



VERSUS
S Y S T E M S

RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

SIX MONTH PERIOD ENDED

JUNE 30, 2020

Notice to Reader

Versus Systems Inc. (the "Company") has restated its unaudited condensed interim consolidated financial statements for the six months ended June 30, 2020 which were previously filed on SEDAR (the "interim financial statements"). Subsequent to the original issuance of the interim financial statements, the Company's external auditors performed an interim review over the interim financial statements and as a result of this review, it was concluded that there were accounting errors in the previously filed interim financial statements. These errors have been corrected in the restated unaudited condensed interim consolidated financial statements for the six months ended June 30, 2020. See note 2 of the restated unaudited condensed interim consolidated statements for more detail.

Versus Systems Inc.

Restated Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	June 30, 2020 (Restated-Note 2)	December 31, 2019
	(\$)	(\$)
ASSETS		
Current assets		
Cash	132,680	99,209
Receivables	180,094	44,400
Prepays	2,236	28,003
	315,010	171,612
Restricted deposit (Note 4)	11,497	11,500
Deposits	136,000	129,897
Property and equipment (Note 5)	772,202	948,998
Intangible assets (Note 7)	2,637,410	2,780,347
Total Assets	3,872,119	4,042,354
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	1,641,547	975,405
Deferred revenue	823,126	-
Lease liability (Note 16)	342,327	328,373
Current liabilities	2,807,000	1,303,778
Non-current liabilities		
Lease liability (Note 16)	687,876	794,027
Government note (Note 9)	622,453	-
Notes payable (Note 9)	5,357,281	4,814,767
Total liabilities	9,474,610	6,912,572
Equity		
Share capital (Note 10)		
Common shares	101,939,229	99,505,558
Class "A" shares	37,927	37,927
Share subscriptions received in advance	-	300,000
Reserves (Note 10)	10,367,312	9,832,386
Deficit	(110,803,369)	(106,521,639)
	1,541,099	3,154,232
Non-controlling interest (Note 6)	(7,143,590)	(6,024,450)
	(5,602,491)	(2,870,218)
Total Liabilities and Equity	3,872,119	4,042,354

Nature of operations and going concern (Note 1)

Commitments (Note 16)

Subsequent events (Note 17)

These restated condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 11, 2020. They are signed on behalf of the Board of Directors by:

"Matthew Pierce"
Director

"Brian Tingle"
Director

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

Versus Systems Inc.

Restated Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three Month Period Ended June 30, 2020 (Restated-Note 2)	Three Month Period Ended June 30, 2019 (Restated-Note 2)	Six Month Period Ended June 30, 2020 (Restated-Note 2)	Six Month Period Ended June 30, 2019
			(\$)	(\$)
REVENUES	612,366	431,825	612,626	654,324
EXPENSES				
Amortization (Note 5)	93,131	84,509	176,796	170,965
Amortization of intangible assets (Note 7)	412,800	702,702	953,230	1,566,813
Consulting fees (Note 11)	126,316	123,185	315,817	332,967
Foreign exchange loss (gain)	(95,259)	(3,752)	119,115	(792)
General and administrative	598,684	172,928	982,540	396,353
Interest expense	95,248	43,459	154,734	81,554
Interest expense on lease obligations (Note 16)	28,396	27,441	37,863	56,301
Professional fees	442,987	92,671	533,562	225,952
Salaries and wages (Note 11)	950,184	508,115	1,558,024	1,125,020
Sales and marketing	27,144	40,648	39,043	52,140
Share-based compensation (Note 10)	173,897	230,172	465,658	408,373
	(2,241,162)	(1,590,253)	(4,723,756)	(3,761,322)
Finance expense (Note 9)	(82,934)	(64,827)	(169,064)	(123,766)
Loss on disposal of marketable securities (Note 10)	(508,050)	-	(508,050)	-
Loss and comprehensive loss	(2,832,146)	(1,655,080)	(5,400,870)	(3,885,088)
Loss and comprehensive loss attributable to:				
Shareholders	(2,565,322)	(843,394)	(4,281,730)	(1,999,569)
Non-controlling interest	(266,824)	(811,686)	(1,119,140)	(1,885,519)
	(2,832,146)	(1,655,080)	(5,400,870)	(3,885,088)
Basic and diluted loss per common share attributable to Versus Systems Inc.	(0.02)	(0.01)	(0.03)	(0.02)
Weighted average common shares outstanding	146,624,963	105,610,830	142,971,303	101,122,034

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

Versus Systems Inc.

