expense, and amortization of deferred development costs have been partially offset by increases in salaries and benefits, professional fees, and foreign exchange losses. The 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 group being expensed rather than capitalized, given the majority of work performed to date in 2018 related to maintenance of the Company's existing software rather than to new development.

The cash balance during the three and nine months ended September 30, 2018 increased by \$203,683 and \$98,349, compared to a decrease of \$109,104 and \$222,408 during the same periods in 2017, respectively. This decrease in cash burn was primarily the result of the significant cost restructuring the company has undertaken over the past 19 months, as well as the weakening of the Canadian dollar compared to its US counterpart. The Company continues to search for efficiency improvements in its operations while at the same time ways to 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 many 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 provide 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 markets. 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

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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 maintain competitiveness in the market. Management looks to add shareholder value from continuing to focus on RoomKeyPMS's core platform as a flexible, integral part of their customers' business, with the ability to add enhanced capabilities from high-value proprietary and partner products which drive occupancy rates, revenue and margin for the properties which use RSI's products.

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

Consolidated Financial and Operating Results

Please refer to "Critical Accounting Policies and Estimates" and also the Notes to the 2017 Audited Consolidated Financial Statements for a discussion of critical and new accounting policies and estimates as they relate to the discussion of the Company's operating and financial results below.

Non-GAAP and Additional GAAP Measures

EBITDA

Management measures the success of the Company's strategies and performance based on EBITDA (or Earnings before 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.

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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

On September 7, 2018, The Company announced that it had signed a binding Letter of Intent ("LOI") with nSight Inc ("nSight") for the sale of RSI's RoomKeyPMS business and assets for gross proceeds of US \$4.6 million in cash, before applicable adjustments. Using the 7-day average of the posted Bank of Canada US\$/CDN\$ exchange rate, as well as the issued and outstanding common shares of RSI at the time of announcement, the gross proceeds would translate into approximately \$0.16 per share in Canadian dollars.

Under the terms of the LOI, nSight will pay RSI gross proceeds of US \$4.6 million for the Company's current business and assets related to the development and operation of RSI's RoomKeyPMS. This figure will be adjusted to account for the timing of certain receivables, payables, deferred revenue, prepaid costs and other items that are assumed by nSight. RSI will also incur some costs related to the disposal of its RoomKey business for certain contractual obligations. The funds available after the Company settles its liabilities, will allow it to look at ways to better return value to its shareholders. This may include acquiring another business or distributing part or all of the net proceeds to shareholders. The US-dollar figure will be converted to Canadian dollars by averaging the posted Bank of Canada closing US\$/CDN\$ exchange rate for the seven days preceding the LOI date of September 7, 2018, and the same exchange rate for the seven days preceding the closing of the transaction. Should the exchange rate move more than five percentage points in either direction, the disadvantaged party will have the option to terminate the transaction. For further details please see the news release dated September 7, 2018.

With the LOI in place, RSI and nSight are working towards negotiating a Definitive Agreement, to replace the binding LOI. The Definitive Agreement will contain an RSI Non-Compete provision as well as a provision that RSI will not solicit any alternative transactions, and that should the Company terminate the Definitive Agreement, as the result of accepting a third-party acquisition proposal, nSight will be entitled to a break-fee of US\$460,000. The transaction is subject to a number of conditions, including completion of satisfactory due diligence, the entering into of definitive documentation and the receipt of all necessary regulatory and third-party approvals and consents, including approval by RSI shareholders.

The Company sold 73 new PMS properties in the nine month period ended September 30, 2018 compared to 90 new properties during the same period in 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 2018, as it 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 decrease slightly when compared to 2017, given the effect of 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 Q3 2018. The Company's annualized retention rate has decreased by 14 percentage points, from 90%

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to 76%, during the first nine months of 2018 compared to the same period in 2017. This is 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 6 percentage points. 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. This was one of the main reasons for entering into the LOI discussed above.

In order to realize the Company's near term goal of being free cash flow positive, management implemented significant cost rationalization strategies over the past 19 months. One initiative the Company completed was 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. The projected savings of this decision to reduce office space will 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 entered into a line of credit agreement with its bank for up to \$400,000. Details of this facility are described below.

