

RSI INTERNATIONAL SYSTEMS INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2018

(Unaudited)

(In Canadian Dollars)

RSI International Systems Inc.

Notice to Reader:

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

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

	Notes	September 30, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ 200,085	\$ 101,736
Accounts Receivable, net of allowance	4	183,389	114,718
Prepaid Expenses	5	43,350	92,880
		426,824	309,334
Long-Term Prepaid Expenses	5	24,845	34,932
Equipment	6	15,907	41,320
Deferred Development Costs	7	1,259,579	1,344,538
		\$ 1,727,155	\$ 1,730,124
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts Payable & Accrued Liabilities		532,464	530,310
GST Payable		10,547	2,574
Deferred Revenue	8	504,595	476,942
		1,047,606	1,009,826
Security Deposit	14	57,993	97,729
		1,105,599	1,107,555
Shareholders' Equity			
Share Capital	9	5,633,039	5,633,039
Contributed Surplus		567,211	556,634
Deficit		(5,578,694)	(5,567,104)
		621,556	622,569
		\$ 1,727,155	\$ 1,730,124

Note 1 – Nature of operations and going concern

Note 14 – Commitments

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

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

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
REVENUES	\$ 1,280,750	\$ 1,301,156	\$ 3,716,698	\$ 3,946,851
COST OF SALES	236,636	200,094	702,391	567,415
GROSS PROFIT	1,044,114	1,101,062	3,014,307	3,379,436
EXPENSES				
Amortization of Equipment	7,646	9,886	25,412	31,031
Amortization of Deferred Development Costs	51,044	32,438	134,815	143,375
Bad Debt	(2,778)	173,928	18,510	185,881
Business Development and Travel	5,049	23,095	16,289	94,737
Filing and Transfer Agent Fees	865	1,913	9,733	15,152
Foreign Exchange (Gain) Loss	(3,575)	(21,755)	9,250	(27,611)
Internet and Networking	7,801	11,114	24,094	35,617
Interests and Bank Charges	13,046	12,165	40,327	40,285
Investor Relations	-	4,074	5,215	13,161
Marketing	40,076	73,775	187,552	232,250
Office and Miscellaneous	10,720	19,347	35,842	67,514
Professional Fees	83,580	56,345	227,454	207,539
Rent and Utilities	2,349	97,244	36,355	288,297
Salaries and Benefits	664,462	624,151	2,211,271	2,005,193
Stock-based Compensation	4,785	18,882	10,577	100,710
Software Licenses	12,046	14,949	33,201	49,651
	897,116	1,151,551	3,025,897	3,482,781
NET AND COMPREHENSIVE INCOME				
(LOSS) FOR THE PERIOD	146,998	(50,489)	(11,590)	(103,345)
Earnings (Loss) Per Share - Basic and Diluted	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding – basic	36,835,278	36,685,278	36,835,278	36,549,984
– diluted	36,835,278	36,685,278	36,835,278	36,549,984

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

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

	Issued Common Shares		Contributed Surplus	Deficit	Total Equity
	Number	Amount Received			
		\$	\$	\$	\$
BALANCE, DECEMBER 31, 2016	36,110,278	5,512,330	480,144	(5,026,445)	966,029
Shares issued upon exercise of options	575,000	57,500	-	-	57,500
Fair value of options exercised	-	28,952	(28,952)	-	-
Stock-based compensation	-	-	100,710	-	100,710
Net and comprehensive loss for the period	-	-	-	(103,345)	(103,345)
BALANCE, SEPTEMBER 30, 2017	36,685,278	5,598,782	551,902	(5,129,790)	1,020,894
Shares issued upon exercise of options	150,000	18,000	-	-	18,000
Fair value of options exercised	-	16,257	(16,257)	-	-
Stock-based compensation	-	--	20,989	-	20,989
Loss and comprehensive loss for the period	-	-	-	(437,314)	(437,314)
BALANCE, DECEMBER 31, 2017	36,835,278	5,633,039	556,634	(5,567,104)	622,569
Stock-based compensation	-	-	10,577	-	10,577
Loss and comprehensive loss for the period	-	-	-	(11,590)	(11,590)
BALANCE, SEPTEMBER 30, 2018	36,835,278	5,633,039	567,211	(5,578,694)	621,556