Restated Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Common Shares	Number of Class "A" Shares	Share Capital		Reserves	Deficit	Share subscriptions received	Equity	Non-controlling Interest	Total Shareholders' Equity
			Common Shares	Class "A" Shares						
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at December 31, 2018	91,478,562	33,713	91,723,017	37,927	8,270,190	(94,973,085)	-	5,058,049	(5,893,609)	(835,560)
Shares issued in private placement	9,987,655	-	2,122,278	-	-	-	-	2,122,278	-	2,122,278
Share issuance costs	-	-	(285,161)	-	-	-	-	(285,161)	-	(285,161)
Acquisition of Versus LLC	9,229,326	-	1,892,012	-	159,778	(4,679,433)	-	(2,627,643)	2,627,643	-
Exercise of warrants	33,888	-	6,778	-	-	-	-	6,778	-	6,778
Contribution benefit	-	-	-	-	182,299	-	-	182,299	-	182,299
Warrants issued	-	-	-	-	94,371	-	-	94,371	-	94,371
Stock-based compensation	-	-	-	-	314,003	-	-	314,003	-	314,003
Loss and comprehensive loss	-	-	-	-	-	(1,999,569)	-	(1,999,569)	(1,885,519)	(3,885,088)
Balance at June 30, 2019	110,729,431	33,713	95,458,924	37,927	9,020,641	(101,652,087)	-	2,865,405	(5,151,485)	(2,286,080)
Shares issued in private placement	22,062,954	-	3,979,247	-	199,753	-	-	4,179,000	-	4,179,000
Share subscriptions received	-	-	-	-	-	-	300,000	300,000	-	300,000
Share issuance costs	-	-	(367,874)	-	82,928	-	-	(284,946)	-	(284,946)
Contribution benefit	-	-	-	-	114,811	-	-	114,811	-	114,811
Exercise of warrants	2,445,917	-	415,892	-	(8,253)	-	-	407,639	-	407,639
Performance warrants issued	-	-	-	-	(81,482)	-	-	(81,482)	-	(81,482)
Exercise of options	50,000	-	19,369	-	(8,369)	-	-	11,000	-	11,000
Stock-based compensation	-	-	-	-	512,357	-	-	512,357	-	512,357
Loss and comprehensive loss	-	-	-	-	-	(4,869,552)	-	(4,869,552)	(872,965)	(5,742,517)
Balance at December 31, 2019	135,288,302	33,713	99,505,558	37,927	9,832,386	(106,521,639)	300,000	3,154,232	(6,024,450)	(2,870,218)
Shares issued in private placement	2,400,000	-	300,000	-	-	-	-	300,000	-	300,000
Share subscriptions received	-	-	300,000	-	-	-	(300,000)	-	-	-
Contribution benefit	-	-	-	-	69,668	-	-	69,668	-	69,668
Exercise of warrants	5,223,333	-	783,500	-	-	-	-	783,500	-	783,500
Shares issued for services and investment	4,330,165	-	1,047,671	-	-	-	-	1,047,671	-	1,047,671
Exercise of options	10,000	-	2,500	-	(400)	-	-	2,100	-	2,100
Stock-based compensation	-	-	-	-	465,658	-	-	465,658	-	465,658
Loss and comprehensive loss	-	-	-	-	-	(4,281,730)	-	(4,281,730)	(1,119,140)	(5,400,870)
Balance at June 30, 2020 (Restated-Note 2)	147,251,800	33,713	101,939,229	37,927	10,367,312	(110,803,369)	-	1,541,099	(7,143,590)	(5,602,491)

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

Versus Systems Inc.

Restated Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

	Six Month Period Ended June 30, 2020 (Restated-Note 2)	Six Month Period Ended June 30, 2019
	(\$)	(\$)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	(5,400,870)	(3,885,088)
Items not affecting cash:		
Amortization (Note 5)	17,456	19,923
Amortization of intangible assets (Note 7)	953,230	1,566,813
Amortization of right-of-use assets (Note 5)	159,340	151,042
Shares issued for services	349,225	-
Finance expense	282,147	180,068
Loss on sale of investment	508,050	-
Effect of foreign exchange	(6,103)	66,906
Forgiveness on government loan	(207,484)	-
Share-based compensation	465,658	408,374
Changes in non-cash working capital items:		
Receivables	(135,694)	(67,582)
Prepays and deposits	25,770	44,862
Deferred revenue	823,126	-
Accounts payable and accrued liabilities	666,142	(226,598)
Cash used in operating activities	(1,500,007)	(1,741,280)
FINANCING ACTIVITIES		
Proceeds from notes payable	443,118	1,976,833
Proceeds from Government PPP loan	829,937	-
Repayment of notes payable	-	(718,228)
Proceeds from warrant exercises	783,500	6,778
Proceeds from option exercises	2,100	-
Payments for lease liabilities	(205,280)	(195,681)
Proceeds from issuance of common shares	300,000	2,122,278
Share issuance costs	-	(285,161)
Cash provided by financing activities	2,153,375	2,906,819
INVESTING ACTIVITIES		
Proceeds from sale of investments	190,396	-
Development of intangible assets	(810,293)	(960,542)
Cash used in investing activities	(619,897)	(960,542)
Change in cash during the period	33,471	204,997
Cash - Beginning of period	99,209	34,000
Cash - End of period	132,680	238,997

Supplemental Cash Flow Information (Note 15)

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

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)



1. NATURE OF OPERATIONS AND GOING CONCERN

Versus Systems Inc. (the “Company”) was continued under the Business Corporations Act (British Columbia) effective January 7, 2007. The Company’s head office and registered and records office is Suite 302 – 1620 West 8th Ave, Vancouver, BC, V6J 1V4, Canada. The Company is traded on the Canadian Securities Exchange (“CSE”) under the symbol “VS” and on the OTCQB market under the trading symbol “VRSSF”.

The Company is engaged in the technology sector and is developing a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players.