The Company is focusing its product development team on improving its current software offering and meeting current customer demands. As well, the Company has continued looking at ways it can re-focus on new product development that will include enhanced product offerings. The intent of potentially building these enhancements would be to perhaps increase the Company's customer base and to 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 has been flexible in prioritizing all of its development projects and has based its priorities on a variety of factors including, but not limited to, return on investment, payback, time to completion, and its goal of being cash flow positive. 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's long term plan was to continue to deploy new features and pivot intelligently, based on market and customer trends and its available resources. However, progress on new product development continued to be hampered by the demands of our largest customers, unplanned development due to our legacy product, a fragmented customer base, and insufficient resources, which has led to the decision to divest of its assets. The Company had begun the build of this new suite of technologies during the fourth quarter of 2015 and as of September 30, 2018, has spent \$1,641,051 on this 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, lines of credit and short-term loans. The Company's expenses have exceeded its revenue during the nine month period ended September 30, 2018 and it has incurred a net loss of \$11,590 (September 30, 2017 – \$103,345) and an accumulated deficit as of September 30, 2018 of \$5,578,694 (December 31, 2017 – \$5,567,104).

Management's focus over the past two years has been on realigning and rationalizing its operations, product offerings and overall business in order to achieve two goals. In the short term, the company's

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immediate goal was 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 was working towards improving both the quality of its revenue and increasing its trajectory, through a more focused, scalable business. In order to meet its long term goals, management recognized the Company needed to expand its cash reserves in the coming year and evaluated various potential sources of funds, including: increased revenue from sale of its products and services, possible debt and equity financing options and divestiture of assets. As a result of its investigations, the divestiture of assets was the option that management and the Company's Board of Directors felt would be most beneficial to shareholders. Management's focus over the next quarter will be on completing the sales transaction with nSight, and maintaining the operational efficiency it has achieved during the past few months.

Significant Financial Highlights for the Three and Nine Months Ended September 30, 2018

- The Company recorded revenue of \$3,716,698 for the nine-month period ended September 30, 2018 compared to \$3,946,851 for the nine-month period ended September 30, 2017; a decrease of 6%.
- The Company recorded revenue of \$1,280,750 for the quarter ended September 30, 2018 compared to \$1,301,156 for the quarter period ended September 30, 2017; a decrease of 2%.
- For the nine-month period ended September 30, 2018, revenue decreased by \$230,153 (6%), cost of sales increased by \$134,976 (24%) and expenses decreased by \$456,884 (13%) when compared to the same period in 2017.
- For the quarter ended September 30, 2018, revenue decreased by \$20,406 (2%), cost of sales increased by \$36,542 (18%) and expenses decreased by \$254,435 (22%) when compared to the same quarter in 2017.
- The Company's Monthly Recurring Revenue (not adjusted for foreign exchange translation) for the nine months ended September 30, 2018 decreased by 8% compared to the end of 2017. This was primarily the result of the Settlement Agreement, as well as the loss due to the cancelation of the Asian hotel chain discussed above. Not including the results of the Settlement Agreement, Monthly Recurring Revenue decreased by 2% when compared to the end of 2017.
- The Company's annualized Customer Retention Rates for the three and nine months ended on September 30, 2018 were 77% and 76% (84%, if the cancelations from the Settlement Agreement are excluded) compared to 87% and 90% for the same periods in 2017.
- The Company's net loss for the nine-month period ended September 30, 2018 was \$11,590 compared to \$103,345 net loss for the nine-month period ended September 30, 2017; a decrease in net loss of \$91,755 (89%). Company's net income for the third quarter of 2018 was \$146,998 compared to net loss of \$50,489 for the third quarter of 2017; an increase of \$197,487 (391%).
- Operating expenses during the nine-month period ended September 30, 2018 totalled \$3,025,897 compared to \$3,482,781 during the same period in 2017. A decrease of \$450,884

or 13%.

