

RSI INTERNATIONAL SYSTEMS INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

(In Canadian Dollars)

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the directors to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board/Committee and management to discuss their audit findings.

April 20, 2015

(signed)

"Charles Ku"

President and Chief Executive Officer

(signed)

"Michelle Madsen"

Chief Financial Officer

Independent Auditors' Report

To the Shareholders of RSI International Systems Inc.

We have audited the accompanying consolidated financial statements of RSI International Systems Inc. and its subsidiary, (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company, as at December 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which discloses matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, BC, Canada
April 20, 2015


Chartered Accountants

RSI INTERNATIONAL SYSTEMS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Current			
Cash & Cash Equivalents		\$ 1,269,787	\$ 179,410
Accounts Receivable, net of allowance	4	202,284	233,466
Prepaid Expenses	5	21,584	38,390
		1,493,655	451,266
Long-Term Accounts Receivable	4	2,625	-
Long-Term Prepaid Expenses	5	45,369	6,917
Equipment	6	16,944	8,199
Deferred Development Costs	7	245,366	554,906
Intangible Assets	8	-	20,900
		\$ 1,803,959	\$ 1,042,188
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Bank Operating Line of Credit	9a	\$ -	\$ 25,000
Accounts Payable & Accrued Liabilities		373,826	194,812
GST Payable		17,424	47,494
Current Portion of Deferred Revenue	10	222,812	193,010
Loan Payable	9b	-	72,367
		614,062	532,683
Deferred Revenue	10	26,509	38,652
		640,571	571,335
Shareholders' Deficiency			
Share Capital	11	4,944,564	3,427,049
Allotted Share Capital	11b	-	5,572
Share to be issued	11b	67,500	-
Share Subscription Receivable	11b	(10,492)	(84,000)
Contributed Surplus		338,854	246,282
Deficit		(4,177,038)	(3,124,050)
		1,163,388	470,853
		\$ 1,803,959	\$ 1,042,188

_____"Charles Ku"_____
Director

_____"Ron Baldwin"_____
Director

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

RSI INTERNATIONAL SYSTEMS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, (in Canadian dollars)

	Notes	2014	2013
REVENUES		\$ 3,327,328	\$ 2,944,964
COST OF SALES		453,860	429,188
GROSS PROFIT		2,873,468	2,515,776
EXPENSES			
Amortization of Equipment	6	6,900	4,537
Amortization of Deferred Development Costs	7	395,130	162,211
Amortization of Intangible Assets	8	20,900	8,800
Bad Debt		51,250	51,026
Business Development & Travel		357,162	241,401
Consulting Fees		42,000	42,000
Filing and Transfer Agent Fees		17,354	18,335
Foreign Exchange (Gain) Loss		(43,858)	(109,958)
Expense (Loss) on Acquisition		-	7,331
Internet and Networking		76,547	64,561
Interests and Bank Charges		44,170	35,989
Office and Miscellaneous		19,772	49,474
Penalty		-	35
Professional Fees		135,626	117,968
Rent and Utilities		139,302	92,619
Salaries and Benefits		2,554,039	1,741,197
Software Licenses		39,455	53,297
Stock-Based Compensation	11	124,500	-
		3,980,249	2,580,823
LOSS BEFORE OTHER INCOME		(1,106,781)	(65,047)
OTHER INCOME		53,793	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		\$ (1,052,988)	\$ (65,047)
Earnings Per Share - Basic and Diluted		\$ (0.05)	\$ (0.00)
Weighted average number of shares outstanding - basic and diluted		22,293,668	15,375,860

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

RSI INTERNATIONAL SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in Canadian dollars, except share number)

	Notes	Issued Common Shares			Allotted Common Shares		Shares to be issued	Contributed Surplus	(Deficit)	Total Equity (Deficiency)
		Number	Amount Received	Amount Receivable	Number	Amount				
BALANCE, DECEMBER 31, 2012		15,679,627	\$ 3,152,049	-	500,000	\$ 14,196	\$ -	\$ 262,658	\$ (3,059,003)	\$ 369,900
Shares issued for acquisition payment		250,000	25,000	-	(250,000)	(8,624)	-	(16,376)	-	-
Shares in escrow cancelled		(625,000)	-	-	-	-	-	-	-	-
Shares issued for private placement		2,500,000	250,000	(84,000)	-	-	-	-	-	166,000
Net and comprehensive loss for the year		-	-	-	-	-	-	-	(65,047)	(65,047)
BALANCE, DECEMBER 31, 2013		17,804,627	3,427,049	(84,000)	250,000	5,572	-	246,282	(3,124,050)	470,853
Shares issued for acquisition payment		250,000	37,500	-	(250,000)	(5,572)	-	(31,928)	-	-
Collection of amount receivable for private placement		-	-	84,000	-	-	-	-	-	84,000
Shares to be issued	11	-	-	-	-	-	67,500	-	-	67,500
Share-based payments	11	-	-	-	-	-	-	124,500	-	124,500
Shares issues for private placement	11	12,499,999	1,500,000	(10,492)	-	-	-	-	-	1,489,508
Share issuance costs	11	-	(19,985)	-	-	-	-	-	-	(19,985)
Net and comprehensive loss for the year		-	-	-	-	-	-	-	(1,052,988)	(1,052,988)
BALANCE, DECEMBER 31, 2014		30,554,626	\$ 4,944,564	\$ (10,492)	-	\$ -	\$ 67,500	\$ 338,854	\$ (4,177,038)	\$ 1,163,388