These condensed interim consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at June 30, 2020, the Company has not achieved positive cash flow from operations and is not able to finance day to day activities through operations. The Company expects to incur further losses in the development of its business. The March 2020 pandemic outbreak of COVID-19 could continue to have a negative impact on the stock markets, affecting trading prices of the Company’s shares and its ability to raise new capital. These material uncertainties may cast significant doubt as to the ability of the Company to meet its obligations as they come due and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company’s continuation as a going concern is dependent upon its ability to ultimately attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. BASIS OF PRESENTATION**Statement of compliance**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the IFRS Interpretations committee. They do not include all disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements, and therefore should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2019, prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 11, 2020.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value. In addition, these condensed financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company and its subsidiaries.

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)



2. BASIS OF PRESENTATION (continued)**Restatement**

Subsequent to the original issuance of the Company's interim financial statements, the Company's external auditors performed an interim review over the interim financial statements and as a result of the review, it was concluded that there were accounting errors in the previously filed interim financial statements which have been corrected retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The effect of the changes are as follows:

- Current assets and total assets decreased by \$65,343
- Non current liabilities and total liabilities decreased by \$126,878
- Non-controlling interest decreased by \$699,221
- Loss attributable to the Company's shareholders increased by \$621,596
- Cash used in operating activities decreased by \$315,902
- Cash used in investing activities decreased by \$315,630
- Cash provided by financing activities decreased by \$696,875

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of Versus Systems Inc. and its subsidiaries, from the date control was acquired. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation. For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Adjustments to non-controlling interest are accounted for as transactions with owners and adjustments that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Versus Systems (Holdco) Inc.	United States of America	66.8%	Holding Company
Versus Systems UK, Ltd.	United Kingdom	66.8%	Sales Company
Versus LLC	United States of America	66.8%	Technology Company

Significant Accounting Judgments, Estimates and Assumptions

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on historical experience and management's assessment of current events and other facts and circumstances that are considered to be relevant. Actual results could differ from these estimates.

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)



2. BASIS OF PRESENTATION (continued)**Significant Accounting Judgments, Estimates and Assumptions**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting year, 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:

i) Deferred income taxes

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in 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.

ii) Economic recoverability and probability of future economic benefits of intangible assets

Management has determined that intangible asset costs which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life.

Significant Accounting Judgments, Estimates and Assumptions**iii) Valuation of share-based compensation**

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

iv) Depreciation and Amortization

The Company's intangible assets and equipment are depreciated and amortized on a straight-line basis, taking into account the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, net loss, and comprehensive income (loss) in future periods.

v) Valuation of right-of-use asset and lease liabilities

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include: determining agreements in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

The present value of the lease payment is determined using a discount rate representing the Company's incremental borrowing rate.

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)

**2. BASIS OF PRESENTATION (continued)****Significant Accounting Judgments, Estimates and Assumptions (continued)**

Significant judgements that have the most significant effect on the amounts recognized in these financial statements include:

i) Determination of functional currency

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. Determination of the functional currency may involve certain judgments to determine the primary economic environment. The functional currency may change if there is a change in events and conditions which determines the primary economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES**Basic and diluted loss per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting periods. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Potentially dilutive options and warrants excluded from diluted loss per share totalled 61,710,622 (June 30, 2019 – 39,061,081).

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated based on the estimated residual value and estimated economic life of the specific assets using the straight-line method over the period indicated below:

Asset	Rate
Computers	Straight line, 3 years
Right of use assets	Shorter of useful life or lease term

Financial instruments

The following is the Company's policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)



3. SIGNIFICANT ACCOUNTING POLICIES**Financial instruments (continued)**

The following table shows the classification under IFRS 9:

Financial assets/liabilities	Classification IFRS 9
Cash	FVTPL
Receivables	Amortized cost
Restricted deposit	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable	Amortized cost

*Measurement**Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Impairment of financial assets at amortized cost

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Derecognition**Financial assets*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss.

As of June 30, 2020, the Company does not have any derivative financial assets and liabilities.

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)



3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible assets excluding goodwill**

Intangible assets acquired separately are carried at cost at the time of initial recognition. Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Impairment of intangible assets excluding goodwill

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) the intention to complete the intangible asset and use or sell it;
- (c) the ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenses incurred from the date when the intangible assets first meet the recognition criteria listed above. If no future economic benefit is expected before the end of the life of assets, the residual book value is expensed. Subsequent to initial recognition, internally-generated intangible assets are reported at cost. Where no internally-generated intangible asset can be recognized, development costs are recognized as an expense in the period in which it is incurred.

Amortization of software is recognized on a straight-line basis over a period of 3 years. In the year development costs are added, amortization is based on a half year.

At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered impairment losses. If any such indication exists, the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs is estimated in order to determine the extent of the impairment losses (if any).

Where a reasonable and consistent basis of allocation can be identified, corporate assets (assets other than goodwill that contribute to the future cash flows of both the CGU under review and other CGUs) are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

Where impairment losses subsequently reverse, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognized for the asset (or CGU) in prior years. A reversal of impairment losses is recognized immediately in profit or loss.

VERSUS SYSTEMS INC.

NOTES TO THE RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2020
(Expressed in Canadian dollars)



3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Income taxes**

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity.

Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred income taxes are calculated based on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Lessee accounting

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. The company applies IAS 36, Impairment of Assets, to determine whether the asset is impaired and account for any identified impairment loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Lease accounting (continued)**

As a practical expedient, IFRS 16 permits a lease not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient, and accordingly allocates the consideration in the contract to lease and non-lease components based on the stand-alone price of the lease component and aggregate stand-alone price of the non-lease components.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are presented as such in the statements of income and comprehensive income.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Government grant

Government grant is recognized when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received. Government grant is recognized in profit or loss to offset the corresponding expenses on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

Non-controlling interest

Non-controlling interest in the Company's less than wholly owned subsidiary is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Company.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Valuation of equity units issued in private placements (continued)**

The fair value of the common shares issued in private placements is determined to be the more easily measurable component and are valued at their fair value. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in the warrant reserve.

Share-based Compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

Otherwise, share-based payments are measured at the fair value of goods or services received.

Revenue recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

Revenue from software license sales is recognized upon delivery where there is evidence of an arrangement, the selling price is fixed or determinable and there are no significant remaining performance obligations. Foreseeable losses, if any, are recognized in the year or period in which the loss is determined.

The Company entered into an Accounts Receivable Purchase and Security Agreement (the "Agreement") with full recourse. Pursuant to the Agreement, the factor advances funds to the Company for the right to collect cash flows from factored accounts receivable and charges fees for its services. The factor advances funds to the Company at 90% of accounts receivable factored. The outstanding balance bears a daily interest rate of 0.05%.

Deferred Revenue

Revenue recognition of sales is recorded on a monthly basis upon delivery or as the services are provided. Cash received in advance for services are recorded as deferred revenue based on the proportion of time remaining under the service arrangement as at the reporting date.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign Exchange**

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company and its subsidiaries that are denominated in foreign currencies are translated at the rate of exchange at the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of profit or loss.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity (deficiency) which results from transactions and events from sources other than the Company's shareholders. Net loss is the same as comprehensive loss for the years presented.

4. RESTRICTED DEPOSIT

As at June 30, 2020, restricted deposits consisted of \$11,497 (2019 - \$11,500) held in a guaranteed investment certificate as collateral for a corporate credit card.

5. PROPERTY AND EQUIPMENT

	Computers	Right of Use Asset	Total
	(\$)	(\$)	(\$)
Cost			
At December 31, 2018	114,739	-	114,739
Additions	-	1,217,109	1,217,109
At December 31, 2019	114,739	1,217,109	1,331,848
Additions	-	-	-
At June 30, 2020	114,739	1,217,109	1,331,848
Accumulated amortization			
At December 31, 2018	55,629	-	55,629
Amortization for the year	30,695	296,526	327,221
At December 31, 2019	86,324	296,526	382,850
Amortization for the period	17,456	159,340	176,796
At June 30, 2020	103,780	455,866	559,646
Carrying amounts			
At December 31, 2019	28,415	920,583	948,998
At June 30, 2020	10,959	761,243	772,202

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6. BUSINESS COMBINATION WITH VERSUS LLC

On June 26, 2016, the Company acquired a 37.5% ownership interest in Versus LLC, a privately held limited liability company organized under the laws of the state of Nevada, from existing members (the “Selling Members”) in consideration of a cash payment of \$1,962,722 (US\$1,500,000). Versus LLC is a technology company that is developing a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players.

On June 30, 2016, the Company and the Selling Members exchanged 100% of their ownership units in Versus LLC for 8,950.05 common shares of Opal Energy (Holdco) Corp. (“Newco”), since renamed Versus Systems (Holdco) Inc, determined to have a fair value of \$5,201,800 (US\$4,000,000). Consequently, Versus LLC became a wholly-owned subsidiary of Newco. This share exchange resulted in a reduction of the Company’s ownership interest in Newco from 100% to 38.2%.

In addition, the Company acquired full voting control over all of the Newco shares held by the Selling Members in exchange for granting them the right to exchange their Newco shares for such number of common shares of the Company equal to a total value of US\$2,500,000, and common share purchase warrants with a total value of US\$1,250,000 at an exercise price of \$0.20 per share until June 30, 2019. As a result of this voting control, the Company has consolidated the assets, liabilities and results of operations of Versus LLC since the date of acquisition. Furthermore, the Company recorded a non-controlling interest related to the 61.8% interest held by the Selling Members in the net identifiable assets of Versus LLC.

In connection with the acquisition of Versus, LLC, the Company acquired intangible assets of \$5,921,712 (Note 7).

On November 22, 2016, the Company acquired an additional 500 shares of Newco from one of the Selling Members in exchange for 1,441,553 common shares of the Company and 720,766 share purchase warrants that are exercisable at \$0.20 per share until July 24, 2019. The common shares and the share purchase warrants were determined to have a fair value of \$230,648 and \$75,600, respectively. As a result, the Company increased its ownership interest in Newco to 40.42% and recorded the excess purchase price over net identifiable assets of \$90,908 against reserves. The effect on non-controlling interest was a reduction of \$215,341, for a balance of \$2,999,871.

