

**FORM 5**

**QUARTERLY LISTING STATEMENT**

Name of Listed Issuer: Versus Systems Inc. (the "Issuer").

Trading Symbol: VS

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities Act*, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

**General Instructions**

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

**SCHEDULE A: FINANCIAL STATEMENTS**

**See Financial Statements for the quarter ended September 30, 2018 attached as Schedule A.**

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below must be provided when not included in Schedule A.

**1. Related party transactions**

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

**All Related Party transactions, if any, have been disclosed in the Issuer's Financial Statements for the quarter ended September 30, 2018 – see Schedule A.**

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

**2. Summary of securities issued and options granted during the period.**

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

**All securities issued and options granted, if any, have been disclosed in the Issuer's Financial Statements for the quarter ended September 30, 2018 – see Schedule A.**

- (a) summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid

- (b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant

**3. Summary of securities as at the end of the reporting period.**

Provide the following information in tabular format as at the end of the reporting period:

**All securities issued and options granted, if any, have been disclosed in the Issuer's Financial Statements for the quarter ended September 30, 2018 – see Schedule A.**

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,
- (b) number and recorded value for shares issued and outstanding,
- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and
- (d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Authorized Share Capital	Issued and Outstanding	Options	Warrants

- (1) *5,057 shares convertible into Common Shares at any time based on 6.67 Common Shares for each Class A share held.*

**4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.**

Name	Position
Matthew Pierce	President, CEO and Director
Paul Vlastic	Director
Michelle Gahagan	Director
Brian Tingle	Director

Name	Position
Craig Finster	CFO
Kelsey Chin	Corporate Secretary

**SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

Provide Interim MD&A if required by applicable securities legislation.

**See Management Discussion and Analysis for the quarter ended September 30, 2018 attached as Schedule C.**

**Certificate Of Compliance**

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated November 29, 2018.

Craig Finster  
 \_\_\_\_\_  
 Name of Director or Senior Officer

*/s/ "Craig Finster"*  
 \_\_\_\_\_  
 Signature

CFO  
 \_\_\_\_\_  
 Official Capacity

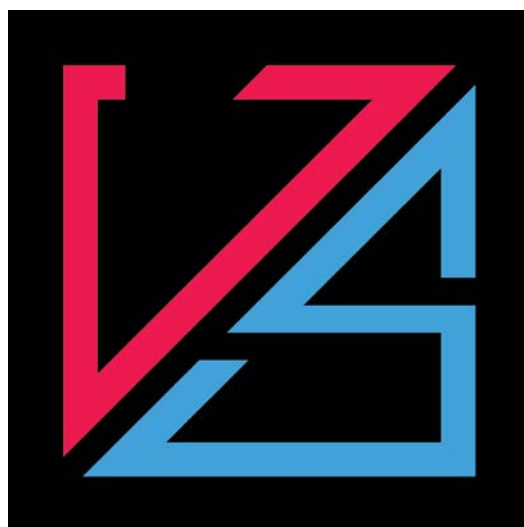
<b>Issuer Details</b> Name of Issuer <b>Versus Systems Inc.</b>	For Quarter Ended <b>September 30, 2018</b>	Date of Report <b>2018/11/29</b>
Issuer Address <b>302 – 1620 West 8<sup>th</sup> Avenue</b>		
City/Province/Postal Code <b>Vancouver, B.C., V6J 1V4</b>	Issuer Fax No. <b>(604) 639-4458</b>	Issuer Telephone No. <b>(604) 639-4457</b>
Contact Name <b>Kelsey Chin</b>	Contact Position <b>Corporate Secretary</b>	Contact Telephone No. <b>(604) 639-4457</b>
Contact Email Address <b>Kchin@intrepidfinancial.ca</b>	Web Site Address <a href="http://www.versussystems.com">www.versussystems.com</a>	

**SCHEDULE A**

**FINANCIAL STATEMENTS**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

# **VERSUS SYSTEMS INC.**



## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Canadian dollars)*

**NINE MONTH PERIOD ENDED**

**SEPTEMBER 30, 2018**

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements. The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.



## Versus Systems Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	September 30, 2018	December 31, 2017
	(\$)	(\$)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	90,723	230,742
Receivables	5,233	10,231
Prepays and deposits	83,705	31,479
	179,661	272,452
<b>Restricted deposit</b> (Note 5)	11,500	11,500
<b>Prepaid and deposits</b>	131,194	131,194
<b>Equipment</b> (Note 6)	70,135	50,269
<b>Intangible assets</b> (Note 8)	3,327,739	4,531,907
	3,720,229	4,997,322
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	867,828	479,868
	2,227,839	747,322
Notes payable (Note 10)	2,227,839	747,322
	3,095,667	1,227,190
<b>Equity</b>		
Share capital (Note 11)		
Common shares	91,633,199	88,302,958
Class "A" shares	37,927	37,927
Reserves (Note 11)	9,179,510	6,922,770
Deficit	(95,092,116)	(90,341,608)
	5,758,520	4,922,047
<b>Non-controlling interest</b> (Note 7)	(5,133,958)	(1,151,915)
	624,562	3,770,132
	3,720,229	4,997,322

**Nature of operations and going concern** (Note 1)

**Commitments** (Note 17)

**Subsequent event** (Note 18)

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2018. 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 condensed interim consolidated financial statements.

## Versus Systems Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three Month Period Ended September 30, 2018	Three Month Period Ended September 30, 2017	Nine Month Period Ended September 30, 2018	Nine Month Period Ended September 30, 2017
			(\$)	(\$)
<b>REVENUES</b>				
Sales	1,612	-	1,612	-
<b>EXPENSES</b>				
Cost of Sales	170	-	170	-
Amortization (Note 6)	7,231	5,991	19,759	14,213
Amortization of intangible assets (Note 8)	804,314	575,848	2,262,944	1,727,544
Consulting fees	254,870	156,783	853,397	641,452
Foreign exchange loss	184,313	(35,059)	140,690	(19,597)
General and administrative	301,795	136,929	954,380	410,025
Interest expense	31,074	-	60,746	-
Professional fees	173,986	83,476	556,951	197,352
Salaries and wages	622,156	458,902	1,649,260	992,556
Sales and marketing	13,509	5,104	189,716	164,757
Share-based compensation (Note 11)	152,372	356,038	1,962,912	1,050,370
	(2,544,178)	(1,744,012)	(8,649,313)	(5,178,672)
Other income	728	-	1,127	1,150
Finance expense	(41,612)	-	(84,365)	-
<b>Loss and comprehensive loss</b>	(2,585,062)	(1,744,012)	(8,732,551)	(5,177,522)
<b>Loss and comprehensive loss attributable to:</b>				
Shareholders	(1,406,274)	(825,508)	(4,750,508)	(2,826,735)
Non-controlling interest	(1,178,788)	(918,504)	(3,982,043)	(2,350,787)
	(2,585,062)	(1,744,012)	(8,732,551)	(5,177,522)
<b>Basic and diluted loss per common share:</b>				
Shareholders	(0.02)	(0.01)	(0.06)	(0.04)
Non-controlling interest	(0.01)	(0.01)	(0.05)	(0.03)
<b>Weighted average common shares outstanding</b>	89,578,562	74,344,292	84,896,292	71,705,137