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

RSI INTERNATIONAL SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(in Canadian dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,052,988)	\$ (65,047)
Items not Affecting Cash:		
Amortization of Equipment	6,900	4,537
Amortization of Deferred Development Costs	395,130	162,211
Amortization of Intangible Assets	20,900	8,800
Bad Debt	51,251	51,026
Stock-Based Compensation	124,500	-
	(454,309)	161,527
Changes in Non-Cash Working Capital Items:		
(Increase) in Accounts Receivable	(20,069)	(11,177)
(Increase) in Prepaid Expenses	(21,645)	(36,940)
Increase (decrease) in Long-Term Accounts Receivable	(2,625)	604
Increase in Accounts Payable and Accrued Liabilities	179,014	1,028
Increase (decrease) in GST Payable	(30,069)	37,070
Increase (decrease) in Deferred Revenue	17,659	34,184
Net Cash Provided by (Used in) Operating Activities	(332,045)	186,296
Cash paid during the year for interests	8,683	6,885
Cash paid during the year for taxes	-	-
	(323,362)	193,181
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Subsidiary	-	(14,533)
Acquisition of Equipment	(15,645)	(1,567)
Deferred Development Costs	(85,590)	(221,484)
Net Cash (Used in) Investing Activities	(101,235)	(237,584)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing (Repayment) of Loan Payable and Operating Line of Credit	(97,367)	44,885
Issuance of Common Shares, net of share issuance costs	1,621,023	166,000
Net Cash Provided by Financing Activities	1,523,656	210,885
Change in Cash during the Year	1,090,377	166,482
Cash and Cash Equivalents, Beginning of Year	179,410	12,928
Cash and Cash Equivalents, End of Year	\$ 1,269,787	\$ 179,410

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

The Company was incorporated under the laws of British Columbia, Canada and is in the business of providing an integrated web-based real-time reservation and property management system to the hotel and resort industries. The Company is listed on the TSX Venture Exchange ("TSX-V"). The address of its head and registered office is 402 – 134 Abbott Street, Vancouver, BC V6B 2K4.

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 focussed on product development and enhancement, rebranding its brand and website and in 2013 and 2014, on 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, line of credits and short-term loans. The Company's expenses have exceeded its revenue for the past two years, and has incurred a net loss for the year ended December 31, 2014 of \$1,052,988 (2013 - \$65,047) and a working capital as of December 31, 2014 of \$879,593 (2013 – working capital deficiency of \$81,417). There is significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management's current strategy is to focus on gaining worldwide market share of the hotel lodging industry, at the same time to exercise careful cost control to sustain operations in the near term. Management recognizes the Company's need to expand its cash reserves in the coming year if it intends to adhere to its sales and marketing plans and has evaluated its potential sources of funds, including: increased revenue from sale of its products and services and possible equity financing options. Although Management intends to assess and act on these options through the course of the year, there can be no assurance that the steps Management takes will be successful.

In the event that cash flow from operations, together with the proceeds from any future financings are insufficient to cover planned expenditures, management will allocate available resources in such manner as deemed to be in the Company's best interest. This may result in a significant reduction in the scope of existing and planned operations.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS (Continued)

These 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 classifications used, that would be necessary if the Company were unable to continue as a going concern.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 20, 2015.

2. BASIS OF PRESENTATION

Statement of Compliance

The consolidated financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of Preparation

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency and reporting currency.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except cash flow information.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Veratta Technologies (2011) Inc. All significant inter-company balances and transactions have been eliminated upon consolidation.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Judgments and Estimates

The preparation of 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.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of the financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Estimates and assumptions

- **Allowance for doubtful accounts**

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is estimated and recorded based on management's assessment of credit history with the customers and current relationships with them.

