VERSUS SYSTEMS

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

YEARS ENDED

DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Versus Systems Inc.

Opinion

We have audited the accompanying consolidated financial statements of Versus Systems Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has not achieved positive cash flow from operations and is not able to finance day to day activities through operations. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Catherine Tai.

Vancouver, Canada | Chartered Professional Accountants

June 15, 2020

Versus Systems Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	December 31, 2019	December 31, 2018
	($)	($)
ASSETS		
Current assets		
Cash	99,209	34,000
Receivables	44,400	4,778
Prepaids	28,003	62,372
	171,612	101,150
Restricted deposit (Note 4)	11,500	11,500
Deposits	129,897	136,301
Property and equipment (Note 5)	948,998	59,110
Intangible assets (Note 7)	2,780,347	3,371,079
Total Assets	4,042,354	3,679,140
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	975,405	1,035,744
Lease liability (Note 16)	328,373	-
Current liabilities	1,303,778	1,035,744
Non-current liabilities		
Lease liability (Note 16)	794,027	-
Notes payable (Note 9)	4,814,767	3,478,956
Total liabilities	6,912,572	4,514,700
Equity		
Share capital (Note 10)		
Common shares	99,505,558	91,723,017
Class "A" shares	37,927	37,927
Share subscriptions received in advance (Note 18)	300,000	-
Reserves (Note 10)	9,832,386	8,270,190
Deficit	(106,521,639)	(94,973,085)
	3,154,232	5,058,049
Non-controlling interest (Note 6)	(6,024,450)	(5,893,609)
	(2,870,218)	(835,560)
Total Liabilities and Equity	4,042,354	3,679,140

Nature of operations and going concern (Note 1)

Commitments (Note 16)

Subsequent events (Note 18)

These consolidated financial statements were authorized for issue by the Board of Directors on June 15, 2020. They are signed on behalf of the Board of Directors by:

"Matthew Pierce"	*"Brian Tingle"*
Director	Director

Versus Systems Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
	($)	($)
REVENUES	664,922	1,620
EXPENSES		
Cost of Sales	-	170
Amortization (Note 5)	327,221	29,642
Amortization of intangible assets (Note 7)	2,530,590	2,965,035
Consulting fees (Note 11)	814,128	1,177,405
Foreign exchange loss	38,797	147,273
General and administrative	669,586	1,305,652
Interest expense	225,334	77,669
Interest expense on lease obligations (Note 16)	104,384	-
Professional fees	445,603	621,979
Salaries and wages (Note 11)	3,252,789	2,074,554
Sales and marketing	787,398	199,412
Share-based compensation (Note 10)	839,249	651,316
	(9,370,157)	(9,248,487)
Other income	-	1,219
Finance expense (Note 9)	(257,448)	(125,903)
Loss and comprehensive loss	(9,627,605)	(9,373,171)
Loss and comprehensive loss attributable to:		
Shareholders	(6,869,121)	(4,631,477)
Non-controlling interest	(2,758,484)	(4,741,694)
	(9,627,605)	(9,373,171)
Basic and diluted loss per common share attributable to Versus Systems Inc.	(0.06)	(0.05)
Weighted average common shares outstanding	112,514,398	86,373,193

Versus Systems Inc.

Consolidated Statements of Changes in Equity (Deficit)

(Expressed in Canadian Dollars)

