

VERSUS SYSTEMS INC.



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

SIX MONTH PERIOD ENDED

JUNE 30, 2017

**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)

	June 30, 2017	December 31, 2016
	(\$)	(\$)
ASSETS		
Current assets		
Cash	1,033,680	1,210,400
GST receivable	9,514	7,741
Prepays and deposits	27,368	35,753
	1,070,562	1,253,894
Restricted deposit (Note 4)	11,500	11,500
Equipment (Note 5)	49,581	32,545
Intangible assets (Note 7)	4,860,016	5,364,375
	5,991,659	6,662,314
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	274,689	328,029
Equity		
Share capital (Note 9)		
Common shares	87,315,877	85,194,014
Class "A" shares	37,927	37,927
Share-based reserves (Note 9)	6,295,849	5,601,517
Deficit	(88,115,797)	(86,114,570)
	5,533,856	4,718,888
Non-controlling interest (Note 6)	183,114	1,615,397
	5,716,970	6,334,285
	5,991,659	6,662,314

Nature of operations and going concern (Note 1)

Commitments (Note 15)

Subsequent event (Note 16)

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 15, 2017. 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 June 30, 2017 (\$)	Three Month Period Ended June 30, 2016 (\$)	Six Month Period Ended June 30, 2017 (\$)	Six Month Period Ended June 30, 2016 (\$)
EXPENSES				
Amortization (Note 5)	4,799	-	8,222	-
Amortization of intangible asstes (Note 7)	589,180	-	1,151,696	-
Consulting fees (Note 10)	323,841	154,748	484,669	207,498
Finder's fee	-	250,000	-	250,000
Foreign exchange loss	13,251	(1,498)	15,462	19,462
General and administrative	162,306	115,286	273,096	171,449
Interest expense (Note 15)	-	-	-	-
Professional fees (Note 10)	78,708	96,575	113,876	142,465
Salaries and wages	315,485	-	533,654	-
Sales and marketing	149,299	2,335	159,653	31,033
Share-based compensation (Note 9)	325,389	287,583	694,332	287,583
	(1,962,258)	(905,029)	(3,434,660)	(1,109,490)
Other income	892	150	1,150	563
Impairment of exploration and evaluation asset (Note 10)	-	(569,552)	-	(569,552)
Loss and comprehensive loss	(1,961,366)	(1,474,431)	(3,433,510)	(1,678,479)
Loss and comprehensive loss attributable to:				
Shareholders	(1,131,717)	(1,474,431)	(2,001,227)	(1,678,479)
Non-controlling interest	(829,649)	-	(1,432,283)	-
	(1,961,366)	(1,474,431)	(3,433,510)	(1,678,479)
Basic and diluted loss per common share:				
Shareholders	(0.02)	(0.03)	(0.03)	(0.04)
Non-controlling interest	(0.01)	-	(0.02)	-
Weighted average common shares outstanding	73,781,279	42,173,542	70,363,688	39,468,039

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

Versus Systems Inc.

Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Share Capital							Total Shareholders' Equity	Non-controlling Interest	Total Equity
	Number of Common Shares	Number of Class "A" Shares	Common Shares	Subscriptions Receivable	Class "A" Shares	Share-based Reserves	Deficit			
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at December 31, 2015	35,591,016	33,713	78,855,158	-	37,927	4,044,461	(82,501,652)	435,894	-	435,894
Acquisition of Versus LLC	-	-	-	-	-	-	-	-	3,215,212	3,215,212
Performance warrants issued	-	-	-	-	-	287,583	-	287,583	-	287,583
Shares issued in private placement	20,160,000	-	5,040,000	(344,693)	-	-	-	4,695,307	-	4,695,307
Shares issued for finder's fee	1,000,000	-	250,000	-	-	-	-	250,000	-	250,000
Shares issued for warrant exercise	6,349,999	-	762,000	-	-	-	-	762,000	-	762,000
Share issuance costs - cash	-	-	(73,792)	-	-	-	-	(73,792)	-	(73,792)
Loss and comprehensive loss	-	-	-	-	-	-	(1,678,479)	(1,678,479)	-	(1,678,479)
Balance at June 30, 2016	63,101,015	33,713	84,833,366	(344,693)	37,927	4,332,044	(84,180,131)	4,678,513	3,215,212	7,893,725
Acquisition of Versus LLC	1,441,553	-	230,648	-	-	(15,307)	-	215,341	(215,341)	-
Performance warrants issued	-	-	-	-	-	737,840	-	737,840	-	737,840
Shares issued for warrant exercise	866,667	-	130,000	-	-	-	-	130,000	-	130,000
Share subscriptions received	-	-	-	344,693	-	-	-	344,693	-	344,693
Stock options granted	-	-	-	-	-	546,940	-	546,940	-	546,940
Loss and comprehensive loss	-	-	-	-	-	-	(1,934,439)	(1,934,439)	(1,384,474)	(3,318,913)
Balance at December 31, 2016	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	626,000	-	125,400	-	-	-	-	125,400	-	125,400
Shares issued in private placement	8,000,000	-	2,000,000	-	-	-	-	2,000,000	-	2,000,000
Share issuance costs - cash	-	-	(3,537)	-	-	-	-	(3,537)	-	(3,537)
Performance warrants issued	-	-	-	-	-	347,406	-	347,406	-	347,406
Stock options granted	-	-	-	-	-	346,926	-	346,926	-	346,926
Loss and comprehensive loss	-	-	-	-	-	-	(2,001,227)	(2,001,227)	(1,432,283)	(3,433,510)
Balance at June 30, 2017	74,035,235	33,713	87,315,877	-	37,927	6,295,849	(88,115,797)	5,533,856	183,114	5,716,970

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)

	Six Month Period Ended June 30, 2017	Six Month Period Ended June 30, 2016
	(\$)	(\$)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	(3,433,510)	(1,678,479)
Items not affecting cash:		
Amortization (Note 7)	8,222	-
Amortization of intangible assets	1,151,696	-
Finder's fee	-	250,000
Foreign exchange loss	(6,616)	18,159
Impairment of exploration and evaluation assets	-	569,552
Share-based compensation	694,332	287,583
Changes in non-cash working capital items:		
GST receivable	(1,773)	(1,363)
Prepays and deposits	7,918	2,944
Accounts payable and accrued liabilities	(46,257)	12,845
Cash used in operating activities	(1,625,988)	(538,759)
FINANCING ACTIVITIES		
Proceeds from notes payable	-	145,500
Proceeds from issuance of common shares	2,125,400	5,457,307
Repayment of notes payable	-	(297,002)
Share issuance costs	(3,537)	(73,792)
Cash provided by financing activities	2,121,863	5,232,013
INVESTING ACTIVITIES		
Advance to Versus, LLC	-	(322,324)
Cash acquired on acquisition of Versus, LLC	-	49,902
Exploration and evaluation expenditures	-	(630)
Development of intangible assets	(647,337)	-
Investment in Versus, LLC	-	(1,962,722)
Purchase of equipment	(25,258)	(11,500)
Cash used in investing activities	(672,595)	(2,247,274)
Change in cash during the period	(176,720)	2,445,980
Cash - Beginning of period	1,210,400	22,806
Cash - End of period	1,033,680	2,468,786
Supplemental Cash Flow Information (Note 14)		

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**

SIX MONTH PERIOD ENDED JUNE 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

**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. On June 14, 2016, the Company changed its name from Opal Energy Corp. to Versus Systems Inc. The Company’s head office and registered and records office is Suite 302 – 1620 West 8th Ave, Vancouver, BC, V6J 1V4, Canada. The Company is traded on the Canadian Securities Exchange (“CSE”) under the symbol “VS” and on the OTCQB market under the trading symbol “VRSSF”.