- **Impairment of non-financial assets**

The Company assesses the carrying value of non-financial assets, including equipment, deferred development cost and intangible assets at each reporting date to determine whether there are any indicators that the carrying amounts of the assets may be impaired. The Company follows IFRS 36 to determine if there are impairment indicators. This determination requires significant judgement. The Company tests annually whether deferred development cost not ready to use has suffered impairment, in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units have been determined based on the value-in-use calculations.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Judgments and Estimates (Continued)

- **Share-based payments**

Share-based payments are valued using the Black-Scholes option pricing model at the date of grant and expensed in profit or loss over vesting period of each award. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

- **Deferred taxes**

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies from those involving estimations that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

- **Going concern**

The assessment of the Company's ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through the issuance of share capital involves judgment. Management monitors future cash requirements to assess the Company's ability to realize assets and discharge its liabilities in the normal course of operations.

- **Capitalization of deferred development costs**

The application of the Company's accounting policy for capitalization of deferred development costs requires judgment in determining which development expenditures are recognized as intangible assets and applying the policy consistently. In making this determination, the Company considers the degree to which the development expenditure can be associated with developing new proprietary products.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid instruments that are readily convertible to cash with a maturity of three months or less when initially purchased. As at December 31, 2014 and 2013, there were no cash equivalents.

Foreign currency transactions

The Company's and its subsidiary's functional currency and reporting currency is the Canadian dollars and transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the transaction dates or at the average exchange rate for the month in which the transaction occurs or the revenue is recognized. At each month-end, monetary assets and liabilities are re-valued at the month-end exchange rates. Exchange gains and losses on translations are included in operations.

Equipment

Equipment is stated at cost less accumulated amortization.

- Amortization of office equipment is calculated on a straight-line basis over 36 months;
- Amortization of computer equipment and leasehold improvements is calculated on a straight-line basis over three years and the term of the lease agreement, respectively;
- Amortization of computer software is calculated based on a declining balance of 100%.

Impairment of non-financial assets

Intangible assets and deferred development costs not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Company derives its revenue from license fees, monthly subscription fees and support services, initial interface, systems configuration and training in accordance with the agreements with the customers, web design services and internet marketing services.

Commission revenue is earned when the Company charges its customers for the use of software developed either by the Company or by third-party developers, less payments to third-party developers.

Revenue from monthly services is recognized when the services have been performed in accordance with agreements provided that collection of revenue is reasonably assured. Pre-billed subscription fees and support services are deferred and recognized when services have been provided. Revenue from the sale of the software licenses, initial interface and systems configuration do not meet the criteria to be treated as separate units of accounting and are therefore deferred and recognized over the average expected term of the customer relationship, estimated by management to be 36 months. Revenue from web design services is recognized by reference to the stage of completion. Stage of completion is measured by reference to the percentage of the total work completed on a project-by-project basis. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Advances are amounts collected in advance of delivery of services. Advances are recognized in revenue when the service is provided.

Share-Based Payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The Board of Directors grants such options with vesting periods determined at the sole discretion of the Board and at prices reflecting the share price on the date the options were granted. An individual is classified as an employee when the individual is an employee for legal or tax purposes ("direct employee") or provides services similar to those performed by a direct employee, including directors of the Company.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Payments (Continued)

The fair value is measured at the grant date and recognized, together with a corresponding increase in share option reserve in equity, over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options are granted. The cumulative expense recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of options that will ultimately vest. The income statement expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for account purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realized or liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets. The effect on deferred income tax assets and liabilities of a change of statutory tax rates is recognized in net earnings in the year of the change. Deferred income tax assets are recorded when their recoverability is considered probable and is reviewed at the end of each reporting period.

Earnings (Loss) Per Share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive. Options and warrants are dilutive when they would result in the issue of common shares for less than the average market price of common shares during the period minus the issue price. For the years ended December 31, 2014 and 2013 all options are anti-dilutive.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Disclosure

The Company's primary objective when managing capital is to maintain sufficient resources and raise funding to support current and long-term operating needs. The ability to continue as a going concern is essential to the Company's goal of providing returns and shareholders and other stakeholders. The capital structure of the Company consists of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. The Company balances its overall capital through new share issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements. There have been no significant changes in the Company's approach to capital management during the year.

Business Combinations and Goodwill

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the acquisition date fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquire. Any transaction costs attributable to the business combination are recognized in profit or loss as incurred. Any contingent consideration to be transferred will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured. Subsequent settlement is accounted for within equity.