	Number of Common Shares	Number of Class "A" Shares	Share Capital Common Shares	Share Capital Class "A" Shares	Reserves	Deficit	Share subscriptions received	Equity	Non-controlling Interest	Total Shareholders' Equity
			($)	($)	($)	($)	($)	($)	($)	($)
Balance at December 31, 2017	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 for warrant exercise	2,460,000	-	384,000	-	-	-	-	384,000	-	384,000
Shares issued in private placement	12,259,667	-	3,598,943	-	78,957	-	-	3,677,900	-	3,677,900
Share issuance costs	-	-	(562,884)	-	116,226	-	-	(446,658)	-	(446,658)
Contribution benefit	-	-	-	-	500,921	-	-	500,921	-	500,921
Performance warrants issued	-	-	-	-	140,531	-	-	140,531	-	140,531
Stock options granted	-	-	-	-	510,785	-	-	510,785	-	510,785
Loss and comprehensive loss	-	-	-	-	-	(4,631,477)	-	(4,631,477)	(4,741,694)	(9,373,171)
Balance at December 31, 2018	91,478,562	33,713	91,723,017	37,927	8,270,190	(94,973,085)	-	5,058,049	(5,893,609)	(835,560)
Shares issued in private placement	32,050,609	-	6,101,525	-	199,753	-	-	6,301,278	-	6,301,278.00
Share subscriptions received	-	-	-	-	-	-	300,000	300,000	-	300,000
Acquisition of Versus LLC	9,229,326	-	1,892,012	-	159,778	(4,679,433)	-	(2,627,643)	2,627,643	-
Share issuance costs	-	-	(653,035)	-	82,928	-	-	(570,107)	-	(570,107)
Contribution benefit	-	-	-	-	297,110	-	-	297,110	-	297,110
Exercise of warrants	2,479,805	-	422,670	-	(8,253)	-	-	414,417	-	414,417
Performance warrants issued	-	-	-	-	12,889	-	-	12,889	-	12,889
Exercise of options	50,000	-	19,369	-	(8,369)	-	-	11,000	-	11,000
Stock-based compensation	-	-	-	-	826,360	-	-	826,360	-	826,360
Loss and comprehensive loss	-	-	-	-	-	(6,869,121)	-	(6,869,121)	(2,758,484)	(9,627,605)
Balance at December 31, 2019	135,288,302	33,713	99,505,558	37,927	9,832,386	(106,521,639)	300,000	3,154,232	(6,024,450)	(2,870,218)

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

Versus Systems Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
	($)	($)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the year	(9,627,605)	(9,373,171)
Items not affecting cash:		
Amortization (Note 5)	30,695	29,642
Amortization of intangible assets (Note 7)	2,530,590	2,965,035
Amortization of right-of-use assets (Note 5)	296,526	-
Finance expense	257,448	125,903
Accrued interest expense	273,574	77,669
Effect of foreign exchange	(86,125)	-
Share-based compensation	839,249	651,316
Changes in non-cash working capital items:		
Receivables	(39,622)	5,454
Prepaids and deposits	34,369	(36,000)
Accounts payable and accrued liabilities	23,026	478,207
Cash used in operating activities	(5,467,875)	(5,075,945)
FINANCING ACTIVITIES		
Proceeds from notes payable	2,633,667	3,106,652
Repayment of notes payable	(1,258,194)	-
Proceeds from warrant exercises	414,417	-
Proceeds from option exercises	11,000	-
Payments for lease liabilities	(359,119)	-
Proceeds from issuance of common shares	6,301,278	4,061,900
Proceeds from subscriptions received in advance	300,000	-
Share issuance costs	(570,107)	(446,659)
Cash provided by financing activities	7,472,942	6,721,893
INVESTING ACTIVITIES		
Development of intangible assets	(1,939,858)	(1,804,207)
Purchase of equipment	-	(38,483)
Cash used in investing activities	(1,939,858)	(1,842,690)
Change in cash during the year	65,209	(196,742)
Cash - Beginning of year	34,000	230,742
Cash - End of year	99,209	34,000

Supplemental Cash Flow Information (Note 15)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company is engaged in the technology sector and is developing a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. 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 consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 30, 2019, 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 significant doubt as to the ability of the Company 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 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

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (collectively, "IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were authorized for issue by the Board of Directors on June 15, 2020.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured 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 consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company and its subsidiaries.

2. BASIS OF PRESENTATION (continued)

Basis of consolidation

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

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

Significant Accounting Judgments, Estimates and Assumptions

The preparation of these 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 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.

2. BASIS OF PRESENTATION (continued)

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.

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

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

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

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

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

i) Determination of functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basic and diluted loss per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting periods. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Potentially dilutive options and warrants excluded from diluted loss per share totaled 58,501,094 (2018 – 42,292,326) as they were anti-dilutive.

Equipment

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

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

Financial instruments

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

Classification

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

The following table shows the classification under IFRS 9:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

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

Impairment of financial assets at amortized cost

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

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

Derecognition

Financial assets

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

As of December 31, 2019, the Company does not have any derivative financial assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets excluding goodwill

Intangible assets acquired separately are carried at cost at the time of initial recognition. Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of intangible assets excluding goodwill (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Lessee accounting (since January 1, 2019)

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

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

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

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

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

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

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Share-based Compensation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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 profit or loss.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in 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.