- Operating expenses during the three-month period ended September 30, 2018 totalled \$897,116 compared to \$1,151,551 during the same period in 2017. A decrease of \$254,435 or 22%.
- Foreign exchange loss during the nine-month period ended September 30, 2018 was \$9,250 compared to a gain of \$27,611 during the same period in 2017. This is a reduction of \$36,861 or 134%.
- Foreign exchange gain during the quarter ended September 30, 2018 totalled \$3,575 compared to a gain of \$21,755 during the same period in 2017. This is a reduction of \$18,180 (84%).
- For the three and nine-month periods ended September 30, 2018, the Company decreased its spending on Business Development and Travel by \$18,046 (78%) and \$78,448 (83%), respectively, compared to the same periods in 2017. The Company continues to streamline and evaluate discretionary spending.
- For the three and nine-month periods ended September 30, 2018, the Company decreased its spending on Rent and Utilities by \$94,895 (98%) and \$251,942 (87%), respectively, compared to the same periods in 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.
- For the three and nine-month periods ended September 30, 2018, Stock-based Compensation expense decreased by \$14,097 (75%) and \$90,133 (89%), respectively, compared to the same periods in 2017. This is as a result of no stock options being granted in 2018 compared to 1,375,000 options being granted in the first nine months of 2017, as well as the cancellation of 875,000 options during the second quarter of 2018 which resulted in the reversal of previously recognized expenses.
- For the three-month period ended September 30, 2018, the Company increased its spending on Professional Fees by \$27,235 (48%) compared to the same period in 2017. This is as a result of the Company's increased focus on corporate development activities during the second quarter of 2018.
- For the three and nine-month periods ended September 30, 2018, the Company recorded an increase in Salaries and Benefits totaling \$40,311 (6%) and \$206,078 (10%), respectively, compared to the same periods in 2017. This is a result of certain salaries of the Company's software development group being expensed during 2018 compared to being capitalized during 2017 as most 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 the nine-month period ended September 30, 2018 was \$188,964 compared to EBITDA of \$111,346 for the same period 2017, which is an increase of 70% or \$77,618.
- EBITDA for Q3 2018 was \$218,734 compared to EBITDA of \$4,000 for Q3 2017, which is an increase of \$214,734.

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Please refer to the following section for further explanations.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Summarized Consolidated Financial Results			
Nine Months ended September 30,	2018	2017	% Change
Revenues	\$ 3,716,698	\$ 3,946,851	(6)
EBITDA	188,964	111,346	70
Interests and bank charges	(40,327)	(40,285)	(0)
Depreciation	(25,412)	(31,031)	18
Amortization of deferred development	(134,815)	(143,375)	6
Net loss for the period	(11,590)	(103,345)	89
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Summarized Consolidated Financial Results			
Three Months ended September 30,	2018	2017	% Change
Revenues	\$ 1,280,750	\$ 1,301,156	(2)
EBITDA	218,734	4,000	5,368
Interests and bank charges	(13,046)	(12,165)	(7)
Depreciation	(7,646)	(9,886)	23
Amortization & write-downs	(51,044)	(32,438)	(57)
Net income (loss) for the period	\$ 146,998	\$ (50,489)	391
Basic and diluted earnings (loss) per share	\$ 0.00	\$ (0.00)	

SEGMENT REVIEW

The Company's business is organized into one segment.

The Company provides its products and services on a subscription model. As such, a majority of new sales agreements 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 agreements are upfront, resulting in a mismatch of timing between revenue recognition and expenses incurred.

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In the first nine months of 2018, reductions in most expenses were partially offset by a decrease in revenue and increases in professional fees, salaries and benefits, foreign exchange loss, and cost of sales.