The Company is engaged in the technology sector, and is developing a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. At the date of the condensed interim consolidated financial statements, the Company has not earned any 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 June 30, 2017, 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, 2016, 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 consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.



2. BASIS OF PRESENTATION (continued)

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 the Company and its subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed interim consolidated financial statements.

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Opal Energy Inc.	United States of America	100%	Dormant
Opal Energy (Holdco) Corp	United States of America	43.7%	Holding Company
Versus LLC	United States of America	43.7%	Technology Company

Use of estimates and judgments

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 condensed interim consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. 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

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. The Company has adequately provided for all income tax obligations, however; changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the Company's provision for deferred income taxes.

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.



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

Use of estimates and judgments (continued)

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 judgments that management has made at the end of the reporting period are as follows:

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 6 did meet the criteria for accounting as a business combination (Note 6).

3. **SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim consolidated financial statements were prepared using the same accounting policies and methods of computation as in the Company's consolidated financial statements for the year ended December 31, 2016.

New standards, amendments and interpretations to existing standards not yet effective

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2018 but are not yet effective:



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

IFRS 2, Share-based Payment

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

IFRS 4, Insurance Contracts

Amendments to IFRS 4 are related to the adoption of IFRS 9, *Financial Instruments*. The amendments provide two options for entities that issue insurance contracts that fall within the scope of the standard.

IFRS 7, Financial Instruments: Disclosures

Amendments to IFRS 7 related to the application of IFRS 9, *Financial Instruments*.

IAS 40, Investment Property

Amendments to IAS 40 to clarify transfers of property to, or from, investment property.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

IFRIC 22 is a new interpretation, which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.



3. SIGNIFICANT ACCOUNTING POLICIES (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.

4. RESTRICTED DEPOSIT

As at June 30, 2017, restricted deposits consisted of \$11,500 (December 31, 2016 - \$11,500) held in a guaranteed investment certificate as collateral for a corporate credit card.



5. EQUIPMENT

	Computers
	(\$)
Cost	
At December 31, 2015	-
Additions	36,252
At December 31, 2016	36,252
Additions	25,258
At June 30, 2017	61,510
Accumulated amortization	
At December 31, 2015	-
Amortization for the year	3,707
At December 31, 2016	3,707
Amortization for the period	8,222
At June 30, 2017	11,929
Carrying amounts	
At December 31, 2016	32,545
At June 30, 2017	49,581

6. BUSINESS COMBINATION WITH VERSUS LLC

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

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTH PERIOD ENDED JUNE 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

**6. 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:

	Amount
	(\$)
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 9) 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.

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

SIX MONTH PERIOD ENDED JUNE 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

**7. INTANGIBLE ASSETS**

Intangible assets are comprised of a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. The intangible asset was acquired in the business combination with Versus LLC as described in Note 6.

	Software
	(\$)
Cost	
At December 31, 2015	-
Additions	6,422,831
At December 31, 2016	6,422,831
Additions	647,337
At June 30, 2017	7,070,168
Accumulated amortization	
At December 31, 2015	-
Amortization	1,058,456
At December 31, 2016	1,058,456
Amortization	1,151,696
At June 30, 2017	2,210,152
Carrying amounts	
At December 31, 2016	5,364,375
At June 30, 2017	4,860,016

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30,	December 31,
	2017	2016
	(\$)	(\$)
Accounts payable	140,224	123,738
Due to related parties	113,065	163,991
Accrued liabilities	21,400	40,300
	274,689	328,029



9. SHARE CAPITAL AND RESERVES

a) Authorized share capital

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

b) Issued share capital

During the six month period ended June 30, 2017, the Company:

- i) issued 500,000 common shares pursuant to the exercise of share purchase warrants at a price of \$0.15 per share for total proceeds of \$75,000.
- ii) Issued 126,000 common shares pursuant to the exercise of share purchase warrants at a price of \$0.40 per share for total proceeds of \$50,400
- iii) 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.