Any goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, a gain is recognized immediately in the net earnings in the period in which the acquisition occurred.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Combinations and Goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of annual impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

A summary of the policies applied to the Company's intangible assets is as follows:

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Intangible Assets (Continued)**

	Customer Relationships	Backlog
Useful Lives	5 years	5 years
Amortization method used	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired

Deferred development costs

The Company carries on various research and development activities to develop new proprietary products. Net research costs are expensed in the periods in which they are incurred. Development costs that meet all of the criteria to be recognized as an intangible asset, including reasonable expectation regarding future economic benefits, are recognised as assets and recorded in deferred development costs. Following initial recognition, the deferred development costs are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the assets begins when development is complete and the asset is available for use. The deferred development costs are being amortized on straight line method over the period of expected future benefit, which is estimated to be 36 months. During the period of development, the asset is tested for impairment annually.

Financial InstrumentsFinancial Assets

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, long-term receivables, bank operating line of credit, accounts payable and accrued liabilities, acquisition payable, and loan payable. Cash and cash equivalents and bank operating line of credit are classified as fair value through profit or loss and recorded at fair value. Accounts receivable and long-term receivables are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, acquisition payable and loan payable are classified as other financial liabilities, which are measured at amortized cost. The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial Assets (Continued)

Fair value through profit or loss – this category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations.

Loans and receivables – these assets are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default.

Held-to-maturity investments – these assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations.

Available-for-sale – non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of operations and comprehensive loss.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

All financial assets, except those at fair value through profit or loss, are subject to review for whether there is any objective evidence of impairment at least at each reporting date. Different criteria are applied for each category of financial assets described above to determine impairment. If there is objective evidence that an impairment loss has been incurred, the amount of impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The amount of loss is recognized in the statement of operations. The previously recognized impairment loss is reversed in a subsequent period if the amount of impairment loss decreases and the decrease is related to an event occurring after the initial recognition of the impairment loss. However, the reversal will not result in the carrying amount of the financial asset that exceeds the amortized cost would have been had the impairment not been recognized at the date of impairment reversal. The amount of impairment reversal is recognized in the statements of operations and comprehensive loss.

Financial Liabilities

The Company classifies its financial liabilities into one of two categories, at initial recognition. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – this category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in the fair value recognized in the statement of operations.

Other financial liabilities – this category includes bank operating line of credit, accounts payable and accrued liabilities, acquisition payable, and loan payable, all of which are recognized at amortized cost.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in accounting policies

The following new or amended standards, and their resulting consequential amendments, were applied for the first time in the current year:

IFRS 2 Share-based payment

The amendments to IFRS 2, issued in December 2013 clarify the definition of “vesting conditions”, and separately define a “performance condition” and a “service condition”. A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014. All share based payments were recorded prior to July 1, 2014 and no share-based payment obligations exist at December 31, 2014.

IAS 36 Impairment of assets

The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and
- Additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014. The application of this standard did not result in additional disclosure.

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.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 3 Business combinations

The amendments to IFRS 3, issued in December 2013, clarify the accounting for contingent consideration in a business combination. At each reporting period, an entity measures contingent consideration classified as an asset or a financial liability at fair value, with changes in fair value recognized in profit or loss. The amendments are effective for business combinations for which the acquisition date is on or after July 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

Additional amendments to IFRS 3, issued in December 2013, clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendments are effective for annual periods beginning on or after July 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires the classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The two categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity's "own credit risk" is now recognized in other comprehensive income instead of in profit or loss. This new standard will also impact disclosures provided under IFRS 7 Financial instruments: disclosures.

In November 2013, the IASB amended IFRS 9 for the significant changes to hedge accounting. In addition, an entity can now apply the "own credit requirement" in isolation without the need to change any other accounting for financial instruments. The mandatory effective date of January 1, 2015 has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Issued but Not Yet Effective (Continued)

IFRS 13 Fair value measurement

The amendments to IFRS 13, issued in December 2013, clarify that the portfolio exception applies to all contracts within the scope of IFRS 9 Financial instruments or IAS 39 Financial instruments: Recognition and measurement, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial instruments: Presentation. The amendments are effective for annual periods beginning on or after July 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS requires that the transaction price in the customer contract be applied to specific performance obligations. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment. The standard is mandatorily effective for annual periods beginning on or after January 1, 2017. The company has not fully assessed the impact of IFRS 15 to its recognition of revenue but does not expect a material impact to the recognition of revenue which is already tied to performance obligations.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets

The amendments to IAS 16 and IAS 38, issued in December 2013, clarify how an entity calculates the gross carrying amount and accumulated depreciation when a revaluation is performed. The amendments are effective for annual periods beginning on or after July 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Issued but Not Yet Effective (Continued)

IAS 24 Related party disclosures

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

4. ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES

The aging analysis of accounts receivable is as follows:

	Total	Current	31 - 60 Days	60 - 90 Days	> 90 Days
December 31, 2014	\$ 202,284	\$ 36,499	\$ 124,108	\$ 6,414	\$ 35,263
December 31, 2013	\$ 233,466	\$ 132,402	\$ 62,266	\$ 13,871	\$ 24,927

As at December 31, 2014, there is a long-term receivable balance of \$2,625 (2013 - \$nil), being the receivable balances from the Company's "in-house" financing arrangements, whereby the customers are paying for services over the term of their agreements (usually three years). The balances are measured at amortized cost using effective interest rate. As at December 31, 2014, the long-term receivables are due in one to two years.