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

## Versus Systems Inc.

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Number of Common Shares	Number of Class "A" Shares	Share Capital		Reserves	Deficit	Total Shareholders' Equity	Non-controlling Interest	Total Equity
			Common Shares	Class "A" Shares					
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Balance at December 31, 2016</b>	65,409,235	33,713	85,194,014	37,927	5,601,517	(86,114,570)	4,718,888	1,615,397	6,334,285
Shares issued for warrant exercise	2,258,000	-	715,700	-	-	-	715,700	-	715,700
Shares issued in private placement	8,000,000	-	2,000,000	-	-	-	2,000,000	-	2,000,000
Acquisition of Versus LLC	501,660	-	235,780	-	(223,786)	-	11,994	(11,994)	-
Share issuance costs - cash	-	-	(3,537)	-	-	-	(3,537)	-	(3,537)
Performance warrants issued	-	-	-	-	474,577	-	474,577	-	474,577
Stock options granted	-	-	-	-	575,793	-	575,793	-	575,793
Loss and comprehensive loss	-	-	-	-	-	(2,826,735)	(2,826,735)	(2,350,787)	(5,177,522)
<b>Balance at September 30, 2017</b>	76,168,895	33,713	88,141,957	37,927	6,428,101	(88,941,305)	5,666,680	(747,384)	4,919,296
Shares issued for warrant exercise	590,000	-	161,000	-	-	-	161,000	-	161,000
Share issuance costs - cash	-	-	1	-	-	-	1	-	1
Debt issuance cost	-	-	-	-	156,843	-	156,843	-	156,843
Performance warrants issued	-	-	-	-	72,072	-	72,072	-	72,072
Stock options granted	-	-	-	-	265,754	-	265,754	-	265,754
Loss and comprehensive loss	-	-	-	-	-	(1,400,303)	(1,400,303)	(404,531)	(1,804,834)
<b>Balance at December 31, 2017</b>	76,758,895	33,713	88,302,958	37,927	6,922,770	(90,341,608)	4,922,047	(1,151,915)	3,770,132
Shares issued in private placement	12,259,667	-	3,677,900	-	-	-	3,677,900	-	3,677,900.10
Share issuance costs - cash	-	-	(446,659)	-	-	-	(446,659)	-	(446,659)
Debt issuance cost	-	-	-	-	293,828	-	293,828	-	293,828
Shares issued for warrant exercise	560,000	-	99,000	-	-	-	99,000	-	99,000
Warrants issued	-	-	-	-	1,428,940	-	1,428,940	-	1,428,940
Stock options granted	-	-	-	-	533,972	-	533,972	-	533,972
Loss and comprehensive loss	-	-	-	-	-	(4,750,508)	(4,750,508)	(3,982,043)	(8,732,551)
<b>Balance at September 30, 2018</b>	89,578,562	33,713	91,633,199	37,927	9,179,510	(95,092,116)	5,758,520	(5,133,958)	624,562

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

## Versus Systems Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

	Nine Month Period Ended September 30, 2018	Nine Month Period Ended September 30, 2017
	(\$)	(\$)
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(8,732,551)	(5,177,522)
Items not affecting cash:		
Amortization (Note 6)	19,759	14,213
Amortization of intangible assets (Note 8)	2,262,944	1,727,544
Finance expense	74,345	-
Foreign exchange loss	-	-
Accrued interest expense	63,288	-
Share-based compensation	1,962,912	1,050,370
Changes in non-cash working capital items:		
GST receivable	4,998	(2,491)
Prepays and deposits	(52,226)	(132,722)
Accounts payable and accrued liabilities	324,672	(62,336)
<b>Cash used in operating activities</b>	<b>(4,071,859)</b>	<b>(2,582,944)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from notes payable	1,700,000	-
Proceeds from warrant exercises	99,000	-
Proceeds from issuance of common shares	3,677,900	2,715,700
Share issuance costs	(446,659)	(3,537)
<b>Cash provided by financing activities</b>	<b>5,030,241</b>	<b>2,712,163</b>
<b>INVESTING ACTIVITIES</b>		
Development of intangible assets	(1,058,776)	(957,337)
Purchase of equipment	(39,625)	(37,264)
<b>Cash used in investing activities</b>	<b>(1,098,401)</b>	<b>(994,601)</b>
<b>Change in cash during the year</b>	<b>(140,019)</b>	<b>(865,382)</b>
<b>Cash - Beginning of year</b>	<b>230,742</b>	<b>1,210,400</b>
<b>Cash - End of year</b>	<b>90,723</b>	<b>345,018</b>

### Supplemental Cash Flow Information (Note 16)

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

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)



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**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 8<sup>th</sup> 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. At the date of the consolidated financial statements, the Company has earned minimal revenues from operations and is considered to be in the development stage.

These condensed interim consolidated financial statements have been prepared on a going concern basis in accordance with International financial reporting standards (“IFRS”). The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2018, 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. These material uncertainties may cast substantial doubt on the Company’s ability to continue as 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 condensed interim 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, 2017, prepared in accordance with IFRS as issued by the IASB.

**Basis of presentation**

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 through profit or loss, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2018.

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)

**2. BASIS OF PRESENTATION** (continued)**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 through profit or loss, which are stated at their fair value. In addition, these consolidated 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.

**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
Opal Energy (Holdco) Corp	United States of America	45.6%	Holding Company
Versus LLC	United States of America	45.6%	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.

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

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)



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

**Deferred income taxes** (continued)

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.

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.

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.

ii) Business Combinations

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisitions disclosed in Note 7 did meet the criteria for accounting as a business combination.

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)



**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 44,961,684 (2017 – 45,895,676).

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred. The acquired company's identifiable assets acquired and liabilities assumed are recognized at their fair values at the acquisition date.

Goodwill arising from a business combination is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

**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:

<u>Asset</u>	<u>Rate</u>
Computers	Straight line, 3 years

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company classifies cash as fair value through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company classifies GST receivable as loans and receivables.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment. The Company classifies restricted deposits as held to maturity.



**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)



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

**Financial instruments (continued)**

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in the profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

*Financial liabilities*

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*: This category consists of liabilities carried at amortized cost using the effective interest method, and the Company classifies accounts payable and accrued liabilities, and notes payable as other financial liabilities.

As at September 30, 2018, the Company does not have any derivative financial assets and liabilities.

**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.

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-

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

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.

**Impairment of intangible assets excluding goodwill**

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.

**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.

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

**Deferred income tax (continued)**

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.

**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.

**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.

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.

**Stock-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.

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

**Stock-based Compensation** (continued)

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.

**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. ACCOUNTING STANDARDS ISSUED**

Standards issued and adopted in the Company's condensed interim consolidated financial statements are listed below. The Company has adopted these standards when they became effective.

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2018 and are effective:

*IFRS 2, Share-based Payment*

Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions.

*IFRS 9, Financial instruments*

This standard was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities



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**4. ACCOUNTING STANDARDS ISSUED** (continued)

have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

*IFRS 15, Revenue from Contracts with Customers*

This standard was issued in May 2014 and will be the new standard for the recognition of revenue, replacing IAS 18, Revenue. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company notes the impact of the above standards on its financial statements were not material.

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2019 but are not yet effective:

*IFRS 16, Leases*

This new standard replaces the existing leasing guidance in IAS 17, Leases.

IFRS 16 distinguishes between leases and service contracts on the basis of whether the customer controls the asset being leased. For those contracts determined to meet the definition of a lease, IFRS 16 requires a lessee to recognize on the balance sheet a lease asset along with the associated lease liability which reflects future lease payments, similar to current finance lease accounting. There are limited exceptions for leases with a term of less than 12 months or leases of assets which have a very low value. As a result of the adoption of IFRS 16, operating leases which were previously only recognized on the statement of earnings will be recognized on the balance sheet.

The purpose of the standard is to provide users of the financial statements with a more accurate picture of a company's leased assets and associated liabilities, while also improving the comparability of companies that lease assets to those that purchase them.

*IFRS 17, Insurance Contracts*

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, *Insurance Contracts*, and related interpretations.

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will early adopt these standards.

**5. RESTRICTED DEPOSIT**

As at September 30, 2018, restricted deposits consisted of \$11,500 (2017 - \$11,500) held in a guaranteed investment certificate as collateral for a corporate credit card.

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**6. EQUIPMENT**

	<b>Computers</b>
	(\$)
<b>Cost</b>	
At December 31, 2016	36,252
Additions	40,004
At December 31, 2017	76,256
Additions	39,625
<b>At September 30, 2018</b>	<b>115,881</b>
<b>Accumulated amortization</b>	
At December 31, 2016	3,707
Amortization for the year	22,280
At December 31, 2017	25,987
Amortization for the period	19,759
<b>At September 30, 2018</b>	<b>45,746</b>
<b>Carrying amounts</b>	
At December 31, 2017	50,269
<b>At September 30, 2018</b>	<b>70,135</b>

**7. 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") 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.

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

The transaction with Versus LLC was determined to be a business combination under IFRS 3, and accordingly the Company used the acquisition method as follows:

	<b>Amount</b>
	(\$)
Cash	49,902
Intangible assets	5,921,712
Accounts payable and accrued liabilities	(143,515)
Loan payable to the Company	(650,165)
Net identifiable assets at fair value acquired	5,177,934
Non-controlling interest	(3,215,212)
Purchase consideration	1,962,722

The Company determined the fair value of the intangible assets using a replacement cost approach, which measures the expenditures necessary to develop an asset with similar utility as of the valuation date, which in this case, is the date of the business acquisition, June 26, 2016. The expenditures consisted only of those expenditures which the Company considered necessary to replace the utility of the intangible asset (Note 8) in the environment in existence at the transaction date, and included labour costs and other items such as legal fees in the development process.