Year to Date 2018 Results

Summarized Consolidated Financial Results			
Nine Months ended September 30,	2018	2017	% Change
Revenues	3,716,698	\$ 3,946,851	(6)
Cost of goods sold	702,391	567,415	24
Gross Margin	3,014,307	3,379,436	(11)
Expenses			
Operating costs	590,958	1,077,502	(45)
Stock-based compensation	10,577	100,710	(89)
Foreign exchange loss (gains)	9,250	(27,611)	134
Business development & travel	16,289	94,737	(83)
Marketing	187,552	232,250	(19)
Salaries and benefits	2,211,271	2,005,193	10
Total Expenses	3,025,897	3,482,781	(13)
EBITDA	188,964	111,345	70
Interests and bank charges	(40,327)	(40,285)	(0)
Depreciation	(25,412)	(31,031)	18
Amortization of deferred development	(134,815)	(143,375)	6
Loss from operations	\$ (11,590)	\$ (103,345)	89

Revenues

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

Revenue for the first nine months of 2018 decreased by 6% compared to the same period in 2017. The decrease was the result of the Settlement Agreement, the decrease in value of the US dollar compared to its Canadian counterpart, and a slower rate of customer growth than in previous years. Including the properties lost in the Settlement Agreement, the Company has lost 68 net properties during the period. Net new properties is the difference between new properties added and properties which cancelled. The Customer Retention Rate of the Company is 76% for the first nine months of 2018 (84% not including the properties lost as a result of the Settlement Agreement).

Cost of Sales

Cost of sales for the nine month period ended September 30, 2018 increased by \$134,976 or 24% compared to the same period in 2017. The Company had to increase its cost of infrastructure to better the performance of its servers and to satisfy customer requests. As well, during the second quarter of 2017, as a result of unacceptable downtime, the Company received a one month free

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credit from its servers' provider, which decreased cost of sales.

Operating Costs

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

Operating costs in the nine month period ended September 30, 2018 decreased by \$486,544 or 45% when compared to the same period in 2017. The primary reasons for this decrease were:

- **Decrease in software licenses**
Software licenses decreased by \$16,450 (33%) during the first nine months of 2018, compared to the same period in 2017, due to the smaller size of the Company's staff.
- **Decrease in rent and utilities**
Rent and utilities during the first nine months of 2018 decreased \$251,942 (87%) compared to the same period in 2017, due to the Company subleasing its office space and working from virtual offices.
- **Decrease in internet and networking**
Internet and networking costs decreased by \$11,523 (32%) during the nine months ended September 30, 2018 compared to the same period in 2017, primarily the result of the Company now working from virtual offices.
- **Decrease in bad debt**
There was a decrease in bad debt expense during the first nine months of 2018 by \$167,371 (90%) when compared to the same period in 2017. This is due to the Company increasing its allowance for doubtful accounts during the third quarter of 2017 as a result of the billing dispute that was resolved by the Settlement Agreement in 2018.
- **Decrease in office and miscellaneous**
Office and miscellaneous costs decreased by \$31,672 (47%) during the first nine months of 2018 compared to the same period in 2017 mainly as a result of the Company subleasing its office space and moving to virtual offices, and a to a decrease in executive travel.
- **Decrease in amortization of deferred development**
Amortization of deferred development costs during the first nine months of 2018 decreased by \$8,561 (6%) compared to the same period in 2017, primarily due to a re-allocation within deferred 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

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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.

During the second quarter of 2018, the Company cancelled 825,000 stock options which resulted in a reversal of previously recognized stock-based compensation.

During the nine month period ended September 30, 2018, stock-based compensation expense of \$10,577 (September 30, 2017 – \$100,710) was recognized.

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 (Gains)

The foreign exchange loss during the nine month period ended September 30, 2018, was \$9,250 compared to a gain of \$27,611 during the same period in 2017. This reflects the impact of translation of US denominated monetary items such as cash, accounts receivable, accounts payable, and deferred revenue.

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 \$206,078 (10%) during the first nine months of 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 2018. Development work during 2018 focused on maintenance and upgrading the current product offering rather than new development, which was the focus during the first nine months of 2017. No additional headcount has been added in 2018.

Marketing

During the first nine months of 2018, marketing costs were \$44,698 (19%) lower compared to the same period of 2017, which was primarily related to a decrease in lead generation costs during 2018. The Company's marketing activities continue to focus on digital marketing and are continuously being measured for effectiveness.

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Business Development and Travel

Business development and travel during the first nine months of 2018 decreased by \$78,448 (83%) compared to the same period in the 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.