New Accounting Pronouncements

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2019 and are effective:

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

IFRS 16, Leases

IFRS 16 Leases ("IFRS 16"): This standard replaces IAS 17 Leases ("IAS 17") and IFRIC 4 Determining whether an arrangement contains a lease. IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below),

a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognizes depreciation of right-of-use assets and interest expense on lease liabilities in the consolidated statements of income and comprehensive income;

c) Separates the total amount of cash pain into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has elected to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Company reviewed its lease portfolio and adopted IFRS 16 on January 1, 2019 and has reassessed whether a contract is or contains a lease, therefore, the Company did not apply the practical expedient. Accordingly, the Company has applied the definition of a lease in IFRS 16 to all contracts outstanding at the date of transition using the cumulative catch –up method by recognizing a right-of-use asset at a value equal to the lease liability.

The adoption of IFRS 16 has resulted in an increase in the Company's property and equipment by $1,217,109 and an increase in lease obligations by $1,469,664 at January 1, 2019, as follows:

	$
Minimum lease payments under operating leases as of December 31, 2018	1,491,206
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(21,542)
Lease liabilities recognized as of January 1, 2019	1,469,664
Deferred rent	(252.555)
Right-of-use assets recognized as of January 1, 2019	1,217,109

The lease liabilities were discounted at a discount rate of 8% as of January 1, 2019.

4. RESTRICTED DEPOSIT

As at December 31, 2019, restricted deposits consisted of $11,500 (2018 - $11,500) held in a guaranteed investment certificate as collateral for a corporate credit card.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Computers	Right of Use Asset	Total
	($)	($)	($)
Cost			
At December 31, 2017	76,256	-	76,256
Additions	38,483	-	38,483
At December 31, 2018	114,739		114,739
Additions	-	1,217,109	1,217,109
At December 31, 2019	**114,739**	**1,217,109**	**1,331,848**
Accumulated amortization			
At December 31, 2017	25,987	-	25,987
Amortization for the year	29,642	-	29,642
At December 31, 2018	55,629	-	55,629
Amortization for the year	30,695	296,526	327,221
At December 31, 2019	**86,324**	**296,526**	**382,850**
Carrying amounts			
At December 31, 2018	59,110	-	59,110
At December 31, 2019	**28,415**	**920,583**	**948,998**

6. BUSINESS COMBINATION WITH VERSUS LLC

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

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

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

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

6. BUSINESS COMBINATION WITH VERSUS LLC (continued)

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

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

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

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

(Expressed in Canadian dollars)

6. BUSINESS COMBINATION WITH VERSUS LLC (continued)

The following table presents summarized financial information before intragroup eliminations for the non-wholly owned subsidiary as at December 31, 2019 and 2018:

	2019	2018
Non-controlling interest percentage	**33.2%**	**58.7%**
	($)	**($)**
Assets		
Current	103,398	72,222
Non-current	3,739,445	3,566,490
	3,842,843	**3,638,490**
Liabilities		
Current	823,285	740,249
Non-current	17,851,531	11,059,323
	18,674,816	**11,799,572**
Net liabilities	**(14,831,973)**	**(8,160,860)**
Non-controlling interest	**(6,024,450)**	**(5,893,609)**
Loss and comprehensive loss	**(6,671,113)**	**(7,766,709)**
Loss and comprehensive loss attributed to non-controlling interest	**(2,758,484)**	**(4,741,694)**

(Expressed in Canadian dollars)

7. INTANGIBLE ASSETS

Intangible assets are comprised of a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. The intangible asset was acquired in the business combination with Versus LLC as described in Note 6. In addition, the Company continues to develop new apps, therefore additional cost were capitalized during the year ended December 31, 2019.

	Software
	($)
Cost	
At December 31, 2017	7,993,002
Additions	1,804,207
At December 31, 2018	9,797,209
Additions	1,939,858
At December 31, 2019	**11,737,067**
Accumulated amortization	
At December 31, 2017	3,461,095
Amortization	2,965,035
At December 31, 2018	6,426,130
Amortization	2,530,590
At December 31, 2019	**8,956,720**
Carrying amounts	
At December 31, 2018	3,371,079
At December 31, 2019	**2,780,347**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2019	December 31, 2018
	($)	($)
Accounts payable	446,988	431,292
Due to related parties	492,181	300,858
Accrued liabilities	36,236	303,594
	975,405	**1,035,744**

9. NOTES PAYABLE

During the year ended December 31, 2019, the Company issued unsecured notes payable for total proceeds of CDN$2,633,667 from director and officers of the Company who are also a shareholders. The loans bear interest at the prime rate which was 3.95% per annum at December 31, 2019, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. The notes were considered below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of $297,110 was recorded in reserves. As at December 31, 2019, the Company had recorded $249,496 in accrued interest which was included in accounts payable and accrued liabilities.