In connection with the acquisition of Versus, LLC, the Company paid a finder's fee of 1,000,000 common shares with a fair value of \$250,000 which was expensed during the year ended December 31, 2016.

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 43.7% 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 45.6% 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.

**8. 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 7. In addition, the Company continues to develop new apps, therefore additional cost were capitalized during the nine month period ended September 30, 2018.

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**8. INTANGIBLE ASSETS (continued)**

	<b>Software</b>
	(\$)
<b>Cost</b>	
At December 31, 2016	6,422,831
Additions	1,570,171
At December 31, 2017	7,993,002
Additions	1,058,776
<b>At September 30, 2018</b>	<b>9,051,778</b>
<b>Accumulated amortization</b>	
At December 31, 2016	1,058,456
Amortization	2,042,639
At December 31, 2017	3,461,095
Amortization	2,262,944
<b>At September 30, 2018</b>	<b>5,724,039</b>
<b>Carrying amounts</b>	
At December 31, 2017	4,531,907
<b>At September 30, 2018</b>	<b>3,327,739</b>

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<b>September 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
	(\$)	(\$)
Accounts payable	348,960	219,125
Due to related parties	120,131	170,874
Accrued liabilities	398,737	89,869
	<b>867,828</b>	<b>479,868</b>

**10. NOTES PAYABLE**

During the year ended December 31, 2017, the Company issued unsecured notes payable for total proceeds of \$900,000 from a director of the Company who is also a shareholder. The loans bear interest at the prime rate which was 3.20% at December 31, 2017, 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



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**10. NOTES PAYABLE (continued)**

\$156,843 was recorded in reserves. As at December 31, 2017, the Company had recorded \$2,635 in accrued interest which was included in accounts payable and accrued liabilities.

During the nine month period ended September 30, 2018, the Company issued unsecured notes payable for total proceeds of \$1,700,000 from a director of the Company who is also a shareholder. The loans bear interest at the prime rate which was 3.70% at September 30, 2018, 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 \$293,828 was recorded in reserves.

As at September 30, 2018, the Company had recorded \$63,288 in accrued interest which was included in accounts payable and accrued liabilities.

The notes were originally recorded at \$2,153,494 being the present value of future payments discounted at 10%. The Company recorded finance expense of \$74,345 related to bringing the notes to their present value at September 30, 2018.

	Amount
	(\$)
Balance, December 31, 2017	747,322
Proceeds	1,700,000
Contribution benefit	(293,828)
Finance expense	74,345
<b>Balance, September 30, 2018</b>	<b>2,227,839</b>

**11. 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 nine month period ended September 30, 2018, the Company:

- i) issued, 12,259,667 units at a price of \$0.30 per unit for total proceeds of \$3,677,900. Each unit consisted of one common share and a one half common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of \$0.40 until April 12, 2020.
- ii) issued 560,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$99,000.



**11. SHARE CAPITAL AND RESERVES (continued)**

**b) Issued share capital (continued)**

During the year ended December 31, 2017, the Company:

- iii) issued 2,848,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$876,700.
- iv) issued 8,000,000 units at a price of \$0.25 per unit for total proceeds of \$2,000,000. Each unit consisted of one common share and a share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.40 until March 17, 2022.
- v) issued 501,660 common shares with a fair value of \$235,780 to increase its ownership interest in Versus LLC (Note 7)

Escrow

At September 30, 2018, 5,000 common shares (December 31, 2017 – 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 September 30, 2018, there were 5,594,306 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 15% 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:

	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>
		(\$)
Balance – December 31, 2016	6,020,471	0.27
Granted	2,584,500	0.39
Cancelled	(100,000)	0.27
Balance – December 31, 2017	8,504,971	0.31
Granted	1,056,500	0.38
Cancelled	-	-
Balance – September 30, 2018	9,561,471	0.32

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

During the nine month period ended September 30, 2018, the Company recorded share-based compensation of \$533,972 (2017 - \$494,621) relating to options vested during the year.

At September 30, 2018, the Company had incentive stock options outstanding as follows:

<b>Expiry Date</b>	<b>Options Outstanding</b>	<b>Options Exercisable</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Life</b>
			<b>(\$)</b>	<b>(years)</b>
May 18, 2022	158,000	6,583	0.49	3.63
March 17, 2022	908,000	75,667	0.44	3.46
July 13, 2021	5,920,471	3,705,574	0.27	2.78
August 3, 2022	116,000	4,833	0.39	3.81
September 14, 2022	1,278,500	701,750	0.35	3.96
December 11, 2022	124,000	-	0.38	4.20
June 6, 2023	686,500	-	0.46	4.70
September 4, 2023	370,000	-	0.25	4.95
	<b>9,561,471</b>	<b>4,494,407</b>	<b>0.32</b>	<b>3.13</b>

**d) Share purchase warrants**

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

	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>
		<b>(\$)</b>
Balance – December 31, 2016	21,984,099	0.27
Exercised	(2,848,000)	0.31
Issued	8,250,830	0.39
Balance – December 31, 2017	27,386,929	0.30
Exercised	(560,000)	-
Expired	(8,318,000)	0.40
Issued	6,887,508	0.39
Balance – September 30, 2018	<b>25,396,437</b>	<b>0.30</b>

During the nine month period ended September 30, 2018, the Company:

- i) On March 29, 2018 and April 12, 2018, the Company completed a unit private placement which included 6,129,833 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 \$1,097,052 using the Black Scholes option pricing model.

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

- ii) On March 29, 2018 and April 12, 2018, the Company completed a unit private placement which included 711,405 broker 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 \$141,704 using the Black Scholes option pricing model.

During the year ended December 31, 2017, the Company:

- i) On March 17, 2017, the Company completed a unit private placement which included 8,000,000 share purchase warrants exercisable at \$0.40 per share for a period of five years. The share purchase warrants were determined to have a fair value of \$Nil using the residual value method.
- ii) 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 share purchase warrants were determined to have a fair value of \$88,469 using the Black Scholes option pricing model.

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Risk-free interest rate	1.76%	1.45%
Expected life of options	2.0 years	1.84 years
Expected dividend yield	Nil	Nil
Volatility	112.64%	120.47%
Weighted average fair value per warrant	\$.18 - \$.20	\$0.35

At September 30, 2018, the Company had share purchase warrants outstanding as follows:

<b>Expiry Date</b>	<b>Warrants Outstanding</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Life</b>
		(\$)	(years)
March 17, 2022	7,950,000	0.40	3.46
February 27, 2020	9,633,333	0.15	1.41
June 24, 2019	971,596	0.20	0.75
March 29, 2020	1,499,500	0.40	1.50
March 29, 2020	209,930	0.30	1.50
April 12, 2020	4,630,333	0.40	1.62
April 12, 2020	501,475	0.30	1.62
	25,396,437	0.30	1.85

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

On September 30, 2016, the Company issued 10,003,776 performance warrants with a fair value of \$1,725,496. These performance warrants vest over a period that is the earlier of achieving certain performance milestones or 33 months. During the nine month period ended September 30, 2018, the Company expensed \$127,359 (2017 - \$546,648) as share-based compensation.

The performance warrants were valued using the Black-Scholes option pricing model using the following assumptions:

Risk-free interest rate	0.54%
Expected life of options	5 years
Expected dividend yield	Nil
Volatility	90.0%
Weighted average fair value per warrant	\$0.17

At September 30, 2018, the Company had performance warrants outstanding as follows:

<b>Expiry Date</b>	<b>Performance Warrants Outstanding</b>	<b>Performance Warrants Exercisable</b>	<b>Exercise Price</b>	<b>Remaining Life</b>
			<b>(\$)</b>	<b>(years)</b>
June 30, 2021	10,003,776	9,170,128	0.25	1.75

**12. RELATED PARTY TRANSACTIONS**

The following summarizes the Company's related party transactions, not disclosed elsewhere in these consolidated financial statements, during the nine months ended September 30, 2018 and 2017. Key management personnel includes the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), directors and officers and companies controlled or significantly influenced by them.

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)

**12. RELATED PARTY TRANSACTIONS (continued)**Key Management Personnel

	2018	2017
	(\$)	(\$)
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.	348,528	702,249
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.	184,961	276,307
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.	196,381	259,045
Share-based compensation vested for incentive stock options issued to certain directors and officers of the Company.	83,285	44,555
<b>Total</b>	<b>813,155</b>	<b>1,282,156</b>

Other Related Party Payments

Office sharing and occupancy costs of \$49,000 (2017 - \$45,000) were paid or accrued to a corporation that shares management in common with the Company.