During the year ended December 31, 2016, the Company:

- i) issued 6,349,999 common shares pursuant to the exercise of share purchase warrants at a price of \$0.12 per share for total proceeds of \$762,000.
- ii) issued 866,667 common shares pursuant to the exercise of share purchase warrants at a price of \$0.15 per share for total proceeds of \$130,000.
- iii) issued 20,160,000 units at a price of \$0.25 per unit for total proceeds of \$5,040,000. 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 June 30, 2018. The Company recorded \$73,792 of share issuance costs in connection with this financing.
- iv) issued 1,441,553 common shares with a fair value of \$230,648 to increase its ownership interest in Versus LLC (Note 6).
- v) issued 1,000,000 common shares with a fair value of \$250,000 as a finder’s fee in connection with the acquisition of Versus LLC.

Escrow

As at June 30, 2017, 5,000 common shares (December 31, 2016 – 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 six months thereafter. As at June 30, 2017, there were 7,459,075 common shares remaining in escrow.



9. SHARE CAPITAL AND RESERVES (continued)

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:

	Number Outstanding	Weighted Average Exercise Price
		(\$)
Balance – December 31, 2015	950,000	0.10
Granted	6,267,971	0.27
Cancelled	(1,197,500)	0.14
Balance –December 31, 2016	6,020,471	0.27
Granted	1,066,000	0.44
Balance – June 30, 2017	7,086,471	0.29

During the six month period ended June 30, 2017, the Company granted a total of 1,066,000 stock options with a fair value of \$391,700.

The options were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

Risk-free interest rate	1.13%	Expected dividend yield	Nil
Expected life of options	5 years	Forfeiture rate	Nil
Volatility	121%	Weighted average fair value	\$0.37

During the six month period ended June 30, 2017, the Company recorded share-based compensation of \$353,671 (2016 - \$287,583) relating to options vested during the period.

At June 30, 2017, the Company had incentive stock options outstanding as follows:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Weighted Average Remaining Life
			(\$)	(years)
May 18, 2022	158,000	-	0.49	4.88
March 17, 2022	908,000	-	0.44	4.72
July 13, 2021	6,020,471	1,433,490	0.27	4.04
	7,086,471	1,433,490	0.29	4.14



9. SHARE CAPITAL AND RESERVES (continued)

d) Share purchase warrants

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

	Number Outstanding	Weighted Average Exercise Price
		(\$)
Balance – December 31, 2015	18,399,999	0.14
Exercised	(7,216,666)	0.12
Issued	10,800,766	0.39
Balance – December 31, 2016	21,984,099	0.27
Exercised	(626,000)	0.20
Issued	8,000,000	0.40
Balance – June 30, 2017	29,358,099	0.30

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.

At June 30, 2017, the Company had share purchase warrants outstanding as follows:

Expiry Date	Warrants Outstanding	Exercise Price	Weighted Average Remaining Life
		(\$)	(years)
March 17, 2022	8,000,000	0.40	4.72
February 27, 2020	10,683,333	0.15	2.66
June 24, 2019	720,766	0.20	1.98
June 30, 2018	9,954,000	0.40	1.00
	29,358,099	0.30	2.64



9. 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 six month period ended June 30, 2017, the Company expensed \$445,364 as share-based compensation.

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

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

At June 30, 2017, the Company had performance warrants outstanding as follows:

Expiry Date	Warrants Outstanding	Warrants Exercisable	Exercise Price	Weighted Average Remaining Life
			(\$)	(years)
June 30, 2021	10,003,776	5,001,888	0.25	4.00

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

SIX MONTH PERIOD ENDED JUNE 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

**10. RELATED PARTY TRANSACTIONS**

The following summarizes the Company's related party transactions, not disclosed elsewhere in these condensed interim consolidated financial statements, during the six month periods ended June 30, 2017 and 2016. Key management personnel includes the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), directors and officers and companies controlled or significantly influenced by them.