(Expressed in Canadian dollars)

9. NOTES PAYABLE (continued)

During the year ended December 31, 2018, the Company issued unsecured notes payable for total proceeds of CDN$2,780,000 from a director of the Company who is also a shareholder. The loans bear interest at prime rate compounded annually and payable quarterly, and have a maturity date of three years from the date of issuance. The notes are considered to be below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of $452,566 was recorded in reserves.

During the year ended December 31, 2018, the Company issued unsecured notes payable for total proceeds of US$230,000 from a director and officer of the Company who is also a shareholder. The loans bear interest at prime rate compounded annually and payable quarterly, and have a maturity date of three years from the date of issuance. The notes were considered to be below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of $48,358 was recorded in reserves.

The 2019 notes were originally recorded at $2,273,890 (2018 - $2,605,731), being the present value of future payments discounted at 10%. During the year ended December 31, 2019, the Company recorded finance expense of $257,448 (2018 - $125,903), related to bringing the notes to their present value.

	Amount **($)**
Balance at December 31, 2017	747,322
Proceeds	3,106,652
Contribution benefit	(500,921)
Finance expense	125,903
Balance, December 31, 2018	3,478,956
Proceeds	2,633,667
Repayments	(1,258,194)
Contribution benefit	(297,110)
Finance expense	257,448
Balance, December 31, 2019	**4,814,767**

10. SHARE CAPITAL AND RESERVES

a) Authorized share capital

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

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

i) issued, 9,987,655 units pursuant to a private placement at a price of $0.18 per unit for total proceeds of $1,797,778. Each unit consisted of one common share and one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $0.30 until February 14, 2021.

ii) issued, 17,517,500 units pursuant to a private placement at a price of $0.20 per unit for total proceeds of $3,503,500. Each unit consisted of one common share and a one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $0.35 until July 26, 2021.

10. SHARE CAPITAL AND RESERVES (continued)

a) Authorized share capital (continued)

iii) issued, 4,545,454 units at a price of $0.22 per unit for total proceeds of $1,000,000. Each unit consisted of one common share and one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $0.35 until August 9, 2021.

iv) issued 9,229,326 common shares at a value of $1,892,012 on acquisition of Newco shares (Note 6).

v) issued 2,529,805 common shares pursuant to the exercise of share purchase warrants and stock options for total proceeds of $425,417.

During the year ended December 31, 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 whole warrant entitles the holder to purchase one additional common share at a price of $0.40 until April 12, 2020. A residual value of $78,957 was allocated to the warrants.

ii) issued 2,460,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of $384,000.

<u>Escrow</u>

At December 31, 2019, 5,000 common shares (December 31, 2018 – 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 December 31, 2019, there were no common shares remaining in escrow.

b) Stock options

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

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

b) Stock options (continued)

A continuity schedule of outstanding stock options is as follows:

	Number Outstanding	Weighted Average Exercise Price
		($)
Balance – December 31, 2017	8,504,971	0.31
Granted	1,156,500	0.37
Cancelled	(869,089)	0.33
Balance –December 31, 2018	8,792,382	0.31
Granted	7,720,000	0.33
Exercised	(50,000)	0.22
Forfeited	(248,000)	0.42
Balance – December 31, 2019	16,214,382	0.32

During the year ended December 31, 2019, the Company granted a total of 7,720,000 stock options with a fair value of $1,724,580 (or $0.22 per option). During the year ended December 31, 2019, the Company recorded share-based compensation of $826,360 relating to options vested during the year.

During the year ended December 31, 2018, the Company granted a total of 1,156,500 stock options with a fair value of $343,711 (or $0.37 per option). During the year ended December 31, 2018, the Company recorded share-based compensation of $651,316 relating to options vested during the year.