As at December 31, 2014, accounts receivable of an initial value of \$26,750 (2013 - \$262) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2014 AND 2013**

(Expressed in Canadian dollars)

4. ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES (Continued)

	\$
As of December 31, 2012	262
Charge for the year	51,026
Utilized	(51,026)
As of December 31, 2013	262
Charge for the year	51,251
Utilized	(24,762)
As of December 31, 2014	26,750

5. PREPAID EXPENSES AND LONG-TERM PREPAID EXPENSES

Prepaid expense balances represent advances paid to suppliers in the fiscal year 2014 for services to be rendered.

Long-term prepaid expense represents rental deposits paid to the landlords in relation to the office lease agreements for its premises. The deposits are classified as long-term assets since the leases mature beyond December 31, 2015.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

6. EQUIPMENT

Cost	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2012	\$ 131,486	\$ 64,286	\$ 10,556	\$ 5,415	\$ 211,743
Additions	-	-	1,567	-	1,567
Disposals	-	-	-	-	-
December 31, 2013	131,486	64,286	12,123	5,415	213,310
Additions	6,950	-	8,695	-	15,645
Disposals	-	-	-	-	-
December 31, 2014	\$ 138,436	\$ 64,286	\$ 20,818	\$ 5,415	\$ 228,955

Accumulated Amortization	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2012	\$ 129,638	\$ 64,286	\$ 1,235	\$ 5,415	\$ 200,574
Additions	1,107	-	3,430	-	4,537
Disposals	-	-	-	-	-
December 31, 2013	130,745	64,286	4,665	5,415	205,111
Additions	2,095	-	4,805	-	6,900
Disposals	-	-	-	-	-
December 31, 2014	\$ 132,840	\$ 64,286	\$ 9,470	\$ 5,415	\$ 212,011

Carrying Amounts	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
December 31, 2013	\$ 741	\$ -	\$ 7,458	\$ -	\$ 8,199
December 31, 2014	\$ 5,596	\$ -	\$ 11,348	\$ -	\$ 16,944

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2014 AND 2013**

(Expressed in Canadian dollars)

7. DEFERRED DEVELOPMENT COSTS

During the year the Company wrote off \$168,891 of Insight Web project due to a change in technology and the direction of development which rendered a portion of the previous work to be obsolete. Development costs related to X-Key and PCI compliance as the technology will not be utilized in future versions of RoomKey PMS and were written off in the year.

Cost	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Total
December 31, 2012	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ -	\$ 9,000	\$ 803,235
Additions	-	-	-	-	221,484	-	221,484
December 31, 2013	75,900	423,586	73,839	220,910	221,484	9,000	1,024,719
Additions	-	-	-	-	85,590	-	85,590
December 31, 2014	\$ 75,900	\$ 423,586	\$ 73,839	\$ 220,910	\$ 307,074	\$ 9,000	\$ 1,110,309

Accumulated Amortization	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Total
December 31, 2012	\$ 75,900	\$ 182,405	\$ 49,298	\$ -	\$ -	\$ -	\$ 307,603
Additions	-	80,392	8,181	73,637	-	-	162,210
Disposals	-	-	-	-	-	-	-
December 31, 2013	75,900	262,797	57,479	73,637	-	-	469,813
Additions	-	35,681	4,079	49,090	-	-	88,850
Disposals	-	125,108	12,281	-	168,891	-	306,280
December 31, 2014	\$ 75,900	\$ 423,586	\$ 73,839	\$ 122,727	\$ 168,891	\$ -	\$ 864,943

Carrying Amounts	Vending Machine	Xkey	PCI Compliance	Insight	Insight Web	Loyalty	Total
December 31, 2013	\$ -	\$ 160,789	\$ 16,360	\$ 147,273	\$ 221,484	\$ 9,000	\$ 554,906
December 31, 2014	\$ -	\$ -	\$ -	\$ 98,183	\$ 138,183	\$ 9,000	\$ 245,366

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

8. INTANGIBLE ASSETS

Cost	Customer Relationships	Backlog of Work	Total
December 31, 2013 and 2014	\$ 17,000	\$ 27,000	\$ 44,000