Amounts Outstanding

- a) At September 30, 2018, a total of \$4,200 (December 31, 2017 - \$4,200) was included in accounts payable and accrued liabilities owing to a corporation controlled by the former CFO of the Company for consulting fees.
- b) At September 30, 2018, a total of \$22,380 (December 31, 2017 - \$22,380) was included in accounts payable and accrued liabilities owing to a former director of the Company for consulting fees and reimbursable expenses.
- c) At September 30, 2018, a total of \$44,791 (December 31, 2017 - \$71,712) was included in accounts payable and accrued liabilities owing to the CEO for accrued bonuses and reimbursable expenses.
- d) At September 30, 2018, a total of \$13,429 (December 31, 2017 - \$43,971) was included in accounts payable and accrued liabilities owing to a member of the advisory board of the Company for accrued bonuses.
- e) At September 30, 2018, a total of \$19,350 (December 31, 2017 - \$25,101) was included in accounts payable and accrued liabilities owing to the Vice President of Engineering of the Company for accrued bonuses.
- f) At September 30, 2018, a total of \$421 (December 31, 2017 - \$880) was included in accounts payable and accrued liabilities owing to a corporation that shares management in common for consulting fees and reimbursable expenses.

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)



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**12. RELATED PARTY TRANSACTIONS (continued)**

- g) At September 30, 2018 a total of \$2,600,000 (December 31, 2017 - \$900,000) of long term notes was payable to a director of the Company (Note 10). The notes had a present value of \$2,227,839 at September 30, 2018.

**13. 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, GST receivable, restricted deposit, accounts payable and accrued liabilities and notes payable.

The fair value of cash, GST receivable, 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.

*Liquidity risk*

The Company's cash is invested in business accounts which are available on demand, The Company has raised additional capital subsequent to September 30, 2018 (Note 18). Accordingly, the Company estimates it has sufficient capital to meet its current obligations.

*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 nine month period ended September 30, 2018.

**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
(Expressed in Canadian dollars)

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***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 September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<b>(US\$)</b>	<b>(US\$)</b>
Cash	49,888	158,352
Accounts payable and accrued liabilities	(328,702)	(268,355)
	<b>(275,814)</b>	<b>(110,003)</b>

As at September 30, 2018, 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 \$27,755 (December 31, 2017 - \$13,806).

**14. 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 total shareholders' equity, less amounts accumulated in shareholders' equity related to share-based payments to employees and consultants. 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 nine month period ended September 30, 2018.

**15. 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. The Company's two geographical segments are Canada and the United States. All of the Company's intangible assets and equipment are located in the United States of America.



**VERSUS SYSTEMS INC.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018  
 (Expressed in Canadian dollars)

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>2018</b>	<b>2017</b>
	(\$)	(\$)
<b>Non-cash investing and financing activities:</b>		
Contribution benefit on low interest rate notes (Note 10)	293,828	-
<b>Interest paid during the year</b>	-	-
<b>Income taxes paid during the year</b>	-	-

**17. COMMITMENTS**

On August 1, 2015, the Company entered into a cost sharing arrangement agreement for the provision of office space and various administrative services. Under the terms of the agreement, the Company will pay \$5,000 plus GST per month commencing on September 1, 2015 and continuing until the expiration of the underlying head lease on July 31, 2018. 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.

<b>Year</b>	<b>Amount</b>
	(\$)
2018 (remaining 3 months)	21,000
2019	84,000
2020	84,000
2021	42,000

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 US\$19,110 per month commencing on October 1, 2017 until September 30, 2022.

<b>Year</b>	<b>Amount</b>
	(US\$)
2018 (remaining 3 months)	57,330
2019	239,424
2020	247,803
2021	256,479
2022	197,361

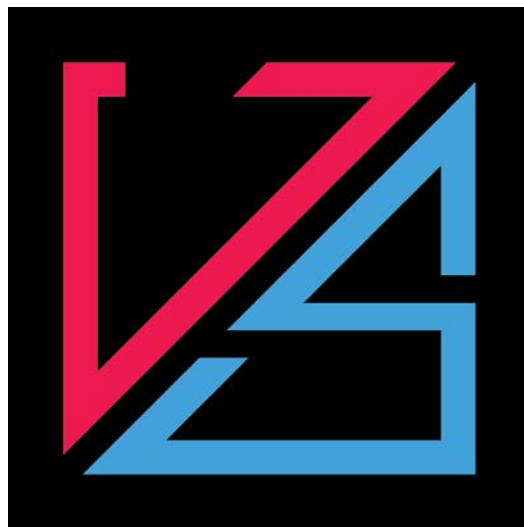
**18. SUBSEQUENT EVENTS**

From October to November 2018, the Company issued additional notes payables to its Chairman and outside investors for an accumulated amount of \$845,000. The notes bear interest at the applicable prime rate and interest accrues quarterly.

**SCHEDULE C**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

# **VERSUS SYSTEMS INC.**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Expressed in Canadian Dollars)**

**NINE MONTH PERIOD ENDED**

**SEPTEMBER 30, 2018**

**REPORT DATE – NOVEMBER 29, 2018**

## **VERSUS SYSTEMS INC.**

Management's Discussion and Analysis  
Nine month Period Ended September 30, 2018



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### **Introduction**

Versus Systems Inc. (the "Company") is a publicly traded company continued under the Business Corporations Act (British Columbia) effective January 7, 2007. The Company is a reporting issuer in British Columbia, Alberta, Ontario and Quebec, and its common shares are listed and posted for trading on the Canadian Securities Exchange ("CSE") under the trading symbol "VS" and on the OTCQB market under the trading symbol "VRSSF". The Company's offices are located at 302 – 1620 West 8<sup>th</sup> Avenue, Vancouver, BC, V6J 1V4.

The Company was previously engaged in the acquisition, exploration and development of natural resource properties in North America. However, on June 30, 2016 the Company completed a fundamental change of business through the acquisition of Versus LLC, a California based technology company that has developed state-of-the art video game and e-sports tournament software that allows video game publishers/developers to offer prize-based tournaments of their games.

In accordance with Form 51-102F1, the following Management's Discussion & Analysis ("MD&A") provides a review of activities, results of operations and financial condition of the Company for the nine month period ended September 30, 2018. The following discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 which were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars.

### **Forward-Looking Statements**

Except for statements of historical fact, this MD&A contains certain "forward-looking information" within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. In particular, forward-looking information in this MD&A includes, but is not limited to, statements with respect to future events and is subject to certain risks, uncertainties and assumptions. Although we believe that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, performance or achievements. Consequently, there is no representation that the actual results achieved will be the same, in whole or in part, as those set out in the forward-looking information.

Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking information. Some of the risks and other factors could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: limited operating history; regulatory risks; changes in laws, regulations and guidelines; failure to retain existing users or add new users; reliance on management and key personnel lack of demand; competition; rapid technological change; online commerce security risks; and the other factors described herein under "Risks and Uncertainties" as well as in our public filings available at [www.sedar.com](http://www.sedar.com). Readers are cautioned that this list of risk factors should not be construed as exhaustive.

## **VERSUS SYSTEMS INC.**

Management's Discussion and Analysis  
Nine month Period Ended September 30, 2018



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### **Forward-Looking Statements** (continued)

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. We undertake no duty to update any of the forward-looking information to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.

### **Business Combination with Versus LLC**

On June 26, 2016, the Company acquired a 37.5% ownership interest in Versus LLC (“Versus”), 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). On June 30, 2016, the Company and the Selling Members exchanged 100% of their ownership units in Versus for 8,950.05 common shares of Opal Energy (Holdco) Corp. (“Newco”) determined to have a fair value of \$5,201,800 (US\$4,000,000). Consequently, Versus 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 has recorded a non-controlling interest related to the 61.8% interest held by the Selling Members in the net identifiable assets of Versus LLC.

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 43.7%.

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 45.6%.

### About Versus LLC

Versus is a limited liability company organized under the laws of the state of Nevada and headquartered in Los Angeles, California.

Versus 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. The Versus platform will facilitate several types of multiplayer matches for prizes that include real-money, consumer packaged goods (“CPG”) and downloadable content (“DLC”). Versus plans to partner with existing video game developers and publishers to offer pay-to-play tournaments and matches of popular games, sharing a certain portion of the pay-to-play buy-in amount with the publisher/developers.