Key Management Personnel

	2017	2016
	(\$)	(\$)
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.	503,850	202,928
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.	198,177	-
Short-term employee benefits paid or accrued to the Vice President of Product and Engineering of the Company, including share-based compensation vested for incentive stock options and performance warrants.	182,323	50,731
Share-based compensation vested for incentive stock options issued to certain directors and officers of the Company.	33,976	-
Consulting fees paid or accrued to a corporation controlled by a former director of the Company.	-	60,000
Consulting fees paid or accrued to a corporation controlled by the former CFO of the Company.	-	7,000
Interest paid or accrued to two corporations controlled by the former CEO of the Company.	-	93,747
Total	918,326	414,406

Other Related Party Payments

Office sharing and occupancy costs of \$30,000 (2016 - \$30,000) were paid or accrued to a corporation that shares management in common with the Company.

Amounts Outstanding

- a) At June 30, 2017, a total of \$4,200 (December 31, 2016 - \$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 June 30, 2017, a total of \$22,380 (December 31, 2016 - \$22,380) was included in accounts payable and accrued liabilities owing to a former director of the Company for consulting fees and reimbursable expenses.

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTH PERIOD ENDED JUNE 30, 2017
(Expressed in Canadian dollars)
(Unaudited)



10. RELATED PARTY TRANSACTIONS (continued)

- c) At June 30, 2017, a total of \$53,479 (December 31, 2016 - \$67,797) was included in accounts payable and accrued liabilities owing to the CEO for accrued bonuses and reimbursable expenses.
- d) At June 30, 2017, a total of \$19,535 (December 31, 2016 - \$40,401) was included in accounts payable and accrued liabilities owing to a member of the advisory board of the Company for accrued bonuses.
- e) At June 30, 2017, a total of \$13,023 (December 31, 2016 - \$26,934) was included in accounts payable and accrued liabilities owing to the Vice President of Product and Engineering of the Company for accrued bonuses.
- f) At June 30, 2017, a total of \$448 (December 31, 2016 - \$2,279) was included in accounts payable and accrued liabilities owing to a corporation that shares management in common for consulting fees and reimbursable expenses.

11. 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 deposits, accounts payable and accrued liabilities.

The Company classified its cash, GST receivable, restricted deposits and advances as loans and receivables; and accounts payable and accrued liabilities 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.

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 June 30, 2017.

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.

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

SIX MONTH PERIOD ENDED JUNE 30, 2017

(Expressed in Canadian dollars)

(Unaudited)

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

The Company's cash is invested in business accounts which are available on demand. The Company's cash position is sufficient to meet all financial liabilities currently outstanding and expected to be incurred over the next twelve months. Accordingly, the Company is not exposed to significant 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 June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(US\$)	(US\$)
Cash	266,276	101,533
Accounts payable and accrued liabilities	(103,231)	(159,935)
	<u>163,045</u>	<u>(58,402)</u>

As at June 30, 2017, 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 \$16,305 (December 31, 2016 - \$5,840).

12. 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 six month period ended June 30, 2017.



13. 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 are located in the United States of America.

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the six month periods ended June 30, 2017 and 2016, the Company had no significant non-cash investing and financing transactions.

	June 30, 2017	June 30, 2016
	(\$)	(\$)
Interest paid during the period	-	15,502
Income taxes paid during the period	-	-

15. COMMITMENTS

On August 1, 2015, the Company entered into a cost sharing arrangement agreement for the provision of office space and various administrative services in Vancouver, Canada. 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.

Fiscal Year	Amount
	(\$)
2017	30,000
2018	35,000

On August 19, 2016, the Company entered into a rental agreement for office space in Los Angeles, USA. Under the terms of the agreement the Company will pay \$7,108 (US\$5,278) per month commencing on October 1, 2016 until August 31, 2017.

Year	Amount	
	(\$)	(US\$)
2017	6,874	5,278

16. SUBSEQUENT EVENT

Subsequent to June 30, 2017, the Company issued 100,000 common shares pursuant to the exercise of share purchase warrants at a price of \$0.40 per share for total proceeds of \$40,000.