

Viscount Systems Inc., (“Viscount”) (OTCQB:VSYs), a manufacturer of physical access control systems (“PACS” or “Freedom PACS”) and telephone entry products, which protect buildings from unauthorized access, announced its second quarter of year 2016 financial results.

## Second Quarter of 2016 Highlights:

*Three months ended June 30, 2016 compared to the three months ended June 30, 2015*

### Overview

We reported a net loss of \$709,117 for the three months ended June 30, 2016, compared to net income of \$2,297,977 for the three months ended June 30, 2015, a decrease of \$3,007,094, or 131%. The decrease is mainly attributable to a decrease in sales of \$806,342, an increase in interest expense of \$697,879 related to notes liabilities PIK interest accrual and Accounts Receivable factoring (the “AR factoring”), a decrease from the change in fair value of derivative liabilities of \$1,920,942. The higher sales from the three months ended June 30, 2015 included sales of \$726,000 (US \$600,000) generated from Freedom software sales to the United States Citizenship and Immigration Service (the “USCIS”) locations. Additionally, net loss for the three months ended June 30, 2015 included a \$63,324 loss on the settlement of convertible notes and \$47,087 of amortization of debt discount.

### Revenues

Sales for the three months ended June 30, 2016 and 2015 were \$1,027,583 and \$1,833,925, respectively, reflecting a decrease of \$806,342 or 44%. Freedom sales for the three months ended June 30, 2016 and 2015 were \$366,074 and \$1,199,841, respectively, reflecting a decrease of \$833,767 or 69%. The higher sales from three months ended June 30, 2015 is mainly due to a sales of \$726,000 (US \$600,000) generated from Freedom software sales to USCIS locations. Mesh/Enterphone sales for the three months ended June 30, 2016 and 2015 were, \$661,509 and \$634,084, respectively, an increase of \$27,425 or 4%.

### Gross profit

Gross profit for the three months ended June 30, 2016 and 2015 was \$571,137 and \$1,266,876, respectively, a decrease of \$695,739 or 55%. For the three months ended June 30, 2016 and 2015, cost of sales were \$456,446 and \$567,049 or, as a percentage of sales, was 44% and 31%, respectively. Included in cost of sales is a recovery of inventory obsolescence and reserve provision amounting to \$104,680 and \$0 for the three months ended June 30, 2016 and 2015, respectively.

Gross margin for the three months ended June 30, 2016 and 2015 was 56% and 69%, respectively. The higher margin from second quarter of 2015 is mainly due to the sales of \$726,000 (US \$600,000) generated from Freedom software sales to the USCIS locations. During the three months ended June 30, 2016, management has continued to focus on controlling costs by using multiple

suppliers to ensure that the best and most cost effective raw materials are used in all of our products.

The gross margin percentage for three months ended June 30, 2016 of our product categories of Mesh/Enterphone and Freedom, were 47% and 72%, respectively. The gross margin percentage for the three months ended June 30, 2015 of product categories of MESH/Enterphone and Freedom were 36% and 87%, respectively.

### Income from Discontinued Operations

Income from discontinued operations is attributable to the net income related to the Service Division as a result of our decision in January 2016 to sell the Service Division. Income from discontinued operations of \$185,598 for the three months ended June 30, 2016 is comprised of sales revenues of \$348,191, cost of sales of \$113,362 and operating expenses of \$49,231. Income from discontinued operations of \$115,791 for the three months ended June 30, 2015 is comprised of sales revenues of \$245,985, cost of sales of \$86,710 and operating expenses of \$43,484.

### *Six months ended June 30, 2016 compared to the six months ended June 30, 2015*

#### Overview

We reported a net loss of \$848,452 for the six months ended June 30, 2016, compared to net income of \$2,437,830 for the six months ended June 30, 2015, a decrease of \$3,286,282 or 135%. The decrease is mainly attributable to a decrease in sales of \$878,944, an increase in interest expense of \$1,333,336 related to notes liabilities PIK interest accrual and AR factoring, a decrease from the change in fair value of derivative liabilities of \$1,785,139, partially offset by a foreign exchange gain of \$211,930 on the revaluation of notes liabilities. The higher sales from the six months ended June 30, 2015 included sales of \$726,000 (US \$600,000) generated from Freedom software sales to USCIS locations.

#### Revenues

Sales for the six months ended June 30, 2016 and 2015 were \$2,009,461 and \$2,888,405, respectively, reflecting a decrease of \$878,944 or 30%. Freedom sales for the six months ended June 30, 2016 and 2015 were \$695,781 and \$1,640,946, respectively, reflecting a decrease of \$945,165 or 58%, which was mostly due to sales of \$726,000 (US \$600,000) generated from Freedom software sales to USCIS locations during the six months ended June 30, 2015. The decrease in Freedom sales were partially offset by an increase of \$66,221, or 5%, from Mesh/Enterphone sales for the six months ended June 30, 2016, compared to 2015. Mesh/Enterphone sales for the six months ended June 30, 2016 and 2015 were, \$1,313,680 and \$1,247,459, respectively.