## **VERSUS SYSTEMS INC.**

Management's Discussion and Analysis  
Nine month Period Ended September 30, 2018



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### **Business Combination with Versus LLC (continued)**

Versus is also in the process of prosecuting a number of patents in the areas of player verification and authentication, so that players' identities, ages, and locations can be assessed accurately prior to any real-money game is played. Versus is also in the process of prosecuting patents in the area of conditional prize distribution, such that each player can receive prizes that are intended to be legal in his or her jurisdiction. Versus intends to make its platform legal for all players, of all ages, everywhere that Versus-enabled games are played.

While Versus is in negotiations with a number of video game publisher/developers, the Versus platform is currently available in NASCAR® Heat Mobile, at present Versus has generated limited revenue from operations.

The market for Versus-enabled games will initially be the United States and Canada, followed by expansion into Asia and Europe, according to the release schedules of the prospective Versus developer/publisher partners. As Versus will be integrated directly into the developers' and publishers' video games, the majority of the marketing spend/customer acquisition costs will be borne by the publisher developers when they release their games.

Discussions with potential publisher/developer partners have contemplated a revenue-sharing model that will allow Versus to receive approximately 2%, on average, of the top-line buy-in amount for matches where real money is the prize, 10%, on average, of the top-line buy-in amount for matches where CPG is the prize, and approximately 20%, on average, of the top-line buy-in amount for matches where DLC is the prize.

The Versus publisher/developer dashboard, the primary way that publisher/developer partners will interact with the Versus system, will allow such partners to "turn on" or "turn off" features, game types, and regions as the technology, business, and legal/regulatory environments evolve. For example, a publisher may choose to release only DLC prize tournaments in the United States initially before turning on real money gaming in the United States, or turning on DLC matches in Canada or the United Kingdom. They can also turn off features and regions selectively if business demands require it. That said, publishers and developers will not be allowed to "turn on" real money gaming in any region where that prize type is not legal.

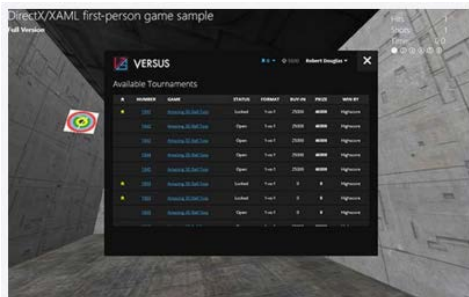


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**Business Combination with Versus LLC (continued)**

Demo Example

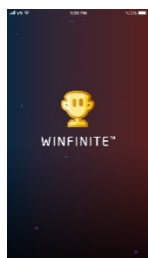
**3D Ball Toss – an asynchronous single player game (like Tetris or PacMan)**



- Platform allows multiplayer “matches” for 2 to unlimited players;
- Developers can create tournaments with multiple winners and multiple win conditions (high score, fastest, fewest misses, etc.);
- Players can choose from multiple buy-in amounts and multiple prize types (downloadable content, real money, physical goods);
- Interface is via overlaid webviews (not integrated directly into the game); and
- Built on windows platform for PC and Xbox.

Consumer Facing Platform

**Winfinite™**



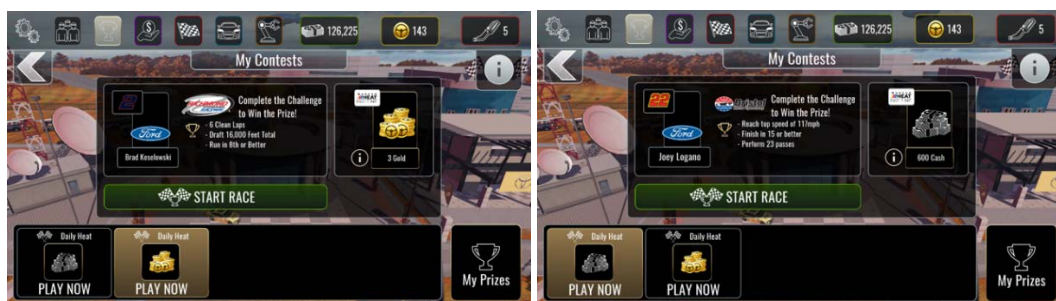
- Versus' Winfinite™ platform launched on April 2, 2018 in-game in NASCAR® HEAT Mobile; and
- Winfinite™ is the consumer facing platform Versus created to register and manage player accounts.



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**Business Combination with Versus LLC (continued)**

**NASCAR® Heat Mobile – a single player racing game**



- 704Games, the Publisher, chose to offer Versus enabled matches (races) for individual players called “Daily Heats”;
- Multiple Daily Heats each present players objectives to accomplish in a race to win different types and amounts of in-game currencies; and
- Versus’ Winfinite™ interface is integrated directly into the game, providing players a new feature and portal to register and play for prizing.

Overview of the Industry

According to a Newzoo 2017 Global Games Report, the video game industry is over a \$116-billion-dollar market, and has seen enormous growth in the last ten years. In particular, the last five years have seen an explosion of the category of paid DLC where players purchase items and game elements online and they are downloaded into their PC, gaming console, or mobile device. Multiple publisher/developers made in excess of \$1 billion dollars of revenue in 2017 by having their players purchase in-game upgrades and content. King Digital Entertainment plc (“King”) was purchased by Activision Blizzard Inc. in November of 2015 for \$5.9 billion due in large part to King’s history of creating games with significant DLC revenue streams.

There are multiple games that have over one million daily active users, including several competitive multiplayer games that have developed their own professional electronic sports (“e-sports”) communities. These e-sports competitions regularly draw spectators, both in-person and online, in the millions. The 2015 world championships of Defense of the Ancients (“DOTA”), a multiplayer online battle arena modification for the video game “Warcraft III” and its expansions, were held at Madison Square Garden in New York, and more people watched the 2015 League of Legends world championship online than watched all of the 2015 Stanley Cup Finals combined. ESPN Inc. and its affiliates now carry news of major e-sports events. Nearly one-half of the most-viewed YouTube channels are video game oriented, and Twitch, a live streaming platform specifically designed for video gamers, was sold to Amazon in August 2014 for nearly \$1 billion.

The Company believes there is an enormous appetite for competitive video gaming, and unlike fantasy gaming models where players wager on the performance of famous athletes, the Versus platform will allow players to play against their friends directly or challenge others to showcase their skills in order to compete for money and prizes. Versus has developed a technology that allows players to play their favorite games, legally, for real money, DLC and prizes.





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## **Business Combination with Versus LLC (continued)**

### Future roadmap

Beyond the development of the pay-to-play platform and the integration of this platform into popular, global PC and console games, Versus is preparing additional intellectual property and software roadmaps for its next stage of development. Versus plans to take advantage of the large and growing video game spectator market by working with multiple distribution channels, including YouTube, Twitch, and even the traditional media of television. Versus believes that viewers who already consume video game content at astonishing rates will be even more engaged with the addition of gaming stakes.

Versus is also pursuing a number of patents in and around the potential gaming space that could make its patent portfolio easier to license or more valuable to any number of potential licensees in the entertainment vertical. With the Company's financing now complete, Versus can proceed to prosecute additional patents, develop new technologies, and become a part of the large, and growing e-sports marketplace.

## **Recent Business Developments and Milestones**

### White Castle Partnership

On August 14th, the Company announced it partnered with White Castle, America's first fast-food hamburger chain, to use the WINFINITE platform to offer fans the chance to win White Castle products as prizes. Video game publishers and developers are able to use WINFINITE's new location targeting feature to offer the prizes for in-game achievements based on the player's proximity to certain White Castle locations. The first test of the prizing partnership will provide players with the ability to win rewards from select White Castle locations in the Louisville, Kentucky metropolitan area.

### Partnership with GameCake

On July 27, 2018, the Company announced that it has entered into partnership with GameCake, a Los Angeles-based game developer and Comcast portfolio company. GameCake brings friends and families together with games for the devices they already own: streaming media players, Smart TVs, and smart cable boxes. The studio's first title, Emoji Charades, has already garnered multiple "Game of the Day" placements on the App Store worldwide. GameCake will integrate Versus' Winfinite platform with Emoji Charades to bring real-world prizing into millions of homes.