Accumulated Amortization	Customer Relationships	Backlog of Work	Total
December 31, 2012	\$ 5,525	\$ 8,775	\$ 14,300
Additions	3,400	5,400	8,800
December 31, 2013	8,925	14,175	23,100
Additions	2,267	3,600	5,867
Disposals	5,808	9,225	15,033
December 31, 2014	\$ 17,000	\$ 27,000	\$ 44,000

Carrying Amounts	Customer Relationships	Backlog of Work	Total
December 31, 2013	\$ 8,075	\$ 12,825	\$ 20,900
December 31, 2014	\$ -	\$ -	\$ -

9. OPERATING LINE OF CREDIT AND LOAN PAYABLE

- a) The Company has an operating line of credit limit of up to \$35,000, with interests, at Royal Bank of Canada, of prime plus 1.5% payable monthly. As at December 31, 2014, the Company had \$nil (2013 - \$25,000) outstanding on its operating line. As at December 31, 2014, the effective rate on this loan was 4.25%. There is no asset pledged or guarantee for the operating line of credit.
- b) The loan payable consists of a former director's personal line-of-credit that the Company has assumed and a short-term loan of \$65,000, which both were used for the Company's operations. The line-of-credit loan is due on demand and repayable in monthly instalments of approximately \$3,000 and with interests at Royal Bank of Canada prime plus 1.25% per annum payable monthly. The short-term loan was due at the end of 2014 with interest payable monthly at 10% per annum. Both line-of-credit and short-term loan were fully repaid in the year. (2013: \$7,367)

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2014 AND 2013**

(Expressed in Canadian dollars)

10. DEFERRED REVENUE AND CUSTOMER ADVANCES

Deferred revenue consists of pre-billed services, license fees, subscription fees and web design fees as follows:

		December 31, 2014		December 31, 2013
Deferred revenue	\$	249,321	\$	231,662
Current portion		(222,812)		(193,010)
Long-term portion	\$	26,509	\$	38,652

Deferred revenue are recognized in revenue when the service is provided.

11. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Escrow Shares

As at December 31, 2014, the Company has no escrow shares.

During the year ended December 31, 2013, 625,000 common shares in escrow were canceled and returned to the treasury on the basis of one share for every \$0.064 in cumulative net cash flows not previously applied towards release, as approved by regulatory authorities.

Private Placement

On October 24, 2014, The Company announced the completion of its private placement, issuing 12,499,999 units at \$0.12 per unit for a total gross proceeds of \$1,500,000 of which \$10,482 was received subsequent to the year end. Each unit was comprised of one common share and one-half of a share purchase warrant, with a whole warrant entitling the holder to purchase an additional common share at a price of \$0.25 for a period of two years, expiring on October 16, 2016.

The Company incurred \$19,985 share issuance cost in relation to the private placement.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

11. SHARE CAPITAL (Continued)

Stock Options

On May 27, 2014, the Board of Directors granted 1,000,000 stock options to the directors of the Company at an exercise price of \$0.12 per share with a term of 5 years and 100% vested on grant date. In addition, on the same day, the Board of Directors also granted 200,000 stock options to the members of the Advisory Board of the Company at the same terms as the options granted to directors.

On June 20, 2014, the Board of Directors granted 150,000 stock options to the newly appointed director of the Company at an exercise price of \$0.12 per share with a term of 5 years and 100% vested on grant date.

The fair value of the stock options granted during the year was \$0.10 where the fair value of the shares are greater than or equal to the exercise price and was calculated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	May 27, 2014	June 20, 2014
	Grant	Grant
Risk-free interest rate	1.59%	1.64%
Expected life of options in years	5 years	5 years
Expected volatility	110%	109%
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

During the year, stock-based compensation expense of \$124,500 (2013 - \$nil) was recognized. As at December 31, 2014, all options granted were vested.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

11. SHARE CAPITAL (Continued)

A summary of the Company's stock options as at December 31, 2014 and 2013 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as at December 31, 2012	1,452,500	\$ 0.11
Cancelled & Expired	(602,500)	\$ 0.14
Options outstanding as at December 31, 2013	850,000	\$ 0.10
Granted	1,350,000	\$ 0.12
Options outstanding as at December 31, 2014	2,200,000	\$ 0.11

The weighted average remaining contractual life of the outstanding stock options at December 31, 2014 is 3.58 years (2013 – 3.24 years).