#### Gross profit

Gross profit for the six months ended June 30, 2016 and 2015 was \$1,101,216 and \$1,757,693, respectively, a decrease of \$656,477 or 37%. For the six months ended June 30, 2016 and 2015, cost of sales were \$908,245 and \$1,130,712 or, as a percentage of sales, was 45% and 39%, respectively. Included in cost of sales is a recovery of inventory obsolescence and reserve provision amounting to \$187,126 and \$0 for the six months ended June 30, 2016 and 2015, respectively.

Gross margin for the six months ended June 30, 2016 and 2015 was 55% and 61%, respectively. The higher margin from six months ended June 30, 2015 is mainly due to the sales of \$726,000 (US \$600,000) generated from Freedom software sales to USCIS locations. During the six months ended June 30, 2016, management has continued to focus on controlling costs by using multiple suppliers to ensure that the best and most cost effective raw materials are used in all of our products.

The gross margin percentage for six months ended June 30, 2016 of our product categories of Mesh/Enterphone and Freedom, were 47% and 70%, respectively. The gross margin percentage for the six months ended June 30, 2015 of product categories of MESH/Enterphone and Freedom were 32% and 83%, respectively.

#### Income from Discontinued Operations

Income from discontinued operations is attributable to the net income related to the Service Division as a result of our decision in January 2016 to sell the Service Division. Income from discontinued operations of \$268,591 for the six months ended June 30, 2016 is comprised of sales revenues of \$571,156, cost of sales of \$202,423 and operating expenses of \$100,142. Income from discontinued operations of \$212,519 for the six months ended June 30, 2015 is comprised of sales revenues of \$516,401, cost of sales of \$183,425 and operating expenses of \$120,457.

For more information please visit: [www.viscount.com](http://www.viscount.com)

#### Safe Harbor Statement

Forward looking statements: This press release and other statements by Viscount Systems Inc. may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to the outlook for earnings and revenues, other future financial or business performance, strategies and expectations. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "estimate," "position," "assume," "potential," "outlook," "continue," "remain," "maintain," and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," or similar expressions.

**VISCOUNT SYSTEMS, INC.**  
Condensed Consolidated Balance Sheets  
(Expressed in Canadian dollars)

	June 30, 2016	December 31, 2015
	(Unaudited)	
<b>Assets</b>		
Current Assets		
Cash	\$ 41,946	\$ 250,270
Restricted cash	55,000	55,000
Trade accounts receivable, net	599,924	506,264
Prepaid expenses	53,751	31,791
Inventory	343,179	569,796
Current assets held for sale	144,838	59,317
<b>Total Current Assets</b>	<b>1,238,638</b>	<b>1,472,438</b>
Equipment	152,577	162,332
Deposits	1,391	8,391
Assets held for sale – non-current	16,336	18,151
<b>Total Assets</b>	<b>\$ 1,408,942</b>	<b>\$ 1,661,312</b>
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities		
Accounts payable	\$ 1,103,115	\$ 900,211
Accrued liabilities	583,389	532,003
Capital lease obligation - current portion	17,048	16,348
Deferred revenue	24,887	47,780
Due to related parties	176,462	91,683
Loans payable	114,536	114,536
Interest payable - Convertible Debt	1,727,130	373,841
Notes liability - Convertible Debt	3,279,871	3,491,802
Derivative liabilities	3,415,475	4,383,668

Convertible redeemable preferred stock	263,472	269,880
<b>Total Current Liabilities</b>	<b>10,705,385</b>	<b>10,221,752</b>
Capital lease obligation - non-current	941	9,647
<b>Total Liabilities</b>	<b>10,706,326</b>	<b>10,231,399</b>
Commitments and contingencies		
Convertible redeemable preferred stock - US\$0.001 par value; 20,000,000 shares authorized:		
Series A convertible redeemable preferred stock, stated value \$1,000, 135 and 130 shares outstanding at June 30, 2016 and December 31, 2015, respectively; aggregate liquidation preference of \$135,114 and \$130,000 as of June 30, 2016 and December 31, 2015, respectively	-	-
Stockholders' Deficit		
Series B Preferred Stock, Par Value US \$0.001 Per Share. 50 shares outstanding as of June 30, 2016 and December 31, 2015, respectively.	1	1
Common stock, par value US\$0.001 per share, 300,000,000 shares authorized: 130,297,236 shares issued and outstanding as of June 30, 2016, 130,297,236 shares issued, 126,047,236 shares outstanding at December 31, 2015	130,297	130,297
Additional paid-in capital	7,679,571	7,558,416
Accumulated deficit	(17,107,253)	(16,258,801)
<b>Total Stockholders' Deficit</b>	<b>(9,297,384)</b>	<b>(8,570,087)</b>
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ 1,408,942</b>	<b>\$ 1,661,312</b>

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

#### **VISCOUNT SYSTEMS, INC.**

Condensed Consolidated Statements of Operations

(Expressed in Canadian dollars)