### Product Launch

On April 2, 2018, Versus launched the Company's Winfinite™ platform in-game in NASCAR® HEAT Mobile on iOS and Android devices. Players in the United States and Canada, excluding Quebec, are eligible to win prizing.

### Partnership with 704Games

In August 2017, the Company announced that 704Games is working with Versus' prizing and promotions platform to provide players with opportunities for in-game prizing and real-world rewards in their upcoming titles on mobile and console. In spring 2017, 704Games released Nascar Heat Mobile, the first authentic Nascar racing game on mobile to feature 40 stock cars racing simultaneously. 704Games also recently announced the upcoming release of Nascar Heat 2, which will be available on Xbox One, Playstation 4 and PC.

"We think this can be a great way to bring new, exciting engagement to our games and also blend in the wide range of sponsors across the sport," said Ed Martin, president of 704Games. "We're looking forward to working with Versus to see how we can use our games to bring this to the fans."



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## **Recent Business Developments and Milestones (continued)**

### Closed Beta Program

On June 1, 2017, Versus launched phase 1 of the Company's closed beta program to users who register through its website. Players everywhere have a chance to compete for real-world prizes from brands including Tier 1, Han Cholo and more.

### Rockstar Energy Partnership

In March 2017, the Company announced that it has partnered with Rockstar Energy Inc., manufacturers of Rockstar Energy drinks, to expand the Versus in-game prize offerings for video gamers. Players will compete in game for exclusive access to Rockstar Energy events, apparel and branded products.

### Devil's Third Online – System Integration

In January 2017, the Company announced that the Versus proprietary prizing platform will be integrated into Valhalla Games Studios International Ltd.'s Devil's Third Online (“DTO”), currently in development as a free-to-play (F2P) launch for PC.

Through its wholly owned subsidiary, VN, Valhalla Games Studios will release an MMO (massively multiplayer online) version of Devil's Third on the PC, Devil's Third Online, utilizing an in-game-purchase revenue model. DTO is a large-scale game that features a permanent world that can support thousands of players interacting with each other in real time.

### U.S. Patent Filings

Versus has filed multiple patent claims with the U.S. Patent and Trademark Office to expand upon its existing portfolio of prizing, promotion and financial technologies that enable brands to reach the rapidly growing competitive gaming audience of players, spectators and broadcasters.

The Versus patent claims, extending and expanding on claims filed in the United States in 2014 and internationally through the patent co-operation treaty in 2015, describe a system that seeks to match competitive game players and spectators with prizing from their favourite brands through a unique conditional prize matching system.

### Han Cholo Partnership

Versus has signed an agreement with leading lifestyle brand Han Cholo to provide prizes for players and spectators participating in Versus-enabled video games. This prizing partnership will provide video game developers and publishers the ability to offer their players unique prizes, jewelry and accessories for participating in competitive matches of their games.

Han Cholo is the creator of it accessories for fashionistas, celebrities and gamers alike -- fans include Kendrick Lamar, Brad Pitt, Miley Cyrus, the Yeah Yeah Yeahs, Snoop Dogg and Daft Punk. Founder and chief executive officer Brandon Schoolhouse has developed accessories for Star Wars, Xbox, Metal Gear Solid, Sonic the Hedgehog and recently made a Voltron ring that was featured in the movie Deadpool.

### Tier 1 Accessories Partnership

Versus has signed an agreement with innovative gaming accessories and licensed collectables manufacturer Tier1 Accessories to provide prizes for players and spectators participating in Versus-enabled video games. This prizing partnership will provide video game developers and publishers the ability to offer their players unique accessories, peripherals and licensed products.

Tier1 Accessories designs, develops, manufactures and markets performance-enhancing gaming peripherals and licensed collectables. An innovation leader in the industry, Tier1 represents the pinnacle of design sensibility and utility, providing gamers from novice to pro the tools they need to perform beyond their typical skill thresholds.



## Overall Performance and Results of Operations

### Three Month Period Ended September 30, 2018

During the three month period ended September 30, 2018 (the "Current Quarter"), the Company incurred a loss for the period of \$2,585,062 compared to \$1,744,012 for the three month period ended September 30, 2017 (the "Comparative Quarter"). Operating expenses for the Current Quarter were \$2,544,178 compared to \$1,744,012 for the Comparative Quarter which represented an overall increase of \$800,166 or 46%. The increase can be attributed to a \$418,630 increase in salaries, consultants and general administrative cost in order to get the company's products ready for launch. In addition, there was a \$219,372 increase in foreign exchange loss and a \$228,466 increase in amortization of intangibles as a result of an increase in spending on internally developed technology.

### Summary of Quarterly Results

The following table sets out selected unaudited financial information for the eight most recent quarters. The financial data has been prepared in accordance with IFRS.

Three Months Ended	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
	(\$)	(\$)	(\$)	(\$)
Sales	-	-	-	-
Loss from Operations	(2,544,178)	(3,566,998)	(2,538,137)	(1,800,669)
Loss attributable to shareholders	(1,406,274)	(1,952,581)	(1,391,653)	(1,400,303)
Loss attributable to non-controlling interest	(1,178,788)	(1,636,722)	(1,166,533)	(404,531)
Loss for the period	(2,585,062)	(3,589,303)	(2,558,186)	(1,804,834)
Basic and Diluted Loss per Share	(0.03)	(0.02)	(0.02)	(0.02)

Three Months Ended	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
	(\$)	(\$)	(\$)	(\$)
Other Income	-	892	258	460
Loss from Operations	(1,744,012)	(1,962,258)	(1,472,402)	(1,779,600)
Loss attributable to shareholders	(825,508)	(1,131,717)	(869,510)	(747,933)
Loss attributable to non-controlling interest	(918,504)	(829,649)	(602,634)	(1,055,073)
Loss for the period	(1,744,012)	(1,961,366)	(1,472,144)	(1,803,006)
Basic and Diluted Loss per Share	(0.02)	(0.03)	(0.02)	(0.03)



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### Summary of Quarterly Results (continued)

Note 1: There were no material variations in the results of the Company over the prior eight reporting periods with the exception of the following:

- a) During the three-month period ended September 30, 2018 through March 31, 2018, the loss for the period increased due to the increase of amortization of the intangible assets of Versus LLC, an increase in share-based compensation and capitalized software. In addition, salaries and general and administrative cost increased as the Company was preparing for their first product launch.
- b) During the year ended December 31, 2017 through December 31, 2016, the loss for the period increased due to the inclusion of operating costs in Versus LLC.
- c) During the three month period ended September 30, 2017, the loss for the period increased due to the professional fees, consulting fees incurred in connection with the acquisition of Versus LLC.
- d) During the three month period ended December 31, 2016, the Company recorded reclamation expense of \$78,430 on the Tashia Nipigon Property.

Note 2: Other Income consists of royalty income earned from an oil well and the gain on disposal of some petroleum equipment which ended in June of 2017.

### Liquidity and Capital Resources

The Company had cash of \$90,723 and working capital deficit of \$688,167 as at September 30, 2018, compared to a cash position of \$230,742 and a working capital deficit of \$207,416 as at December 31, 2017. The decrease in both the Company's cash position and working capital was related to increased cost incurred for payroll, professional fees and general and administrative cost to grow the business. These increases were partially offset by a cash inflow from financing of \$3,677,900 and debt raised of \$1,700,000 during the nine month period ended September 30, 2018.

#### Financing activities

On March 29, 2018, the Company issued 2,999,000 units at a price of \$0.30 per unit for total proceeds of \$899,700. Each unit consisted of one common share and one half of a share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of \$0.40 until March 29, 2020.

On April 12, 2018, the Company issued 9,260,667 units at a price of \$0.30 per unit for total proceeds of \$2,778,200. Each unit consisted of one common share and one half of a share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of \$0.40 until April 12, 2020.

During the nine month period ended September 30, 2018, the Company issued unsecured notes payable for total proceeds of \$1,700,000 from a director of the Company who is also a shareholder. The loans bear interest at the prime rate which was 3.70% at September 30, 2018, payable quarterly, and had a maturity date of three years from the date of issuance.

On March 17, 2017, the Company completed a non-brokered private placement wherein it issued 8,000,000 units at \$0.25 for gross cash proceeds of \$2,000,000. Each unit was comprised of a common share in the capital of the Company and a common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.40 for a period of five years from the date of closing.



## Liquidity and Capital Resources (continued)

During the year ended December 31, 2017, a total of 2,848,000 share purchase warrants were exercised for aggregate proceeds of \$876,700.