On September 21, 2017, the Company acquired an additional 174 shares of Newco from one of the Selling Members in exchange for 501,660 common shares of the Company and 250,830 share purchase warrants that are exercisable at \$0.20 per share until June 24, 2019. The common shares and the share purchase warrants were determined to have a fair value of \$235,780 and \$88,470, respectively. As a result, the Company increased its ownership interest in Newco to 41.3% and recorded the excess purchase price over net identifiable assets of \$312,255 against reserves. The effect on non-controlling interest was a reduction of \$11,995.

On May 21, 2019, the Company acquired an additional 3,186 shares of Newco from one of the Selling Members in exchange for 9,184,141 common shares of the Company and 4,592,071 share purchase warrants that are exercisable at \$0.20 per share until June 30, 2019. The common shares and the share purchase warrants were determined to have a fair value of \$1,882,749 and \$156,389, respectively. As a result, the Company increased its ownership interest in Newco to 66.5% and recorded the excess purchase price over net identifiable liabilities of \$4,644,719 against reserves. The effect on non-controlling interest was a reduction of \$2,605,582.

On June 21, 2019, the Company acquired an additional 16 shares of Newco from one of the Selling Members in exchange for 45,185 common shares of the Company and 22,592 share purchase warrants that are exercisable at \$0.20 per share until June 30, 2019. The common shares and the share purchase warrants were determined to have a fair value of \$9,263 and \$3,389, respectively. As a result, the Company increased its ownership interest in Newco to 66.8% and recorded the excess purchase price over net identifiable assets of \$34,714 against reserves. The effect on non-controlling interest was a reduction of \$22,061.

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**6. BUSINESS COMBINATION WITH VERSUS LLC (continued)**

The following table presents summarized financial information before intragroup eliminations for the non-wholly owned subsidiary as at June 30, 2020 and December 31, 2019:

	2020	2019
Non-controlling interest percentage	33.2%	33.2%
	(\$)	(\$)
Assets		
Current	371,192	103,398
Non-current	3,478,986	3,739,445
	3,850,178	3,842,843
Liabilities		
Current	2,161,882	823,285
Non-current	22,484,061	17,851,531
	24,645,943	18,674,816
Net liabilities	(20,795,765)	(14,831,973)
Non-controlling interest	(7,143,590)	(6,024,450)
Loss and comprehensive loss	(3,370,904)	(6,671,113)
Loss and comprehensive loss attributed to non-controlling interest	(1,119,140)	(2,758,484)

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**7. INTANGIBLE ASSETS**

Intangible assets are comprised of a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. The intangible asset was acquired in the business combination with Versus LLC as described in Note 6. In addition, the Company continues to develop new apps, therefore additional costs were capitalized during the six month period ended June 30, 2020.

	Software
	(\$)
Cost	
At December 31, 2018	9,797,209
Additions	1,939,858
At December 31, 2019	11,737,067
Additions	810,293
At June 30, 2020	12,547,360
Accumulated amortization	
At December 31, 2018	6,426,130
Amortization	2,530,590
At December 31, 2019	8,956,720
Amortization	953,230
At June 30, 2020	9,909,950
Carrying amounts	
At December 31, 2019	2,780,347
At June 30, 2020	2,637,410

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are comprised of the following:

	June 30, 2020	December 31, 2019
	(\$)	(\$)
Accounts payable	675,942	446,988
Due to related parties	570,232	492,181
Accrued liabilities	395,373	36,236
	1,641,547	974,405

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**9. GOVERNMENT AND NOTES PAYABLE**

During the six month period ended June 30, 2020, the Company issued unsecured notes payable for total proceeds of CDN\$443,118 from director and officers of the Company who are also a shareholders. The loans bear interest at the prime rate which was ranged from 2.45% to 3.95% per annum for the six months ended June 30, 2020, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. The notes were considered below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of \$92,791 was recorded in reserves. As at June 30, 2020, the Company had recorded \$368,296 in accrued interest which was included in accounts payable and accrued liabilities.

During the year ended December 31, 2019, the Company issued unsecured notes payable for total proceeds of CDN\$2,633,667 from director and officers of the Company who are also shareholders. The loans bear interest at the prime rate which was 3.95% per annum at December 31, 2019, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. The notes were considered below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of \$368,296 was recorded in reserves. As at December 31, 2019, the Company had recorded \$249,496 in accrued interest which was included in accounts payable and accrued liabilities.

During the six months ended June 30, 2020, the Company recorded finance expense of \$169,064 (June 30, 2019 - \$123,766), related to bringing the notes to their present value.

	Amount (\$)
Balance at December 31, 2018	3,478,956
Proceeds	2,633,667
Repayments	(1,258,194)
Contribution benefit	(297,110)
Finance expense	257,448
Balance, December 31, 2019	4,814,767
Proceeds	443,118
Repayments	-
Contribution benefit	(69,668)
Finance expense	169,064
Balance, June 30, 2020	5,357,281

In May 2020, the Company received loan proceeds in the aggregate amount of \$829,937 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the CARES Act within the United States of America in response to the COVID-19 pandemic, provides for loans to qualifying businesses. A portion of the loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries. No collateral or guarantees were provided in connection with the PPP loans.

The unforgiven portion of the PPP loans is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. For the six months ended June 30, 2020 the Company had incurred eligible payroll cost of \$207,484 which were offset against the loan balance.