Q3 2018 Results

Summarized Consolidated Financial Results			
Three months ended September 30,	2018	2017	% Change
Revenues	\$1,280,750	\$1,301,156	(2)
Cost of goods sold	236,636	200,094	18
Gross Margin	1,044,114	1,101,062	(5)
Expenses			
Operating costs	186,319	433,402	(57)
Stock-based compensation	4,785	18,882	(75)
Foreign exchange gain	(3,575)	(21,755)	(84)
Business development & travel	5,049	23,095	(78)
Marketing	40,076	73,775	(46)
Salaries and benefits	664,462	624,151	6
Total Expenses	897,116	1,151,552	(22)
EBITDA	218,734	4,000	5,368
Interests and bank charges	(13,046)	(12,165)	(7)
Depreciation	(7,646)	(9,886)	23
Amortization & write-downs	(51,044)	(32,438)	(57)
Income (loss) from operations	\$ 146,998	\$ (50,489)	391

Revenues

Revenue for Q3 2018 decreased by 2% compared to Q3 2017. The decrease was primarily the result of the Settlement Agreement, and the slower rate of customer growth than in previous years.

Cost of Sales

Cost of sales in Q3 2018 increased by 18% compared to the same period in 2017. The Company had to increase its cost of infrastructure to better the performance of its servers and to satisfy customer requests.

Operating Costs

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

Operating costs for Q3 2018 decreased by 57% when compared to Q3 2017. The primary reasons for this decrease were:

- **Decrease in bad debt expense**
During Q3 2018 there was a recovery of \$2,778 recorded in bad debt compared to an expense of \$173,928 during Q3 2017. The large expense in 2017 was due to providing in allowance for doubtful accounts for the invoices in dispute at the time, which were subsequently resolved by the Settlement Agreement in 2018.
- **Decrease in rent and utilities**
Rent and utilities in Q3 2018 decreased \$94,895 (98%) compared to Q3 2017, due to the Company subleasing its office space in December 2017 and moving to virtual offices.
- **Increase in professional fees**
Professional fees in Q3 2018 increased by \$27,235 (48%) compared to Q3 2017 as a result of higher corporate development and legal services.
- **Decrease in depreciation**
Depreciation of equipment was \$7,646 in Q3 2018 compared to \$9,886 in Q3 2017, a decrease of 23%. Decrease in depreciation expense was due to fewer equipment purchases over the past nine months.
- **Decrease in amortization of deferred development**

Amortization of deferred development costs for the three months ended September 30, 2018 decreased by \$18,606 (57%) compared to the same period in the previous year, primarily due to a re-allocation within deferred development costs in Q4 2017 which resulted in a reduction in the costs available for amortization.

Stock-based Compensation

The Company recorded stock-based compensation expense of \$4,785 during the three month period ended September 30, 2018 compared to \$18,882 during the same period in 2017. This is as a result of the amortization of the non-cancelled stock options granted in the beginning of 2017 and the cancellation of 825,000 stock options during the second quarter of 2018 which resulted in the recovery of previously recognized expenses.

Foreign Exchange Gain

The Company recorded a foreign exchange gain of \$3,575 during Q3 2018. This is compared a foreign exchange gain of \$21,755 during Q3 2017. This reflects the conversion of US dollar denominated revenue and the impact of translation of US denominated monetary items such as cash, accounts receivable, accounts payable and accrued liabilities, and deferred revenue.

Salaries & Benefits

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

Salaries and benefits increased by \$40,311 (6%) in Q3 2018 compared to Q3 2017. The increase is due to the Company's development team salaries primarily being expensed rather than capitalized during 2018. Development work during Q3 2018 focused on maintaining and upgrading the current product offering rather than new development, which was the focus during Q3 2017. No additional headcount has been added in 2018.

Marketing

For Q3 2018, marketing costs were \$33,699 (46%) lower compared to Q3 2017. The Company continues to evaluate its marketing strategy and has stopped certain of its marketing activities that have proven ineffective. At the same time, the Company continues to explore and evaluate other marketing activities that can increase lead generation in a cost effective manner.