## Selected Annual Information

The following table sets out selected financial information for the Company for each of the fiscal years ended December 31, 2017, 2016 and 2015. The selected annual information should only be read in conjunction with the Company's audited annual financial statements for the fiscal years ended December 31, 2017, 2016 and 2015 including the notes thereto.

### *Statement of Operations, Comprehensive Loss and Deficit Data:*

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
	(\$)	(\$)	(\$)
Revenue	-	-	-
Other income	1,150	1,456	6,053
Loss from operations	(6,979,341)	(4,507,726)	(901,449)
Loss and comprehensive loss	(6,982,356)	(4,997,392)	(895,396)
Loss per share, basic and diluted	(0.10)	(0.10)	(0.03)
- Attributable to shareholders	(0.06)	(0.07)	(0.03)
- Attributable to NCI	(0.04)	(0.03)	-

### *Balance Sheet Data:*

	As at December 31, 2017	As at December 31, 2016	As at December 31, 2015
	(\$)	(\$)	(\$)
Current Assets	272,452	1,253,894	42,460
Total Assets	4,997,322	6,662,314	957,382
Current Liabilities	479,868	328,029	285,488
Long Term Debt	747,322	-	236,000
Non-Controlling Interest (deficit)	(1,151,915)	1,615,397	-
Shareholders' Equity	4,922,047	4,718,888	435,894

## Transactions with Related Parties

The following summarizes the Company's related party transactions, not disclosed elsewhere in these condensed interim consolidated financial statements, during the nine months ended September 30, 2018 and 2017. 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.



**Transactions with Related Parties** (continued)

*Key Management Personnel*

	<b>2018</b>	<b>2017</b>
	(\$)	(\$)
Short-term employee benefits paid or accrued to Matthew Pierce, CEO of the Company, including share-based compensation vested for incentive stock options and performance warrants.	348,528	702,249
Short-term employee benefits paid or accrued to John O'Connell, a member of the advisory board of the Company, including share-based compensation vested for incentive stock options and performance warrants.	184,961	276,307
Short-term employee benefits paid or accrued to Scott Sebelius, Vice President of Engineering of the Company, including share-based compensation vested for incentive stock options and performance warrants.	196,381	259,045
Share-based compensation vested for incentive stock options issued to certain directors and officers of the Company.	83,285	44,555
<b>Total</b>	<b>813,155</b>	<b>1,282,156</b>

*Other Related Party Payments*

	<b>2018</b>	<b>2017</b>
	(\$)	(\$)
Office sharing and occupancy costs paid or accrued to a corporation which David Hughes, former CFO of the Company, is a director.	49,000	45,000
<b>Total</b>	<b>49,000</b>	<b>45,000</b>

Amounts Outstanding

- a) At September 30, 2018, a total of \$4,200 (December 31, 2017 - \$4,200) was included in accounts payable and accrued liabilities owing to a corporation controlled by David Hughes, former CFO of the Company, for consulting fees.
- b) At September 30, 2018, a total of \$22,380 (December 31, 2017 - \$22,380) was included in accounts payable and accrued liabilities owing to Brandon Boddy, a former director of the Company, for consulting fees and reimbursable expenses.
- c) At September 30, 2018, a total of \$44,791 (December 31, 2017 - \$71,712) was included in accounts payable and accrued liabilities owing to the Matthew Pierce, CEO of the Company, for accrued bonuses and reimbursable expenses.
- d) At September 30, 2018, a total of \$13,429 (December 31, 2017 - \$43,791) was included in accounts payable and accrued liabilities owing to John O'Connell, a member of the advisory board of the Company, for accrued bonuses.



**Transactions with Related Parties** (continued)

- e) At September 30, 2018, a total of \$19,350 (December 31, 2017 - \$25,101) was included in accounts payable and accrued liabilities owing to the Scott Sebelius, Vice President of Engineering of the Company, for accrued bonuses.
- f) At September 30, 2018, a total of \$421 (December 31, 2017 - \$880) was included in accounts payable and accrued liabilities owing to Originate Inc., a corporation that shares management in common with the Company, for consulting fees and reimbursable expenses.
- g) At September 30, 2018 a total of \$2,600,000 (December 31, 2017 - \$900,000) of long term notes was payable to a director of the Company. The notes had a present value of \$2,227,839 at September 30, 2018.

**Disclosure of Outstanding Share Data**

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.

Shares Issued and Outstanding

As at the Report Date, there are 89,578,562 common shares and 33,713 Class "A" shares, Series 1 issued and outstanding.

Performance Warrants

As at the Report Date, there are 10,003,776 performance warrants outstanding at \$0.25 per share until June 30, 2021. They are subject to vesting provisions based on the earlier of performance and time.

Warrants

As at the Report Date, there are share purchase warrants outstanding as follows:

<b>Expiry Date</b>	<b>Warrants Outstanding</b>	<b>Exercise Price</b>
		(\$)
March 17, 2022	7,950,000	0.40
February 27, 2020	9,633,333	0.15
June 24, 2019	971,596	0.20
March 29, 2020	1,499,500	0.40
March 29, 2020	209,930	0.30
April 12, 2020	4,630,333	0.40
April 12, 2020	501,475	0.30
	25,396,437	0.30



**Disclosure of Outstanding Share Data** (continued)

Stock Options

As at the Report Date, there are stock options outstanding as follows:

<b>Expiry Date</b>	<b>Options Outstanding</b>	<b>Exercise Price</b>
		(\$)
May 18, 2022	158,000	0.49
March 17, 2022	908,000	0.44
July 13, 2021	5,920,471	0.27
August 3, 2022	116,000	0.39
September 14, 2022	1,278,500	0.35
December 11, 2022	124,000	0.38
June 6, 2023	686,500	0.46
September 4, 2023	370,000	0.25
	<b>9,561,471</b>	<b>0.32</b>

Escrow

As at the Report Date, 5,000 common shares of the Company are held in escrow due to misplaced share certificates originally issued to three individual shares.

Pursuant to an escrow shareholders agreement dated June 30, 2016, 12,431,791 common shares will be held in escrow. A total of 10% of the shares were released on June 30, 2016, and the remainder will be released in equal tranches of 15% every nine months thereafter. As at September 30, 2018, there were 5,594,306 common shares remaining in escrow.

**Off Balance Sheet Arrangements**

The Company is not a party to any off-balance sheet arrangements or transactions.

**Commitments**

On August 1, 2015, the Company entered into cost terms sharing arrangement agreement for the provision of office space and various administrative services. Under the terms of the agreement, the Company will pay \$5,000 plus GST per month commencing on September 1, 2015 and until continuing the expiration of the underlying head lease on July 31, 2018. In May of 2018 the Company extended cost sharing arrangement to June of 2021 at a monthly fee of \$7,000 plus GST per month.

<b>Year</b>	<b>Amount</b>
	(\$)
2018 (remaining 3 months)	21,000
2019	84,000
2020	84,000
2021	42,000





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### Commitments (continued)

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 US\$19,110 per month commencing on October 1, 2017 until September 30, 2022.

<b>Year</b>	<b>Amount</b>
	(US\$)
2018 (remaining 3 months)	57,330
2019	239,424
2020	247,803
2021	256,479
2022	197,361

### Subsequent Events

From October to November 2018, the Company issued additional notes payables to its Chairman and outside investors for an accumulated amount of \$845,000. The notes bear interest at the applicable prime rate and interest accrues quarterly.

### New standards, amendments and interpretations to existing standards adopted by the Company

The following standards, amendments to standards and interpretations have been adopted by the Company for annual periods beginning on January 1, 2018:

#### *IFRS 2, Share-based Payment*

Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions.

#### *IFRS 9, Financial instruments*

This standard was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income.

#### *IFRS 15, Revenue from Contracts with Customers*

This standard was issued in May 2014 and will be the new standard for the recognition of revenue, replacing IAS 18, Revenue. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.



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### **New standards, amendments and interpretations to existing standards adopted by the Company (continued)**

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2019 but are not yet effective:

#### *IFRS 16, Leases*

This new standard replaces the existing leasing guidance in IAS 17, Leases.

IFRS 16 distinguishes between leases and service contracts on the basis of whether the customer controls the asset being leased. For those contracts determined to meet the definition of a lease, IFRS 16 requires a lessee to recognize on the balance sheet a lease asset along with the associated lease liability which reflects future lease payments, similar to current finance lease accounting. There are limited exceptions for leases with a term of less than 12 months or leases of assets which have a very low value. As a result of the adoption of IFRS 16, operating leases which were previously only recognized on the statement of earnings will be recognized on the balance sheet.