Date Issued	Number of Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
March 27, 2012	850,000	\$ 0.10	March 27, 2017	2.24
May 27, 2014	1,200,000	\$ 0.12	May 27, 2019	4.41
June 20, 2014	150,000	\$ 0.12	June 20, 2019	4.47
	2,200,000	\$ 0.11		3.58

Warrants

A summary of the Company's warrants as at December 31, 2014 and 2013 are as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding as at December 31, 2013	1,250,000	\$ 0.15
Exercised	(450,000) *	\$ 0.15
Issued September 2, 2014	6,250,000	\$ 0.12
Warrants outstanding as at December 31, 2014	7,050,000	\$ 0.12

* Warrants were exercised during the year but not yet issued as at the date of the audit report.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

(Expressed in Canadian dollars)

11. SHARE CAPITAL (Continued)

The weighted average remaining contractual life of the outstanding warrants at December 31, 2014 and 2013 is as follows:

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
December 30, 2013	800,000	\$ 0.15	December 30, 2015	1.00
September 2, 2014	6,250,000	\$ 0.12	October 21, 2016	1.75
Warrants outstanding as at December 31, 2014	7,050,000			1.66

12. RELATED PARTY TRANSACTIONS

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

- a) Consulting fee of \$42,000 (2013 - \$42,000) was paid to a director of the Company.
- b) Director fee of \$12,000 (2013 - \$12,000) was paid to a director of the Company.
- c) Employee benefits of \$619,360 (2013 - \$505,621) were paid to key management personnel.
- d) Bonus of \$nil (2013 - \$nil) was paid to the CEO of the Company; and \$nil (2013 - \$10,000) was paid to the VP Sales of the Company.
- e) A non-interest bearing short-term loan was borrowed from an officer of the Company. The amount was repaid in fully by December 31, 2014 (2013 - \$65,000).

Included in accounts payable and accrued liabilities at December 31, 2014 is \$3,513 (2013 – \$2,820) receivable from directors.

These transactions are in the normal course of the operations on normal commercial terms and conditions and at market rates, which is the amount of consideration established and agreed to by the related parties.

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

13. 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 and cash equivalents, accounts receivable and long-term receivables.

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

As at December 31, 2014, there is \$35,263 (2013 - \$24,927) included in accounts receivable that is greater than 90 days old. However, the credit risk of these receivables is mitigated as they are generally comprised of sales involving "in-house" financing arrangements whereby the customer is paying for services over the term of their agreement. In-house financing arrangements are only provided to those customers following a valuation of their credit worthiness.

Currency Risk

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. During the year ended December 31, 2014, 62% (2013 – 48%) of the Company's annual sales were dominated in US dollars. As a result, the relative strength of the Canadian dollar against its US counterpart during the year ended December 31, 2014 had an effect on revenue and net income (loss). A 10% variation of the US dollar would have an impact of approximately \$210,000 (2013 - \$140,000) on net income (loss), on an annual basis. The Company does not hedge its foreign currency exposure and accordingly is at risk for foreign currency price fluctuations.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

13 FINANCIAL INSTRUMENTS (Continued)

Financial Risk Management (Continued)

Interest Rate Risk

The Company is subject to interest rate risk on bank operating line of credit and loan payable as these amounts pay interests at variable rates; however there is unlikely to be a material impact on net income (loss).

Liquidity Risk

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

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

A factor that affects the liquidity risk is that significant portions of the Company's revenue are derived from a small number of customers. During the year ended December 31, 2014, three customers (2013 – one customer) accounted for approximately 20% (2013 – 10%) of the Company's revenue. For the year ended December 31, 2014, two customers (2013 – three customers) accounted for a total of 37% (2013 – 29%) of the Company's accounts receivable.

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves to meet its liquidity requirements at any point in time. Management has assessed liquidity risk and does not consider it to be significant.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

13 FINANCIAL INSTRUMENTS (Continued)

Financial Risk Management (Continued)

The Company has classified its financial instruments as follows:

	2014	2013
	\$	\$
Financial Assets		
Fair value through profit and loss, measured at fair value:		
Cash and cash equivalents	1,269,787	179,410
Loans and accounts receivables, recorded at amortized cost:		
Accounts receivable	202,284	233,466
Long-term receivables	2,625	-
Financial Liabilities		
Fair value through profit and loss, measured at fair value:		
Bank operating line of credit	-	25,000
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	391,252	242,306
Loan payable	-	72,367

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

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2014 AND 2013**

(Expressed in Canadian dollars)

13 FINANCIAL INSTRUMENTS (Continued)

The carrying value of cash and cash equivalents, accounts receivable, bank operating line of credit accounts payable and accrued liabilities and loan payable approximates the fair value because of the short-term of these instruments. The long-term accounts receivable is measured at amortized cost using effective interest rate.