Business Development and Travel

Business development and travel for Q3 2018 decreased by \$18,046 (78%) compared to the same period in the previous year, primarily due to the Company's decreased presence at trade shows and the continued focus on controlling discretionary costs.

LIQUIDITY AND CAPITAL RESOURCES

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

As at September 30,	2018	2017
	\$	\$
Cash	200,085	156,359
For the nine months ended September 30,	2018	2017
Net cash provided by operating activities	187,941	219,961
Net cash (used in) provided by financing activities	(39,736)	57,500
Net cash used in investing activities	(49,856)	(499,869)
For the three months ended September 30,	2018	2017
Net cash provided by operating activities	203,683	57,658
Net cash used in financing activities	-	-
Net cash used in investing activities	-	(166,762)

Net Cash Provided by Operating Activities

Cash flow from operating activities resulted in a source of cash of \$187,941 during the first nine months of 2018 compared to a source of cash of \$219,961 during the same period in 2017. Net loss in the first three quarters of 2018 was \$11,590 compared to \$103,345 during the same period in 2017. The change in non-cash operating assets and liabilities resulted in a \$10,217 cash inflow during the period, compared to \$137,691 cash outflow during the same period in 2017.

The cash inflow of \$10,217 from non-cash operating assets and liabilities during the nine month period ended September 30, 2018 was mainly attributable to an decrease in prepaids of \$59,620, an increase in accounts payable and accrued liabilities of \$2,152, an increase in GST payable of \$7,973 and an increase in deferred revenue of \$27,653. This was partially offset by an increase in accounts receivable of \$87,181.

The cash outflow of \$137,691 from non-cash operating assets and liabilities during the first nine months of 2017 was mainly attributable to an increase in prepaid expenses of \$63,220, an increase in accounts receivable of \$113,134 and a decrease in deferred revenue of \$37,680. These cash outflows were partially offset by an increase in accounts payable and accrued liabilities of \$75,940, and an increase in GST payable of \$403.

Net Cash Provided by (Used in) Financing Activities

Financing activities for the first nine months of 2018 resulted in a cash outflow of \$39,736. This was made up of a reduction in cash as a result of a reclassification of security deposits from long term to short term. This reclassification resulted in an increase in accounts payable and accrued liabilities in operating activities.

Financing activities for the first nine months of 2017 resulted in a cash inflow of \$57,500. The cash from financing activities was attributable to 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. During the first nine months of 2018, investing activities resulted in a use of \$49,856, spent on the development of new technologies, compared to a use of \$499,869 during the first nine months of 2017, all of which (except for \$1,785 spent on equipment) was spent on development of new technologies. The focus of the work performed by the Company's development team during the first nine months of 2018 was on current product maintenance and upkeep rather than on new development, as was the case during 2017. As a result, during 2018 the majority of development salaries were expensed rather than capitalized for accounting purposes.

As at September 30, 2018, the Company has a working capital deficiency of \$620,782. This is compared to a working capital deficiency as at December 31, 2017 of \$700,492. Included in the working capital deficiency as at September 30, 2018, \$504,595 relates to deferred revenue, while \$50,000 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.

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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 to 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 September 30, 2018, the Company ending balance related to this facility was \$nil (December 31, 2017 - \$nil).

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 new sales, has significantly reduced its cash outflow when compared to 2016. However, the Company recognized that it would likely be unable to continue rectifying its working capital situation while at the same time investing in new technologies to remain competitive in the market place. Therefore, after exploring multiple avenues, it decided that it was best to enter into the LOI described above.

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		1,280,750	1,261,879	\$ 1,174,068
EBITDA		218,734	65,527	(95,298)
Interests and bank charges		(13,046)	(14,230)	(13,051)
Depreciation		(7,646)	(6,988)	(10,778)
Amortization & write-downs		(51,044)	(51,044)	(32,726)
Net income (loss) for the quarter		146,998	(6,735)	(151,853)
Basic and diluted earnings (loss) per share		0.00 \$	(0.00) \$	(0.00)

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	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)
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.