The Company used the following assumptions in calculating the fair value of stock options for the years ended:

	December 31, 2019	December 31, 2018
Risk-free interest rate	1.59%	2.18%
Expected life of options	5.0 years	5.0 years
Expected dividend yield	Nil	Nil
Volatility	95.8%	111.6%

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

b) Stock options (continued)

At December 31, 2019, the Company had incentive stock options outstanding as follows:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Weighted Average Remaining Life
			($)	(years)
July 13, 2021	5,367,382	4,509,413	0.27	1.53
March 17, 2022	908,000	416,167	0.44	2.21
May 18, 2022	158,000	65,833	0.49	2.38
September 14, 2022	1,278,500	1,047,281	0.35	2.71
June 6, 2023	362,500	52,864	0.46	3.43
September 4, 2023	370,000	30,833	0.25	3.68
October 18, 2023	50,000	6,250	0.22	3.80
April 2, 2024	1,820,000	919,997	0.21	4.26
June 27, 2024	100,000	25,000	0.21	4.49
September 27, 2024	5,600,000	458,332	0.38	4.75
October 22, 2024	200,000	-	0.33	4.81
	16,214,382	7,531,970	0.32	3.24

c) Share purchase warrants

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

	Number Outstanding	Weighted Average Exercise Price
		($)
Balance – December 31, 2017	27,386,929	0.30
Exercised	(2,460,000)	0.16
Expired	(8,272,000)	0.40
Issued	6,841,239	0.39
Balance – December 31, 2018	23,496,168	0.31
Exercised	(2,479,805)	0.17
Expired	(5,563,667)	0.20
Issued	37,589,807	0.32
Balance – December 31, 2019	53,042,503	0.33

10. SHARE CAPITAL AND RESERVES (continued)

c) Share purchase warrants (continued)

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

i) On February 14, 2019, the Company completed a unit private placement which included 9,987,655 share purchase warrants exercisable at $0.30 per share for a period of two years. The share purchase warrants were determined to have a fair value of $199,753 using the residual value method.

ii) On February 14, 2019, the Company completed a unit private placement which included 699,135 broker warrants exercisable at $0.18 per share for a period of two years. The share purchase warrants were determined to have a fair value of $61,843 using the Black Scholes option pricing model.

iii) On July 26, 2019, the Company completed a unit private placement which included 17,517,500 share purchase warrants exercisable at $0.35 per share for a period of two years. The share purchase warrants were determined to have a fair value of $Nil using the residual method.

iv) On July 26, 2019, the Company issued 225,400 agent warrants exercisable to purchase additional shares at a price of $0.35 per share for a period of 24 months from closing. The agent warrants were determined to have a fair value of $20,985.

v) On August 9, 2019, the Company completed a unit private placement which included 4,545,454 share purchase warrants exercisable at $0.35 per share for a period of two years. The share purchase warrants were determined to have a fair value of $Nil using the residual method.

vi) The Company issued 4,614,663 warrants at a value of $159,778 for the acquisition of Newco shares (Note 6).

During the year ended December 31, 2018, the Company:

i) On March 29, 2018 and April 12, 2018, 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 $140,531 using the residual value method.

ii) On March 29, 2018 and April 12, 2018, completed a unit private placement which included 711,405 brokers' warrants exercisable at $0.30 per share for a period of two years. The broker warrants were determined to have a fair value of $116,226 using the Black Scholes option pricing model.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND RESERVES (continued)

c) Share purchase warrants (continued)

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

	December 31, 2019	December 31, 2018
Risk-free interest rate	1.77%	1.85%
Expected life of options	2.0 years	2.0 years
Expected dividend yield	Nil	Nil
Volatility	107.14%	86.44%
Weighted average fair value per warrant	$0.04	$0.16

At December 31, 2019, the Company had share purchase warrants outstanding as follows:

Expiry Date	Warrants Outstanding	Exercise Price	Weighted Average Remaining Life
		($)	(years)
February 27, 2020	5,573,333	0.15	0.16
March 29, 2020	209,930	0.30	0.24
April 11, 2020	682,500	0.40	0.28
April 12, 2020	501,475	0.30	0.28
July 31, 2020	1,499,500	0.40	0.58
August 13, 2020	3,947,833	0.40	0.62
February 14, 2021	9,717,655	0.30	1.13
February 14, 2021	671,922	0.18	1.13
July 26, 2021	17,742,900	0.35	1.57
August 9, 2021	4,545,454	0.35	1.61
March 17, 2022	7,950,000	0.40	2.21
	53,042,503	0.33	1.30

d) Performance warrants

On September 30, 2016, the Company issued 10,003,776 performance warrants with a fair value of $1,725,496. These performance warrants vested during the year ended December 31, 2019. During the year ended December 31, 2018, the Company expensed $12,889 (2018 - $140,531) as share-based compensation.