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10. SHARE CAPITAL AND RESERVES**a) Authorized share capital**

An unlimited number of common shares without par value and 5,057 Class “A” shares, Series 1. The Class “A” shares, Series 1 are non-voting and are convertible into common shares at any time on the basis of 6.67 common shares for each Class “A” Series I share held.

b) Issued share capital

During the six month period ended June 30, 2020, the Company:

- i) issued, 2,400,000 units at a price of \$0.25 per unit for total proceeds of \$600,000. Each unit consisted of one common share and a one half share purchase warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of \$0.40 until February 13, 2021.
- ii) entered into a Mutual Investment Agreement with Animoca Brands Inc. in which the Company issued 3,036,739 shares of the Company’s common stock with a value of \$698,446 in exchange for 4,327,431 shares of Animoca Brands common stock. On the same date, the Company issued an additional 1,293,426 shares of the Company’s common stock with a value of \$349,225 to Animoca Brands in exchange for marketing services. The Company subsequently sold all of its shares of Animoca Brands and recognized a loss of \$508,050.
- iii) issued 5,233,333 common shares pursuant to exercise of warrants and stock options for total proceeds of \$785,600.

During the year ended December 31, 2019, the Company:

- i) issued, 9,987,655 units at a price of \$0.18 per unit for total proceeds of \$1,797,778. Each unit consisted of one common share and a one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of \$0.30 until February 14, 2021.
- ii) issued, 17,517,500 units pursuant to a private placement at a price of \$0.20 per unit for total proceeds of \$3,503,500. Each unit consisted of one common share and a one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of \$0.35 until July 26, 2021.
- iii) issued, 4,545,454 units at a price of \$0.22 per unit for total proceeds of \$1,000,000. Each unit consisted of one common share and one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of \$0.35 until August 9, 2021.
- iv) issued 9,229,326 common shares at a value of \$1,892,012 on acquisition of Newco shares (Note 6).
- v) issued 2,529,805 common shares pursuant to the exercise of share purchase warrants and stock options for total proceeds of \$425,417.

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**10. SHARE CAPITAL AND RESERVES (continued)****b) Issued share capital (continued)**Escrow

At June 30, 2020, 5,000 common shares (December 31, 2019 – 5,000) of the Company are held in escrow due to misplaced share certificates originally issued to three individual shareholders.

Pursuant to an escrow agreement dated June 30, 2016, 12,431,791 common shares will be held in escrow. A total of 10% of the escrow shares were released on June 30, 2016, and the remainder will be released in equal tranches of 15% every nine months thereafter. As at June 30, 2020 and December 31, 2019 there were no common shares remaining in escrow.

c) Stock options

Pursuant to the policies of the CSE, the Company may grant incentive stock options to its officers, directors, employees and consultants. The Company has implemented a rolling Stock Option Plan (the “Plan”) whereby the Company can issue up to 10% of the issued and outstanding common shares of the Company. Options have a maximum term of ten years and vesting is determined by the Board of Directors.

A continuity schedule of outstanding stock options is as follows:

	Number Outstanding	Weighted Average Exercise Price
		(\$)
Balance – December 31, 2018	8,792,382	0.31
Granted	7,720,000	0.33
Exercised	(50,000)	0.22
Forfeited	(248,000)	0.42
Balance – December 31, 2019	16,214,382	0.32
Granted	-	-
Exercised	(10,000)	0.21
Forfeited	(1,453,500)	0.37
Balance – June 30, 2020	14,750,882	0.32

During the six months ended June 30, 2020, no stock options were granted by the Company. During the six months ended June 30, 2020, the Company recorded share-based compensation of \$465,658 (June 30, 2019 - \$408,374) relating to options vested during the year.

During the year ended December 31, 2019, the Company granted a total of 7,720,000 stock options with a fair value of \$1,724,580 (or \$0.22 per option).

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**10. SHARE CAPITAL AND RESERVES (continued)****c) Stock options (continued)**

The Company used the following assumptions in calculating the fair value of stock options for the year ended December 31, 2019:

	December 31, 2019
Risk-free interest rate	1.59%
Expected life of options	5.0 years
Expected dividend yield	Nil
Volatility	95.8%

At June 30, 2020, the Company had incentive stock options outstanding as follows:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price (\$)	Weighted Average Remaining Life (years)
July 13, 2021	5,202,382	5,202,382	0.27	1.03
March 17, 2022	374,000	322,625	0.44	1.71
May 18, 2022	158,000	121,792	0.49	1.88
September 14, 2022	1,186,500	805,987	0.35	2.21
June 6, 2023	225,000	98,438	0.46	2.93
September 4, 2023	205,000	80,078	0.25	3.18
October 18, 2023	50,000	18,750	0.22	3.20
April 2, 2024	1,750,000	283,333	0.21	3.76
June 27, 2024	100,000	50,000	0.21	3.99
September 27, 2024	5,300,000	1,104,167	0.38	4.25
October 22, 2024	200,000	25,000	0.33	4.31
	14,750,882	8,112,552	0.30	2.76

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**10. SHARE CAPITAL AND RESERVES (continued)****d) Share purchase warrants**

A continuity schedule of outstanding share purchase warrants is as follows:

	Number Outstanding	Weighted Average Exercise Price
		(\$)
Balance – December 31, 2018	23,496,168	0.31
Exercised	(2,479,805)	0.17
Expired	(5,563,667)	0.20
Issued	37,589,807	0.32
Balance – December 31, 2019	53,042,503	0.33
Exercised	(5,223,333)	0.15
Expired	(2,059,430)	0.32
Issued	1,200,000	0.40
Balance – June 30, 2020	46,959,740	0.35

During the six month period ended June 30, 2020, the Company:

- i) On February 13, 2020, the Company completed a unit private placement which included 1,200,000 share purchase warrants exercisable at \$0.40 per share for a period of two years. The share purchase warrants were determined to have a fair value of \$Nil using the residual value method.