For the three and six months ended June 30, 2016 and 2015

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Sales	\$ 1,027,583	\$ 1,833,925	\$ 2,009,461	\$ 2,888,405
Cost of sales	456,446	567,049	908,245	1,130,712
Gross profit	571,137	1,266,876	1,101,216	1,757,693
Operating expenses:				
Selling, general and administrative	717,630	853,589	1,567,184	1,733,449
Research and development	218,891	210,188	455,393	399,403
Total operating expenses	936,521	1,063,777	2,022,577	2,132,852
Operating (loss) income	(365,384)	203,099	(921,361)	(375,159)
Other income (expense):				
Interest income		8		18
Interest expense	(753,763)	(55,884)	(1,389,220)	(55,884)
Loss on settlement of convertible note	-	(63,324)	-	(63,324)
Foreign exchange gain on revaluation of notes liability	-	-	211,930	
Amortization of debt discount	-	(47,087)	-	(47,087)
Change in fair value of derivative liabilities	224,432	2,145,374	981,608	2,766,747
Total other income (expense)	(529,331)	1,979,087	(195,682)	2,600,470
(Loss) Income from continuing operations	(894,715)	2,182,186	(1,117,043)	2,225,311
Income from discontinued operations of servicing business, net of tax	185,598	115,791	268,591	212,519
Net (loss) income	(709,117)	2,297,977	(848,452)	2,437,830
Preferred stock:				

Series A convertible - contractual dividends	(4,786)	(25,953)	(7,917)	(44,649)
Series A convertible - deemed dividends	6,409	-	6,409	
Net (loss) income attributable to common stockholders	\$ (707,494)	\$ 2,272,024	\$ (849,960)	\$ 2,393,181
Per share data:				
Continuing operations	\$ (0.01)	\$ 0.02	\$ (0.01)	\$ 0.02
Discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net (loss) income attributable to common stockholders – basic and diluted	\$ (0.01)	\$ 0.02	\$ (0.01)	\$ 0.02
Weighted average number of shares of common stock outstanding:				
Basic and diluted	128,008,775	126,082,043	127,028,005	126,184,235

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

## **VISCOUNT SYSTEMS, INC.**

Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

	For the six months ended:	
	June 30, 2016	June 30, 2015
Cash Flow From Operating Activities		
Net (loss) income	\$ (848,452)	\$ 2,437,830
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Income from discontinued operations	(268,591)	(212,519)
Depreciation and amortization	19,356	21,372
Recovery of uncollectible receivables	(3,005)	(66,607)
Recovery of inventory obsolescence	(187,126)	-
Change in fair value of derivative liabilities	(981,608)	(2,766,747)

Stock based compensation	79,561	32,324
Foreign exchange gain on revaluation of notes liability	(211,930)	-
	5,498	-
Fair value of warrants issued as compensation		
Original issue discount on convertible debt	-	18,750
Loss on settlement of convertible debt	-	63,324
Amortization of debt discount	-	47,087
Changes in operating assets and liabilities:		
Accounts receivable	(90,655)	(215,559)
Inventory	413,743	51,296
Prepaid expenses	(21,960)	-
Deposits	7,000	-
Accounts payable	202,904	82,608
Accrued liabilities	94,488	37,271
Interest payable	1,353,289	-
Deferred revenue	(22,893)	75,421
Due to related parties	84,779	7,610
Net Cash used in operating activities from continuing operations	(375,602)	(386,539)
Net Cash provided by operating activities from discontinuing operations	184,885	217,751
Net Cash used in operating activities	(190,717)	(168,788)
Cash Flows from Investing Activities		
Purchase of property and equipment	(9,601)	(1,371)
Net cash used in investing activities	(9,601)	(1,371)
Net Cash used in Financing Activities		
Capital lease payments	(8,006)	(5,015)
Proceeds from issuance of convertible note	-	197,500
Payment of deferred financing costs	-	(5,000)
Repayment of convertible note	-	(211,250)

Proceeds from sale of common stock and warrants	-	3,050
Proceeds from sale of preferred stock	-	234,000
Net cash (used in) provided by financing activities	(8,006)	213,285
(Decrease) increase in cash	(208,324)	43,126
Cash, beginning of period	250,270	135,308
Cash, end of period	\$ 41,946	\$ 178,434

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

# **VISCOUNT SYSTEMS, INC.**

Condensed Consolidated Statements of Cash Flows, continued

(Expressed in Canadian dollars)

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

## **For the six months ended:**

<b>June 30, 2016</b>	<b>June 30, 2015</b>
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## **Supplementary Information:**

Interest paid	\$ 19,254	\$ 37,134
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## **Non-cash investing and financing activities:**

Fair value of preferred shares issued as dividends	\$ 7,917	\$ 44,649
Unvested common stock issued to board members	\$ -	\$ 4,250
Fair value on embedded conversion option from Series A share	\$ -	\$ 373,184
Litigation liability settled to APIC	\$ 43,102	\$ -
Series A convertible - deemed dividends	\$ 6,409	\$ -

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