The purpose of the standard is to provide users of the financial statements with a more accurate picture of a company's leased assets and associated liabilities, while also improving the comparability of companies that lease assets to those that purchase them.

#### *IFRS 17, Insurance Contracts*

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, Insurance Contracts, and related interpretations.

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will early adopt these standards.

### **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, GST receivable, restricted deposit, accounts payable and accrued liabilities and notes payable.

The Company classified its cash, GST receivable, restricted deposits and advances as loans and receivables; and accounts payable and accrued liabilities and notes payable as other financial liabilities. The fair value of cash, GST receivable, 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.

**Financial Instruments and Risk Management** (continued)

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, and the balances are in good standing as at September 30, 2018.

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.

Liquidity risk

The Company's cash is invested in business accounts which are available on demand, The Company has a working capital deficit of \$668,167 at September 30, 2018. Accordingly, the Company is exposed to liquidity risk.

Interest rate risk

The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. Interest rate risk is minimal as the Company does not have significant interest bearing assets or any variable interest bearing liabilities that are tied into market rates.

Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result 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 September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(US\$)	(US\$)
Cash	49,888	158,352
Accounts payable and accrued liabilities	(328,702)	(268,355)
	<u>(275,814)</u>	<u>(110,003)</u>

As at September 30, 2018, 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 \$27,755 (December 31, 2017 - \$13,806).

**Management's Responsibility for Financial Statements**

The Company's management is responsible for the preparation and presentation of the consolidated financial statements and the MD&A. The consolidated financial statements have been prepared in accordance with IFRS. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators.



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## **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 total shareholders' equity, less amounts accumulated in shareholders' equity related to share-based payments to employees and consultants. 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 three months ended September 30, 2018.

## **Risks and Uncertainties**

Versus is publicly traded development stage company in the technology sector and, as such, is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. Some of the possible risks include, but are not limited to, the following:

### Limited Operating History

The Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenue and the risk that it will not achieve its growth objective. There can be no assurance that the Company's operations will be profitable in the future or will generate sufficient cash flow to satisfy its working capital requirements.

To date, Versus has had minimal revenues. Even if the Company does achieve profitability, it cannot predict the level of such profitability. If the Company sustains losses over an extended period of time, it may be unable to continue its business.

### Changes in Laws, Regulations and Guidelines

The Company's operations will be subject to a variety of laws, regulations and guidelines relating to the offering of prize-based tournaments including laws and regulations relating to e-sports, online gaming and gambling. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Internet websites are accessible everywhere, not just in jurisdictions where the activities described therein are considered legal. The Company may face legal action from a state or other jurisdiction for engaging in activity that is illegal in that state or jurisdiction by way of its website.



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## **Risks and Uncertainties (continued)**

### Regulatory Risks

The activities of the Company will be subject to intense regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale and use of its products and services. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The business of the Company is subject to rapid regulatory changes. Failure to keep up with such changes may adversely affect the business of the Company.

The Company's prospects must be considered in light of the risks, expenses, shifts, changes and difficulties frequently encountered with companies whose businesses are regulated by various federal, state and local governments. Video game, online gaming, e-sports and similar companies are subject to a variety of regulatory requirements and the regulatory environment is ever changing. Failure to follow regulatory requirements will have a detrimental impact on the business. Changes in legislation cannot be predicted and could irreparably harm the business.

### Competition

There is potential that the Company will face intense competition from numerous other companies, some of which can be expected to have longer operating histories and more financial resources and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

### Reliance on Management and Key Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The Company attempts to enhance its management and technical expertise by recruiting qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees as well as information technology, engineering, and technical support resources could have a material adverse impact on the Company's financial condition and results of operation. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

### Lack of Demand

A failure in the demand for the Company's products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

### Failure to Retain Existing Users or Add New Users

The size of the Company's users' level of engagement are critical to the Company's success. The Company's financial performance will be significantly determined by its success in having its products adding, retaining, and engaging



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**Risks and Uncertainties** (continued)

active users. To the extent that the Company's active user growth rate slows, its business performance will become increasingly dependent on its ability to increase levels of user engagement in current and new markets. If people do not perceive the Company's products to be useful, reliable, and trustworthy, the Company may not be able to attract or retain users or otherwise maintain or increase the frequency and duration of their engagement. A decrease in user retention, growth, or engagement could render the Company less attractive to video game publishers and developers which may have a material and adverse impact on the Company's revenue, business, financial condition, and results of operations. Any number of factors could potentially negatively affect user retention, growth, and engagement, including if:

- users increasingly engage with competing products;
- the Company fails to introduce new and improved products or if The Company introduces new products or services that are not favorably received;
- the Company is unable to successfully balance its efforts to provide a compelling user experience with the decisions made by the Company with respect to the frequency, prominence, and size of ads and other commercial content that the Company displays;
- there are changes in user sentiment about the quality or usefulness of the Company's products or concerns related to privacy and sharing, safety, security, or other factors;
- the Company is unable to manage and prioritize information to ensure users are presented with content that is interesting, useful, and relevant to them;
- there are adverse changes in the Company's products that are mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees;
- technical or other problems prevent the Company from delivering its products in a rapid and reliable manner or otherwise affect the user experience;
- the Company adopts policies or procedures related to areas such as sharing its user data that are perceived negatively by its users or the general public;
- the Company fails to provide adequate customer service to users, developers, or advertisers; or
- the Company, its software developers, or other companies in its industry are the subject of adverse media reports or other negative publicity.

If the Company is unable to build and/or maintain relationships with publishers and developers, the Company's revenue, financial results, and future growth potential may be adversely affected.

**Rapid Technological Change**

The business of the Company is subject to rapid technological changes. Failure to keep up with such changes may adversely affect the business of the Company.

The market in which the Company competes is characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. Accordingly, the Company's future success will depend on its ability to adapt to rapidly changing technologies, to adapt its services to evolving industry standards and to continually improve the performance, features and reliability of its service in response to competitive service and product offerings and evolving demands of the marketplace. The failure of the Company to adapt to such changes would have a material adverse effect on the Company's business, results of operations and financial condition.

Additionally, there can be no assurances that the Company will be able to successfully introduce and integrate its technologies so as to implement its business strategy.



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**Risks and Uncertainties** (continued)

Additionally, there can be no assurances that the Company will be able to successfully introduce and integrate its technologies so as to implement its business strategy.

Online Commerce Security Risks

A significant barrier to online commerce and communications is the secure transmission of confidential information over public networks. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the technology used by the Company to protect customer transaction data. If any such compromise of the Company's security were to occur, it could have a material adverse effect on the Company's reputation and, therefore, on its business, results of operations and financial condition. Furthermore, a party who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in the Company's operations. The Company may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described in any forward looking statement.

**Additional Information**

On March 14, 2017, Avril Millar, author, director and strategic adviser, was appointed to the Company's advisory board. In her role as adviser to the board of directors, Ms. Millar will consult on overall business strategy, in particular, the advancement of Versus Systems Inc. into the European markets, and the development of prizing, advertising and promotion platforms.

On September 29, 2017, Keyvan Peymani, Head of Startup Marketing for Amazon Web Services, was appointed to the Company's advisory board. In his role as adviser to the board of directors, Mr. Peymani will consult on overall business strategy, in particular, the advancement of Versus Systems Inc. into the entertainment industry, and the development of prizing, advertising and promotion platforms.

Additional information relating to the Company is available on the Company's website at [www.versussystems.com](http://www.versussystems.com) and under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).



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## **Corporate Information**

Directors:	Matthew Pierce Brian Tingle Michelle Gahagan Paul Vlastic
Officers:	Matthew Pierce, CEO Craig Finster, CFO Kelsey Chin, Corporate Secretary
Auditor:	Davidson and Company LLP Chartered Professional Accountants Suite 1200 – 609 Granville Street Vancouver, BC, V7Y 1G6
Legal Counsel:	<u>USA</u> Manatt Phelps and Phillips 11355 West Olympic Blvd Los Angeles, CA, 90064  <u>Canada</u> Borden Ladner Gervais LLP 1200 Waterfront Centre 200 Burrard Street Vancouver, BC, V7X 1T2
Transfer Agent:	Computershare Trust Company of Canada 2 <sup>nd</sup> Floor – 510 Burrard Street Vancouver, BC, V6C 3B9

## **Contact Information**

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