During the year ended December 31, 2019, the Company:

- i) On February 14, 2019, the Company completed a unit private placement which included 9,987,655 share purchase warrants exercisable at \$0.30 per share for a period of two years. The share purchase warrants were determined to have a fair value of \$199,753 using the residual value method.
- ii) On February 14, 2019, the Company completed a unit private placement which included 699,135 broker warrants exercisable at \$0.18 per share for a period of two years. The share purchase warrants were determined to have a fair value of \$61,843 using the Black Scholes option pricing model.
- iii) On July 26, 2019, the Company completed a unit private placement which included 17,517,500 share purchase warrants exercisable at \$0.35 per share for a period of two years. The share purchase warrants were determined to have a fair value of \$Nil using the residual method.
- iv) On July 26, 2019, the Company issued 225,400 agent warrants exercisable to purchase additional shares at a price of \$0.35 per share for a period of 24 months from closing. The agent warrants were determined to have a fair value of \$20,985.

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**10. SHARE CAPITAL AND RESERVES (continued)****d) Share purchase warrants (continued)**

- i) On August 9, 2019, the Company completed a unit private placement which included 4,545,454 share purchase warrants exercisable at \$0.35 per share for a period of two years. The share purchase warrants were determined to have a fair value of \$Nil using the residual method.
- ii) The Company issued 4,614,663 warrants at a value of \$159,778 for the acquisition of Newco shares (Note 6).

The Company used the following assumptions in calculating the fair value of the warrants for the period ended:

	December 31, 2019
Risk-free interest rate	1.77%
Expected life of options	2.0 years
Expected dividend yield	Nil
Volatility	107.14%
Weighted average fair value per warrant	\$0.04

At June 30, 2020, the Company had share purchase warrants outstanding as follows:

Expiry Date	Warrants Outstanding	Exercise Price (\$)	Weighted Average Remaining Life (years)
July 11, 2020	682,500	0.40	0.03
July 11, 2020	501,475	0.30	0.03
July 31, 2020	225,400	0.35	0.03
August 13, 2020	3,947,834	0.40	0.12
February 13, 2021	1,200,000	0.40	0.63
February 14, 2021	9,717,655	0.30	0.63
February 14, 2021	671,922	0.18	0.63
July 26, 2021	17,517,500	0.35	1.07
August 9, 2021	4,545,454	0.35	1.11
March 17, 2022	7,950,000	0.40	1.71
	46,959,740	0.34	0.76

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**10. SHARE CAPITAL AND RESERVES (continued)****e) Performance warrants**

On September 30, 2016, the Company issued 10,003,776 performance warrants with a fair value of \$1,725,496. These performance warrants vested during the year ended December 31, 2019.

At June 30, 2020, the Company had performance warrants outstanding as follows:

Expiry Date	Performance Warrants Outstanding	Performance Warrants Exercisable	Exercise Price	Remaining Life
			(\$)	(years)
June 30, 2021	10,003,776	10,003,776	0.25	1.00

11. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions, not disclosed elsewhere in these consolidated financial statements, during the six months ended June 30, 2020 and 2019. Key management personnel includes the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and certain directors and officers and companies controlled or significantly influenced by them.

<u>Key Management Personnel</u>	2020	2019
	(\$)	(\$)
Short-term employee benefits paid or accrued to the CEO of the Company, including share-based compensation vested for incentive stock options and performance warrants.	238,553	235,624
Short-term employee benefits paid or accrued to the CFO of the Company, including share-based compensation vested for incentive stock options and performance warrants.	235,872	89,631
Short-term employee benefits paid or accrued to a member of the advisory board of the Company, including share-based compensation vested for incentive stock options and performance warrants.	35,191	188,416
Short-term employee benefits paid or accrued to the Vice President of Engineering of the Company, including share-based compensation vested for incentive stock options and performance warrants.	245,353	37,022
Short-term employee benefits paid or accrued to certain directors and officers of the company, including share-based compensation vested for incentive stock options and performance warrants.	194,296	28,562
Total	949,265	579,255

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11. RELATED PARTY TRANSACTIONS (continued)**Other Related Party Payments**

Office sharing and occupancy costs of \$42,000 (June 30, 2019 - \$46,200) were paid or accrued to a corporation that shares management in common with the Company.

Amounts Outstanding

- a) At June 30, 2020, a total of \$570,232 (December 31, 2019 - \$492,181) was included in accounts payable and accrued liabilities owing to officers, directors, or companies controlled by them. These amounts are unsecured and non-interest bearing.
- b) At June 30, 2020 a total of \$5,735,820 (December 31, 2019 - \$5,470,000) of long term notes was payable to a director and the CEO of the Company (Note 9).