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

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

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss) for the Period	\$ 146,998	\$ (50,489)	\$ (11,590)	\$ (103,345)
Items not Affecting Cash:				
Amortization of Equipment	7,646	9,886	25,412	31,031
Amortization of Deferred Development Costs	51,044	32,438	134,815	143,375
Bad Debt	(2,778)	173,928	18,510	185,881
Stock-based Compensation	4,785	18,882	10,577	100,710
	207,695	184,645	177,724	357,652
Changes in Non-Cash Working Capital Items:				
Increase in Accounts Receivable	(9,815)	(38,848)	(87,181)	(113,134)
Decrease(increase) in Prepaid Expenses	34,053	16,919	59,620	(63,220)
Increase in Accounts Payable and Accrued Liabilities	(7,178)	(78,196)	2,152	75,940
(Decrease) increase in GST Payable	6,049	11,639	7,973	403
Increase (decrease) in Deferred Revenue	(27,121)	(38,500)	27,653	(37,680)
Net Cash Provided by Operating Activities	203,683	57,658	187,941	219,961
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Equipment	-	-	-	(1,785)
Deferred Development Costs	-	(166,762)	(49,856)	(498,084)
Net Cash Used in Investing Activities	-	(166,762)	(49,856)	(499,869)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowing (Repayment) of Operating Line of Credit	-	-	-	-
Security Deposit	-	-	(39,736)	-
Issuance of shares upon exercise of options	-	-	-	57,500
Net Cash (Used in) Provided by Financing Activities	-	-	(39,736)	57,500
Change in Cash During the Period	203,683	(109,104)	98,349	(222,408)
Cash and Cash Equivalents, Beginning of Period	(3,598)	265,463	101,736	378,767
Cash and Cash Equivalents, End of Period	\$ 200,085	\$ 156,359	\$ 200,085	\$ 156,359

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

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 20, 2018.

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

Since 2012, the Company has focused on product development and enhancement, as well as sales and marketing activities. These activities have been funded by a combination of revenue generated from the sale of the Company’s products and services, equity financings, lines of credit and short-term loans. The Company’s expenses have exceeded its revenue during the nine months 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).

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

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.

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
SEPTEMBER 30, 2018 *(Unaudited, 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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

These unaudited condensed consolidated interim financial statements are based on the IFRS effective as of 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:

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

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.

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

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it

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

believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

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

4. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Total	Current	31 - 60 Days	60 - 90 Days	> 90 Days
September 30, 2018	\$ 183,389	\$ 64,529	\$ 48,743	\$ 9,000	\$ 61,117
December 31, 2017	\$ 114,718	\$ 61,162	\$ 16,928	\$ 130	\$ 36,498

As at September 30, 2018, accounts receivable of an initial value of \$18,274 (December 31, 2017 – \$22,902) were impaired and fully provided for allowance. See below for the movements in the provision for impairment of receivables.

	\$
As of December 31, 2016	13,000
Charge for the year	25,154
Utilized	(15,252)
As of December 31, 2017	22,902
Charge for the year	18,510
Utilized	(23,138)
As of September 30, 2018	18,274

5. PREPAID EXPENSES AND LONG-TERM PREPAID EXPENSES

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

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

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
SEPTEMBER 30, 2018 *(Unaudited, in Canadian dollars)***6. EQUIPMENT**

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

Accumulated Amortization	Computer Equipment	Office Equipment	Total
December 31, 2016	155,744	38,661	194,405
Additions	17,709	22,647	40,356
December 31, 2017	173,453	61,308	234,761
Additions	11,801	13,611	25,412
September 30, 2018	\$ 185,254	\$ 74,919	\$ 260,173

Carrying Amounts	Computer Equipment	Office Equipment	Total
December 31, 2017	\$ 18,668	\$ 22,652	\$ 41,320
September 30, 2018	\$ 6,866	\$ 9,041	\$ 15,907

7. DEFERRED DEVELOPMENT COSTS

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

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Accumulated Amortization	Roomkey Web
December 31, 2016 \$	86,184
Additions	160,473
December 31, 2017	246,657
Additions	134,815
September 30, 2018 \$	381,472

Carrying Amounts	Roomkey Web
December 31, 2017 \$	1,344,538
September 30, 2018 \$	1,259,579

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

To date, the Company has released mobile housekeeping, an enhanced credit card security platform, and a fuzzy-logic guest data management system named Profile Match and Merge.

8. DEFERRED REVENUE AND CUSTOMER ADVANCES

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

At September 30, 2018, 88% (December 31, 2017 – 83%) of deferred revenue was denominated in US dollars, with the remaining 12% (December 31, 2017 – 17%) in Canadian dollars.

9. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Escrow Shares

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

RSI INTERNATIONAL SYSTEMS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
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Exercise of Options

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

Stock Options

On January 25, 2017, the Company implemented the amended stock option plan previously approved by shareholders at its annual general meeting held on August 24, 2016. The Company has also granted 1,375,000 incentive stock options to the officers, managers and directors of the Company at an exercise price of \$0.20 per share with a term of five years and vesting 1/3 immediately, 1/3 on the first year anniversary date, and 1/3 on the second year anniversary date. On the same date, the Company also cancelled 200,000 stock options valued at \$0.12 and expiring on May 27, 2019. In September 2017, the Company cancelled an additional 350,000 options valued at \$0.12 and expiring on May 27, 2019.

On November 15, 2017, the Company granted to one of its managers 50,000 stock options at an exercise price of \$0.20 per share with a term of five years and vesting 1/3 immediately, 1/3 on the first year anniversary date, and 1/3 on the second year anniversary date.

The fair value of the stock options granted during the period was calculated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	January 23, 2017 Grant	November 15, 2017 Grant
Risk-free interest rate	0.99%	1.58%
Expected life of warrants in years	5 years	5 years
Expected volatility	105.50%	92.56%
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

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

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

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

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

The weighted average remaining contractual life of the outstanding stock options as at September 30, 2018 is 3.36 years (December 31, 2017 – 3.56 years).

Date Issued	Number of Options	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
January 23, 2017	900,000	\$ 0.20	January 23, 2022	3.32
November 15, 2017	50,000	\$ 0.20	November 15, 2022	4.13
	950,000	\$ 0.20		3.36

Warrants

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

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

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

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

Date Issued	Number of Warrants	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (in Years)
November 17, 2016	3,785,845	\$ 0.20	November 17, 2018	0.13
November 17, 2016	102,623	0.20	November 17, 2018	0.13
December 23, 2016	357,307	0.20	December 23, 2018	0.23
December 23, 2016	9,900	0.20	December 23, 2018	0.23
Warrants outstanding as at December 31, 2017 and September 30, 2018	4,255,675	\$ 0.20		0.14

10. LINE OF CREDIT

In October 2017 the Company negotiated a line of credit arrangement with its bank for up to \$400,000. The interest charged will be prime + 5.93%. The Company is required to maintain monthly recurring revenue of not less than \$200,000 calculated on a rolling three-month average and 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 at September 30, 2018 the Company had an outstanding balance of \$nil (December 31, 2017 - \$nil) on the facility.

11. RELATED PARTY TRANSACTIONS

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

1. Salaries and employee benefits of \$348,403 (September 30, 2017 – \$439,923) were paid to key management personnel.

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

12. FINANCIAL INSTRUMENTS**Financial Risk Management***Credit Risk*

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

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

As at 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 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.

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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 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).

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves to meet its liquidity requirements at any point in time. Management recognizes the Company may need to expand its cash reserves in the coming year if it intends to adhere to its sales, marketing, and product development plans, and has evaluated its potential sources of funds, including: increased revenue from sale of its products and services, possible debt and equity financing options, and divestiture of assets. Although Management intends to assess and act on these options through the course of the year, there can be no assurance that the steps Management takes will be successful. Please see description of LOI discussed in note 1.

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.

Other than the requirements relating to the line of credit arrangement noted above, the Company is not subject to any other externally imposed capital requirements as at September 30, 2018. The

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

Company's overall strategy with respect to management of capital at September 30, 2018 remains fundamentally unchanged from the year ended December 31, 2017.

The Company has classified its financial instruments as follows:

	September 30, 2018 \$	December 31, 2017 \$
Financial Assets		
Fair value through profit and loss, measured at fair value:		
Cash	200,085	101,736
Loans and receivables, recorded at amortized cost:		
Accounts receivable	183,389	114,718
Financial Liabilities		
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	532,464	530,310
Line of Credit	-	-

Fair Value

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

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

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

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

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

A geographical breakdown of sales to customers is as follows:

	Nine Months Ended		Nine Months Ended	
	September 30, 2018	%	September 30, 2017	%
Canada	\$ 590,857	16%	\$ 688,901	17%
USA	2,627,053	71%	2,904,684	74%
Other	498,788	13%	353,266	9%
Total	\$ 3,716,698	100%	\$ 3,946,851	100%

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

14. COMMITMENTS

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

2018	\$ 21,237
2019	21,237
Total	<u>\$ 42,474</u>

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

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

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

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

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2018	\$	48,437
2019		201,654
2020		201,654
2021		192,098
Total	\$	<u>643,843</u>

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

2018	\$	55,356
2019		221,424
2020		221,424
2021		202,972
Total	\$	<u>701,176</u>

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

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

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

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

15. SUBSEQUENT EVENTS

No subsequent events.