At December 31, 2019, the Company had performance warrants outstanding as follows:

Expiry Date	Performance Warrants Outstanding	Performance Warrants Exercisable	Exercise Price	Remaining Life
			($)	(years)
June 30, 2021	10,003,776	10,003,776	0.25	1.5

(Expressed in Canadian dollars)

11. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions, not disclosed elsewhere in these consolidated financial statements, during the year ended December 31, 2019 and 2018. 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	**2019**	**2018**
	($)	**($)**
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.	382,002	434,543
Short-term employee benefits paid or accrued to the CFO of the Company, including share-based compensation vested for incentive stock options	262,432	150,706
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.	62,209	297,445
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.	297,140	238,456
Short-term employee benefits paid or accrued to certain directors and officers of the Company including share-based compensation vested for incentive stock options and performance warrants.	442,757	101,456
Total	1,446,540	1,222,606

Other Related Party Payments

Office sharing and occupancy costs of $84,000 (2018 - $76,000) were paid or accrued to a corporation that shares management in common with the Company.

Amounts Outstanding

a) At December 31, 2019, a total of $492,181 (December 31, 2018 - $300,862) was included in accounts payable and accrued liabilities owing to officers, directors, or companies controlled by them. These amounts are unsecured and non-interest bearing.

b) At December 31, 2019 a total of $5,470,000 (December 31, 2018 - $3,993,491) of long term notes was payable to a director and the CEO of the Company (Note 9).

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

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

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

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

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

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

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

Credit risk

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

Financial instrument risk exposure

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

Liquidity risk

The Company's cash is invested in business accounts which are available on demand, The Company has raised additional capital subsequent to December 31, 2019 (Note 18). The Company' cash position is not sufficient to meet all financial liabilities currently outstanding and expected to be incurred over the next twelve months. Accordingly, the Company is exposed to liquidity risk.

Interest rate risk

The Company's bank account earns interest income at variable rates and the notes payable bear interest at the prime lending rate. A 1% change in interest rates would have no significant impact on profit or loss for the year ended December 31, 2019.

(Expressed in Canadian dollars)

12. 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 December 31, 2019 and December 31, 2018:

	December 31, 2019 (US$)	December 31, 2018 (US$)
Cash	72,097	25,689
Lease obligations	(768,563)	-
Accounts payable and accrued liabilities	(445,660)	(543,790)
	(1,142,126)	(518,101)

As at December 31, 2019, with other variables unchanged, a +/- 10% change in the United States dollar to Canadian dollar exchange rate would impact the Company's profit or loss by $148,000 (December 31, 2018 - $71,000).

13. MANAGEMENT OF CAPITAL

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

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

In order to maximize ongoing corporate development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in certificates of deposit with major financial institutions. There have been no changes to the Company's approach to capital management during the year ended December 31, 2019.

(Expressed in Canadian dollars)

14. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in one business activity, being the development of a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players. Revenue earned during the year ended December 31, 2019 is from a customer based in the United States.

Details of identifiable assets by geographic segments are as follows:

	Restricted deposits	Deposits	Property and equipment	Intangible assets
December 31, 2019				
Canada	$ 11,500	$ -	$ 119,797	$ -
USA	-	129,897	829,201	2,780,347
	$ 11,500	$ 129,897	$ 948,998	$ 2,780,347
December 31, 2018				
Canada	$ 11,500	$ -	$ -	$ -
USA	-	136,301	59,110	3,371,079
	$ 11,500	$ 136,301	$ 59,110	$ 3,371,079

15. SUPPLEMENTAL CASH FLOW INFORMATION

	2019	**2018**
	($)	**($)**
Non-cash investing and financing activities:		
Contribution benefit on low interest rate notes (Note 9)	297,110	500,921
Residual value of units (Note 10)	199,750	78,957
Fair value of broker warrants (Note 10)	82,928	116,226
Shares issued to acquire Newco shares (Note 6)	1,892,012	-
Interest paid during the year	56,144	-
Income taxes paid during the year	-	-

(Expressed in Canadian dollars)

16. LEASE OBLIGATIONS AND COMMITMENTS

Lease Liabilities	
	$
Lease liabilities recognized as of January 1, 2019	1,469,664
Lease payments made	(359,119)
Interest expense on lease liabilities	104,384
Foreign exchange adjustment	(92,529)
	1,122,400
Less: current portion	(328,373)
At December 31, 2019	794,027