Nine months ended September 30,	2018	2017	2016
Revenues	\$ 3,716,698	\$ 3,946,851	\$ 3,697,822
Net loss for the period	(11,590)	(103,345)	(478,181)

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Basic and diluted loss per share	(0.00)	(0.00)	(0.01)
Total assets	1,727,155	1,879,327	1,576,759
Total current liabilities	1,047,606	847,692	951,381
Total non-current liabilities	\$ 57,993	\$ 10,741	10,741

Quarter ended September 30,	2018	2017	2016
Revenues	\$ 1,280,750	\$ 1,301,156	\$ 1,309,081
Net income (loss) for the quarter	146,998	(50,489)	(148,327)
Basic and diluted earnings (loss) per share	0.00	(0.00)	(0.00)

Management of Capital

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of growth combined with strategic acquisitions and to provide returns to its shareholders. RSI defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus and deficit. The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, issue debt, pay dividends or undertake other activities as deemed appropriate under the specific circumstances.

In October 2017 the Company negotiated a line of credit arrangement with its bank for up to \$400,000. The interest charged will be prime + 5.93%. The Company is required to maintain monthly recurring revenue of not less than \$200,000 calculated on a rolling three-month average and to 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 September 30, 2018.

OUTSTANDING SHARE DATA

As at November 20, 2018, there were 36,835,278 common shares, 950,000 stock options and 367,207 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 \$348,403 (September 30, 2017 – \$439,923) were paid to key management personnel.
2. The Company paid remuneration for management services to a company controlled by a director in common totaling \$67,800 (September 30, 2017 - \$53,200).
3. The company granted nil (September 30, 2017- 1,375,000) stock options to its officers, manager and directors.

These transactions are in the normal course of operations, on normal commercial terms and conditions and 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 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 November 20, 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

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.

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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;
- 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

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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.

Product and Security Liability

The Company's subscription agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims. There can be no assurance that such provisions will protect the Company from such claims. A successful product liability claim brought against the Company could have a material adverse effect upon the Company's business, results of operations and prospects.

FINANCIAL RISK MANAGEMENT

Overview

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's maximum exposure to credit risk is in the carrying value of its cash, 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 September 30, 2018, there is \$61,117 (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

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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 September 30, 2018 the Company had a balance of \$nil (December 31, 2017 - \$nil) on 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 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 -/+ \$1,570 impact on net loss.

Interest Rate Risk

The Company is subject to interest rate risk on its cash balance in the bank and on 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 September 30, 2018, other than the line of credit discussed above, the Company had total debt in the amount of \$532,464 due within 12 months (December 31, 2017- \$530,310). As at September 30, 2018, the Company had a cash balance of \$200,085 (December 31, 2017 - \$101,736), accounts receivable of \$183,389 (December 31, 2017 - \$114,718) and had used its line of credit facility to a balance of \$nil (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 nine months ended September 30, 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 September 30, 2018, the Company has a working capital deficiency of \$620,782. This is compared to a working capital deficiency as at December 31, 2017 of \$700,492. Included in the working capital deficiency as at September 30, 2018, \$504,595 relates to deferred revenue, while \$50,000 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 to 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 September 30, 2018, the Company did not have a balance outstanding related to this 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. Please see explanation on LOI above.

Risk Factors Relating to the Company's Common Shares

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

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

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

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

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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.

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements and information contained in this MD&A and the documents incorporated by reference in this MD&A constitute "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information are statements and information regarding possible events, conditions or results of operations that are based upon assumptions about future economic conditions and courses of action. All statements and information other than statements of historical fact may be forward-looking information. In some cases, forward-looking information can be identified by the use of words such as "seek", "expect", "anticipate", "budget", "plan", "estimate", "continue", "forecast", "intend", "believe", "predict", "potential", "target", "may", "could", "would", "might", "will" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A and the documents incorporated herein by reference include, but are not limited to, statements and information regarding: a continuing or increased need for software solutions for the hospitality industry in difficult economic times, the attainment of certain subscription targets and company performance, the demand for its products continuing to increase, a 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 nine months ended September 30, 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 September 30, 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