The Company's financial instruments that must be recorded at fair value are presented in the following table:

As at December 31, 2014	Carrying Value	Fair Value Measurement		
		Level 1	Level 2	Level 3
Financial Assets				
Cash and cash equivalents	\$ 1,269,787	\$ 1,269,787	\$ -	\$ -
Financial Liabilities				
Bank operating line of credit	\$ -	\$ -	\$ -	\$ -

As at December 31, 2013	Carrying Value	Fair Value Measurement		
		Level 1	Level 2	Level 3
Financial Assets				
Cash and cash equivalents	\$ 179,410	\$ 179,410	\$ -	\$ -
Financial Liabilities				
Bank operating line of credit	\$ 25,000	\$ 25,000	\$ -	\$ -

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2013 AND 2012**

(Expressed in Canadian dollars)

14. SEGMENTED DISCLOSURE

During the year ended December 31, 2014, the Company no longer separately managed its operating businesses as the Company has ceased its web design and internet marketing operation and now only has one segment, being reservation and property management system. A geographical breakdown of sales to customers is as follows:

	<u>December 31, 2014</u>		<u>December 31, 2013</u>		
	Reservation and Property Management System	Reservation and Property Management System	Web Design and Internet Marketing	Total	
Canada	\$ 811,469	\$ 719,881	\$ 642,776	\$ 1,362,656	
USA	2,076,192	1,351,228	51,817	1,403,045	
Other	439,667	179,263	-	179,263	
Total	\$ 3,327,328	\$ 2,250,372	\$ 694,593	\$ 2,944,965	

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

15. COMMITMENTS

The Company entered into an office lease agreement for its premises on October 1, 2012. The lease expires on September 30, 2017. In December 2013, the Company's landlord exercised a relocation clause in the lease agreement to relocate the Company to another office space. Management deemed the office space to be unsuitable for the Company's use. Unable to terminate the signed lease agreement, in February 2014 the Company agreed to a much smaller office space and renegotiated the terms of the lease agreement. The "new" lease is a continuation of the existing lease agreement and expires on September 30, 2017. The remaining minimum lease payments are as follow:

2015	\$ 23,220
2016	23,220
2017	<u>17,895</u>
Total	<u>\$ 64,335</u>

RSI INTERNATIONAL SYSTEMS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Expressed in Canadian dollars)

15. COMMITMENTS (Continued)

As of October 2014, the company has entered into a sub-lease agreement for the term November 1, 2014 to September 29, 2017. Payments receivable under the lease are as follows:

2015	\$ 30,000
2016	30,000
2017	<u>22,500</u>
Total	<u>\$ 82,500</u>

Due to the above situation, in February 2014, the Company entered into another office lease agreement for its current premises. The lease expires on March 31, 2019. The minimum lease payments are as follows:

2015	\$ 82,189
2016	83,039
2017	83,888
2018	84,738
2019	<u>21,238</u>
Total	<u>\$ 355,092</u>

In addition, the Company entered into a data service agreement for its data centre. The agreement expires on September 30, 2015. The remaining minimum payments (in USD) in 2015 are \$89,060.

See Note 4.

RSI INTERNATIONAL SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in Canadian dollars)

16. INCOME TAX

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations for the years ended December 31, 2014 and 2013:

	2014	2013
Net income (loss) before tax	\$ (1,052,988)	\$ (65,047)
Expected income tax expense (recovery) at 26% (2013 - 25.75%)	(273,777)	(16,752)
Non-deductible items	33,955	117
Changes in enacted rates	-	(17,268)
Share issuance costs	(5,196)	-
Change in estimates	27,152	309,789
Change in deferred tax assets not recognized	217,866	(275,886)
Income tax payable	\$ -	\$ -

The British Columbia corporate tax rate has increased during the year, resulting in an increase in the Company's combined statutory tax rate.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) at December 31, 2014 and 2013 are comprised of the following:

	2014	2013
Non-capital loss carried forward	\$ 513,000	\$ 333,000
Intangible assets	102,000	71,000
Equipments	58,000	57,000
Financing costs	4,000	-
Charitable donations	1,000	-
	678,000	461,000
Deferred tax asset not recognized	(678,000)	(461,000)
Net deferred tax asset (liability)	\$ -	\$ -

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2014 AND 2013**

(Expressed in Canadian dollars)

17. INCOME TAX (Continued)

The Company has operating loss carry forward of approximately \$1,971,000 (2013: \$1,281,000) at December 31, 2014 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expire years	\$
2015	516,000
2026	453,000
2027	124,000
2028	41,000
2030	14,000
2032	244,000
2033	80,000
2034	499,000
	1,971,000

The deferred tax assets have not been recognized because at this stage of the Company's development, it is not probable that future taxable profit will be available against which the Company can utilize such deferred tax assets.