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

Year	**Amount**
	($)
2020	84,000
2021	49,000

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

Year	**Amount**
	US($)
2020	242,887
2021	251,384
2022	260,185
2023	131,576

(Expressed in Canadian dollars)

17. INCOME TAXES

a) Provision for Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2019	**2018**
	($)	**($)**
Loss for the year	(9,627,605)	(9,373,171)
Expected income tax (recovery)	(2,599,000)	(2,531,000)
Change in statutory, foreign tax, foreign exchange rates and other	528,000	(96,000)
Permanent differences	345,000	180,000
Share issue costs	(154,000)	(121,000)
Adjustment to prior years provision versus statutory tax returns	4,157,000	(1,026,000)
Change in unrecognized deductible temporary differences	(2,277,000)	3,594,000
Income tax expense	-	-

b) Deferred Income Taxes

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2019	2018
	($)	($)
Non-capital losses carry-forward	9,054,000	17,116,000
Exploration and evaluation assets	1,919,000	1,929,000
Share issuance costs	200,000	109,000
Debt with accretion	(127,000)	(139,000)
Intangible assets	1,605,000	623,000
Allowable capital losses	4,749,000	82,000
Property and equipment	77,000	34,000
	17,477,000	19,754,000
Unrecognized deferred tax assets	(17,477,000)	(19,754,000)
	-	-

(Expressed in Canadian dollars)

17. INCOME TAXES

b) Deferred Income Taxes

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	**2019**	**Expiry Date Range**	**2018**	**Expiry Date Range**
	($)		**($)**	
Non-capital losses available for future periods - US	15,498,000	2036 to indefinite	56,521,000	2025 to indefinite
Non-capital losses available for future periods - Canada	21,005,000	2026 to 2039	18,918,000	2026 to 2038
Allowable capital losses	303,000	No expiry date	303,000	No expiry date
Property and equipment	327,000	No expiry date	126,000	No expiry date
Intangible asset	7,642,000	No expiry date	2,965,000	No expiry date
Exploration and evaluation assets	7,108,000	No expiry date	7,146,000	No expiry date
Share issuance costs	740,000	2040 to 2043	405,000	2039 to 2042

Tax attributes are subject to review, and potential adjustment, by tax authorities.

18. SUBSEQUENT EVENTS

A) On February 13, 2020, the Company issued 2,400,000 units at a price of $0.25 per unit for total proceeds of $600,000 (of which $300,000 was received as at December 31, 2019). Each unit consisted of one common share and one half share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of $0.40 until February 13, 2021.

B) From January to June 15, 2020, the Company issued additional notes payables to a director for an accumulated amount of $200,000. The notes bear interest at the applicable prime rate and interest accrues quarterly.

C) Since March 2020, several governmental measures have been implemented in Canada and the rest of the world in response to the coronavirus (COVID-19) pandemic. While the impact of COVID-19 and these measures are expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on the Company's business operations cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in 2020. The Company continues to operate its business, and in response to Canadian Federal and Provincial, and US Federal and State emergency measures, has requested its employees and consultants work remotely wherever possible. These government measures, which could include government mandated closures of the Company or its contractors could impact the Company's ability to conduct its operations in a timely manner, and the Company is evaluating the best way to move its activities forward when the emergency measures are lifted.

D) On April 13, 2020 the Company extended the maturity of 4,630,333 warrants issued on April 11, 2018 for an additional three months and are now set to expire on July 11, 2020.

E) On April 20, 2020, the Company entered into a Mutual Investment Agreement with Animoca Brands Inc. in which the Company issued 3,036,739 shares of the Company's common stock in exchange for 4,237,431 shares of Animoca Brands common stock. On the same date the Company issued an additional 1,293,426 shares of the Company's common stock to Animoca Brands in exchange for marketing services.

18. SUBSEQUENT EVENTS (continued)

F) From January 1, 2020 to June 15, 2020 the Company's warrant holders had exercised 5,223,333 warrants at an exercise price of $0.15 per share for total proceeds of $783,500.

G) In May 2020, the Company entered into an arrangement with a customer to provide USD$1,830,000 of business development and engineering services. The arrangement is effective from May 15, 2020 to November 15, 2020 and may be terminated by the customer with 15 days' notice.