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT***Financial risk management***

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, restricted deposit, accounts payable and accrued liabilities and government loan notes payable.

The fair value of cash, receivables, accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The fair value of notes payable approximates its book value as it was discounted using a market rate of interest.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company has no material counterparties to its financial instruments with the exception of the financial institutions which hold its cash. The Company manages its credit risk by ensuring that its cash is placed with a major financial institution with strong investment grade ratings by a primary ratings agency. The Company's receivables consist of goods and services tax due from the government.

Financial instrument risk exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

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**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Liquidity risk*

The Company's cash is invested in business accounts which are available on demand. The Company raised additional capital subsequent to June 30, 2020 (Note 17). The Company's cash position is not sufficient to meet all financial liabilities currently outstanding and expected to be incurred over the next twelve months. Accordingly, the Company is exposed to liquidity risk.

Interest rate risk

The Company's bank account earns interest income at variable rates and the notes payable bear interest at the prime lending rate. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. A 1% change in interest rates would have no significant impact on profit or loss for the six month period ended June 30, 2020.

Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate because of changes in foreign exchange rates. The Company operates in Canada and the United States.

The Company was exposed to the following foreign currency risk as at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(US\$)	(US\$)
Cash	152,094	72,097
Lease obligations	(688,921)	(768,563)
Deferred revenue	(603,405)	-
Accounts payable and accrued liabilities	(786,153)	(445,660)
	(1,926,385)	(1,142,126)

As at June 30, 2020, with other variables unchanged, a +/- 10% change in the United States dollar to Canadian dollar exchange rate would impact the Company's net loss by \$193,000 (December 31, 2019 - \$148,000).

13. MANAGEMENT OF CAPITAL

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. Capital consists of items within equity (deficiency). The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements.

The Company remains dependent on external financing to fund its activities. In order to sustain its operations, the Company will spend its existing cash on hand and raise additional amounts as needed until the business generates sufficient revenues to be self-sustaining. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In order to maximize ongoing corporate development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in certificates of deposit with major financial institutions.

There have been no changes to the Company's approach to capital management during the six month period ended June 30, 2020.

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**14. GEOGRAPHICAL SEGMENTED INFORMATION**

The Company is engaged in one business activity, being the development of a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. Revenue earned during the six months ended June 30, 2020 is from a customer based in the United States.

Details of identifiable assets by geographic segments are as follows:

	Restricted deposits	Deposits	Property and equipment	Intangible assets
June 30, 2020				
Canada	\$ 11,497	\$ -	\$ 81,967	\$ -
USA	<u>-</u>	<u>136,000</u>	<u>690,235</u>	<u>2,637,410</u>
	<u>\$ 11,497</u>	<u>\$ 136,000</u>	<u>\$ 772,202</u>	<u>\$ 2,637,410</u>
December 31, 2019				
Canada	\$ 11,500	\$ -	\$ 119,797	\$ -
USA	<u>-</u>	<u>129,897</u>	<u>829,201</u>	<u>2,780,347</u>
	<u>\$ 11,500</u>	<u>\$ 129,897</u>	<u>\$ 948,998</u>	<u>\$ 2,780,347</u>

15. SUPPLEMENTAL CASH FLOW INFORMATION

	2020	2019
	(\$)	(\$)
Non-cash investing and financing activities:		
Contribution benefit on low interest rate notes (Note 9)	69,668	182,299
Shares issued to acquire Newco shares (Note 6)	-	1,892,012
Interest paid during the period	-	56,144
Income taxes paid during the period	-	-

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**16. LEASE OBLIGATIONS AND COMMITMENTS****Lease Liabilities**

	\$
Lease liabilities recognized as of January 1, 2020	1,122,400
Lease payments made	(205,280)
Interest expense on lease liabilities	44,151
Foreign exchange adjustment	68,932
	1,030,203
Less: current portion	(342,327)
At June 30, 2020	687,876

On August 1, 2015, the Company entered into a cost sharing arrangement agreement for the provision of office space and various administrative services. In May of 2018, the Company extended the cost sharing arrangement to June of 2021 at a monthly fee of \$7,000 plus GST per month.

Year	Amount
	(\$)
2020 (remaining)	42,000
2021	49,000

On September 6, 2017, the Company entered into a rental agreement for office space in Los Angeles, USA. Under the terms of the agreement the Company will pay monthly rent starting at US\$17,324 per month commencing on October 1, 2017 until September 30, 2022.

Year	Amount
	(US\$)
2020 (remaining)	121,444
2021	251,384
2022	260,185
2023	131,576

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17. SUBSEQUENT EVENTS

- i) On July 17, 2020, the Company issued, 2,760,500 units at a price of \$0.25 per unit for total proceeds of \$690,125.
- ii) On July 31, 2020, the Company issued 2,737,825 options with an exercise price of \$0.25 per share which expire on July 31, 2025.
- iii) On August 10, 2020, the Company issued 200,000 options with an exercise price of \$0.25 per share which expire on August 10, 2025.
- vi) From July to August 31, 2020, the Company issued additional notes payables to a director for an accumulated amount of \$185,000. The notes bear interest at the applicable prime rate and interest accrues quarterly.